
November 15, 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 September 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.

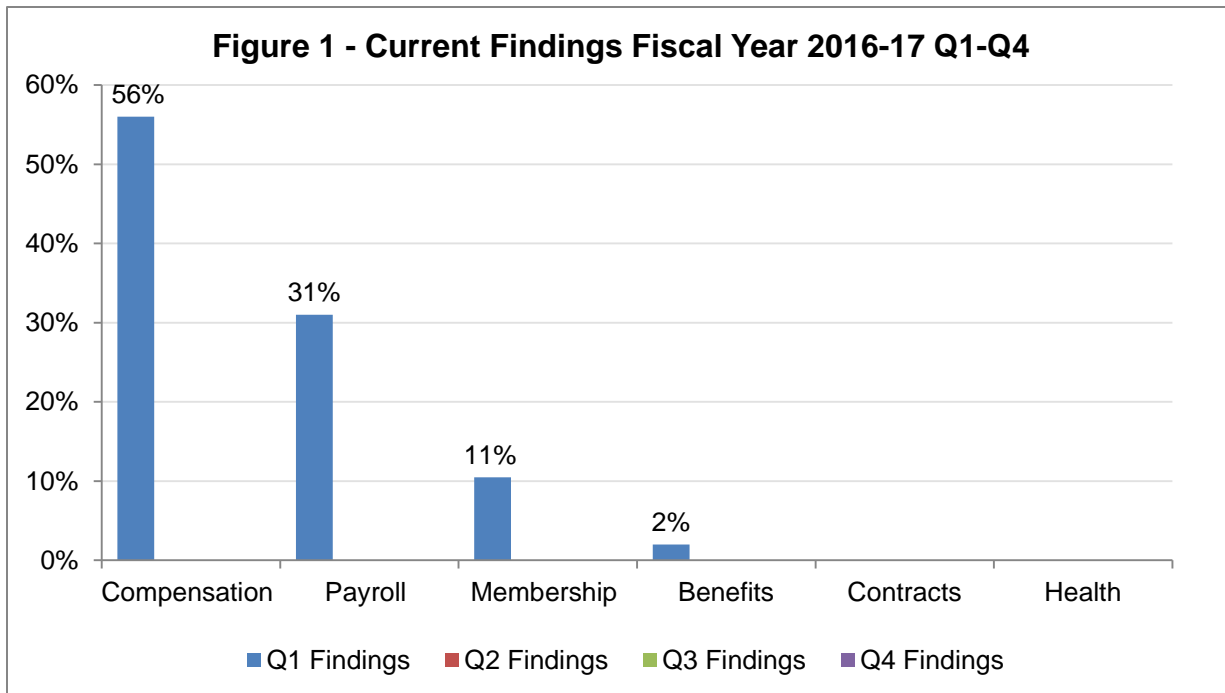
Analysis

Public Agency Reviews

During the first quarter, OFAS finalized 21 public agency reviews from the 2015-16 audit plan with a total of 162 findings. Of the 162 new findings, 56 percent were compensation findings, such as members' regular earnings and special compensation being incorrectly reported. Figure 1 on page 2 provides a summary of the types of newly issued findings per quarter. Currently, 72 reviews are in progress. Of the 72 reviews, 64 reviews are from Cycle 1 of the 2016-17 audit plan.

The Employer Account Management Division and the Benefit Services Division reported that 162 findings were resolved, leaving 580 open as of September 30, 2016. In addition, OFAS validated 127 resolved findings during the quarter. Please refer to Attachment 1 for additional information on public agency findings.

Detail on all findings is available upon request from OFAS and has been distributed to all appropriate divisions.



Internal Audits

During the first quarter, six internal audits were completed with a total of 25 findings in operational and compliance areas such as updating written procedures, retaining proper supporting documentation, and third party administrator compliance with agreement terms. Please see Attachment 1 for additional information on internal audit findings.

As of September 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, 27 findings were resolved. Overall, we have noted a significant trend toward more timely resolution of internal findings over the past several years.

Real Estate Reviews

During the first quarter, seven real estate reviews were completed. Five reviews were performed to determine if the managing partner charged fees and allocated expenses in accordance with the partnership agreement. The reviews identified one issue that the partnership agreement did not stipulate specific fees charged by the managing partner. The remaining two reviews were performed to assist Investment Office with validating the accuracy of data used in a profit sharing distribution calculation. These reviews found twelve issues relating to reporting errors, missing supporting documents, and reconciliation of discrepancies. 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 draft management letter prepared by Macias Gini & O’Connell LLP for fiscal year ended June 30, 2016, as well as the status of prior years’ observations, will be presented in Agenda Item 5b. Observations in the Fiscal Year 2015-16 Management Letter, as well as any remaining observations from prior years, will be reported to the Risk and Audit Committee until each observation is fully resolved and Macias Gini & O’Connell LLP concurs that corrective action has 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 that remain open are summarized in Attachment 2 along with management's status updates.

Status of Audit Plan

The Fiscal Year 2016-17 Approved Audit Plan is in progress. OFAS will continue to monitor and recommend any modifications of the audit plan to respond to changing conditions.

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

BELIZ CHAPPUIE

Chief Auditor

Office of Audit Services

MATTHEW G. JACOBS

General Counsel

