
June 13, 2016

Item Name: Quarterly Status Report – Office of Audit Services

Program: Audit Services

Item Type: Information Consent

Executive Summary

In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of March 31, 2016.

Strategic Plan

This item is not a specific product of the Strategic Plan, but is required by the Board approved Audit Resolution Policy and the Office of Audit Services Charter.

Background

On a quarterly basis, the Office of Audit Services updates the Risk and Audit Committee on audit activity and audit resolution status.

Analysis

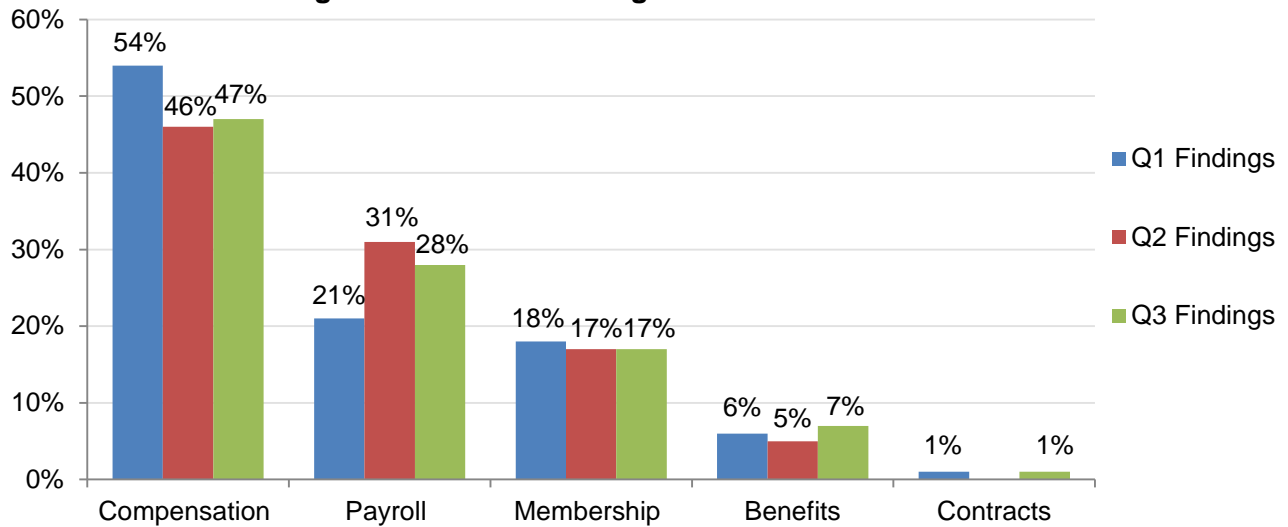
Public Agency Reviews

During the third quarter, the Office of Audit Services completed 30 public agency reviews with a total of 204 findings. Of the 204 new findings, 47 percent were compensation findings, such as members' regular earnings and special compensation being incorrectly reported. Currently, 70 reviews are in progress.

During the quarter, the Employer Account Management Division and the Benefit Services Division reported that 106 findings were resolved, leaving 470 open as of March 31, 2016. The Office of Audit Services is in the process of validating the reported resolution of findings. Please refer to Attachment 1 for additional information on public agency findings.

Figure 1 on page 2 provides a summary of the types of newly issued findings per quarter. Detail on all findings is available upon request from the Office of Audit Services and has been distributed to all appropriate divisions.

Figure 1 - Current Findings Fiscal Year 2015-16 Q1-Q3



Internal Audits

As of March 31, 2016, there are no unresolved internal audit findings over one year old, continuing the enterprise’s compliance with the Board approved Audit Resolution Policy. During the quarter, 13 findings were resolved. Overall, we have noted a significant trend toward more timely resolution of internal findings over the past several years.

During the third quarter, three internal audits were completed with a total of 12 findings in operational and compliance areas such as updating written procedures, retaining proper supporting documentation, and compliance with Government Code and agreement terms. Please see Attachment 1 for additional information on internal audit findings.

Real Estate Reviews

During the third quarter, three real estate reviews were completed which included a total of two findings. The issues were related to property managers failing to obtain current insurance certificates from contractors. Real estate reviews are available upon request. Please see Attachment 1 for additional information on real estate findings.

Financial Statement Audit Management Letter – Macias Gini & O’Connell LLP

The draft management letter as prepared by Macias Gini & O’Connell LLP for fiscal year ended June 30, 2015, as well as the status of prior years’ observations, was presented at the April 2016 Risk and Audit Committee. Beginning with the September 2016 Risk and Audit Committee, all open findings will be reported to the Risk and Audit Committee until fully resolved and Macias Gini & O’Connell concurs that corrective actions have been implemented.

State Controller’s Office Review Report on Pension Controls and Mechanisms

The State Controller’s Office issued its Review Report on Pension Controls and Mechanisms on September 9, 2014. The report did not identify any instances of pension spiking. The State Controller’s Office reported on one finding, which included six recommendations, and one observation. The recommendations are summarized in Attachment 2 along with management’s status updates.



Status of Audit Plan

The Fiscal Year 2015-16 Approved Audit Plan is in progress. In order to support key enterprise initiatives and management requests and in light of staff vacancies, the Office of Audit Services proposes deferring the internal audits listed below:

- Targeted investment program
- Global equity program
- Investment commitment disclosures
- Coordination for parallel valuation and certification (LTC program)

In addition, we have replaced Information Technology asset management – software risk assessment (consulting) with VMware Licenses Review (consulting).

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The Quarterly Status Report of audit activity provides periodic reporting to the Board regarding performance relative to the audit plan and other matters needed or requested. The periodic reporting of this information to the Board is in accordance with the Standards, the Board approved Audit Resolution Policy, and the Office of Audit Services Charter. The risk of not reporting periodically is non-compliance with the Standards.

Attachments

Attachment 1 – Status of Audit Findings Dashboard

Attachment 2 – Summary of State Controller’s Office Review Report on Pension Controls and Mechanisms

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