
September 20, 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 (OFAS) presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of June 30, 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 OFAS Charter.

Background

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

Analysis

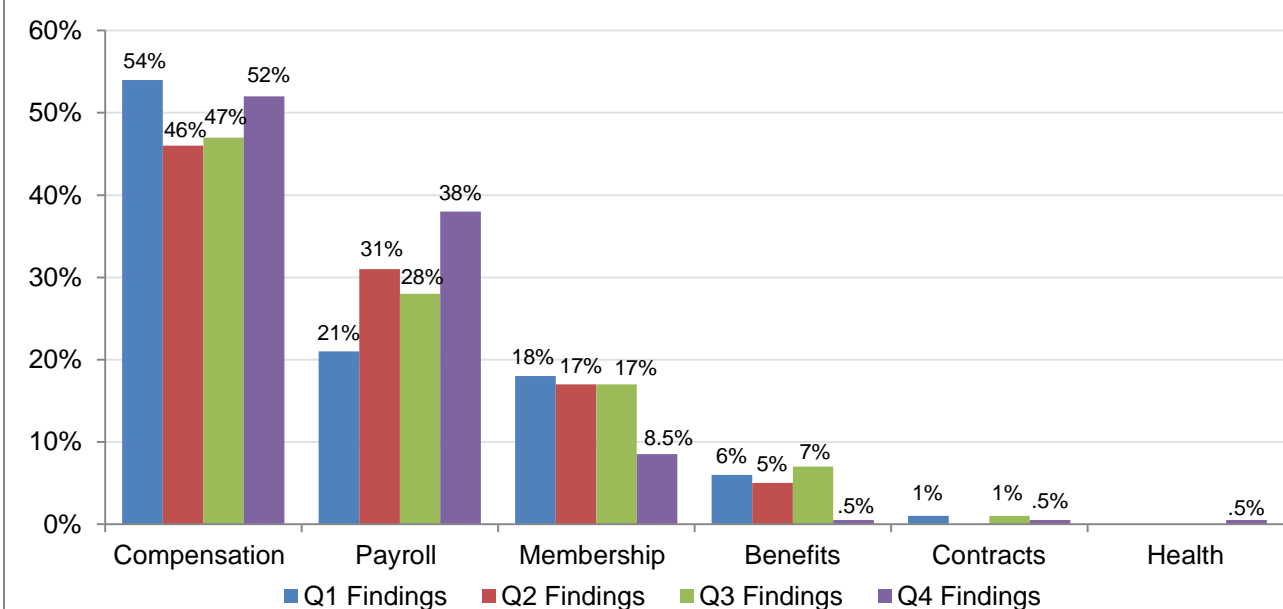
Public Agency Reviews

During the fourth quarter, OFAS completed 43 public agency reviews with a total of 201 findings. Of the 201 new findings, 52 percent were compensation findings, such as members' regular earnings and special compensation being incorrectly reported. Currently, 29 reviews are in progress.

During the quarter, the Employer Account Management Division and the Benefit Services Division reported that 102 findings were resolved, leaving 569 open as of June 30, 2016. In addition, OFAS validated 114 completed findings during the quarter. 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 OFAS and has been distributed to all appropriate divisions.

Figure 1 - Current Findings Fiscal Year 2015-16 Q1-Q4



Internal Audits

As of June 30, 2016, there were no unresolved internal audit findings over one year old, continuing the enterprise's compliance with the Board approved Audit Resolution Policy. During the quarter, 14 findings were resolved. Overall, we have noted a significant trend toward more timely resolution of internal findings over the past several years.

During the fourth quarter, four internal audits were completed with a total of 24 findings in operational areas such as updating written procedures, retaining proper supporting documentation, and ensuring consistency and accuracy of data. Please see Attachment 1 for additional information on internal audit findings.

Real Estate Reviews

During the fourth quarter, two real estate reviews were completed. One review was performed to determine whether the managing partner complied with the partnership agreement and did not find any non-compliance issue. The other review was performed to assist Investment Office with validating the accuracy of select data used in a profit sharing distribution calculation. The review found two issues related to managing partner's non-compliance with the limited liability company agreement on billing and payment of development fees and one issue related to a reporting error on the month when a contribution was made. Real estate reviews are available upon request from OFAS. Please see Attachment 1 for additional information on real estate findings.

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

The Board's financial statement auditors, Macias Gini & O'Connell LLP, presented their Management Letter for the June 30, 2015 financial statement audit at the April 2016 Risk and Audit Committee. The auditor reported on three observations, which require corrective actions. The observations and their status are summarized in Attachment 2.

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 3 along with management's status updates.

Status of Audit Plan

- The 2015-16 approved audit plan included 125 public agency reviews (100 standard and 25 focused). During Fiscal Year 2015-16, we completed 124 public agency reviews; 99 issued as final and 25 issued in draft by June 30, 2016. In addition, three reports were significantly completed and going through quality review. These will be issued as soon as possible.
- The internal audit plan included 32 projects. We completed 35 projects; 28 issued as final and 7 issued in draft by June 30, 2016. The draft reports will be issued shortly after we receive the division's responses.

YEAR END INFORMATION

Audit Services Staff Education and Experience

Standards 1210 requires the internal audit activity to collectively possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. OFAS staff possess proficiency in many areas that include internal controls, public agency compliance, risk assessment, financial audits, health programs, information technology systems, information technology security, investments, real estate, and benefit administration. In addition, staff exhibits a high level of educational achievement, complemented with many years of CalPERS and total audit experience, as seen in Tables 1 through 3 below.

Table 1 – OFAS Audit Experience

Total OFAS Experience (Years)	Staff
Up to Two	20
Three to Five	12
Six to Ten	11
More than 10	7

Table 2 – Total Years of Audit Experience

Total Audit Experience (Years)	Staff
Up to Two	5
Three to Five	12
Six to Ten	17
More than 10	16

Table 3 – Highest Level of Education

Highest Level of Education	Degrees
Bachelor of Arts or Science	36
Masters	12



Certifications

OFAS staff holds a wide variety of professional certifications, as shown below in Table 4.

Table 4 – Professional Certifications

Certification	No. of Staff
Certified Public Accountant	11
Certified Internal Auditor	7
Certified Information Systems Auditor	2
Certified Investments and Derivatives Auditor	2
Certified Fraud Examiner	2
Certified in Risk and Information Systems Control	1
Chartered Global Management Accountant	1
Total Certifications	26

Quality Assurance and Improvement Program

Standards 1320 requires the Chief Auditor to communicate the results of the Quality Assurance and Improvement Program (QAIP) to senior management and the Board. As part of QAIP, OFAS performs internal assessments of the internal audit activity through ongoing reviews and periodic self-assessments. We concluded that OFAS generally conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards. We identified areas for improvement which include completing reviews within budgeted hours and timeframe as an area to target for improvement in Fiscal Year 2016-17. In addition to our internal assessments of the internal audit activity, an external peer review is performed every five years. The external peer review is currently in progress and being conducted by the Department of Finance.

Furthermore, as part of our QAIP, OFAS sends a customer satisfaction survey at the conclusion of internal audits and public agency reviews. The survey questions focus on the audit process and report, overall value, and communication. For Fiscal Year 2015-16, the return response from internal management and public agencies was 39 and 34 percent, respectively. This is an increase in the response rates from the previous year by 5 percent for internal and 14 percent for public agency reviews. The results of the survey indicate internal management and public agencies' overall responses to the questions were generally positive. From the suggestions provided, we have identified report turnaround time and audit engagement length as areas we plan to target for improvement in Fiscal Year 2016-17.

Definition of Internal Auditing, the Code of Ethics, and the Standards

Standards 1010 requires the Chief Auditor to discuss the definition of internal auditing, the Code of Ethics, and the Standards with senior management and the Board. The definition of internal auditing states the fundamental purpose, nature, and scope of internal auditing. The Code of Ethics states the principles and expectations governing the behavior of individuals

and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities. The Standards are mandatory and are principle-focused to provide a framework for performing and promoting internal auditing.

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 OFAS 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 Financial Statement Audit Management Letter Comments

Attachment 3 – Summary of State Controller Office's Review Report on Pension Controls and Mechanisms

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