
February 13, 2017

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 December 31, 2016.

Strategic Plan

This item is not a specific product of the Strategic Plan, but is required by the Board of Administration (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.

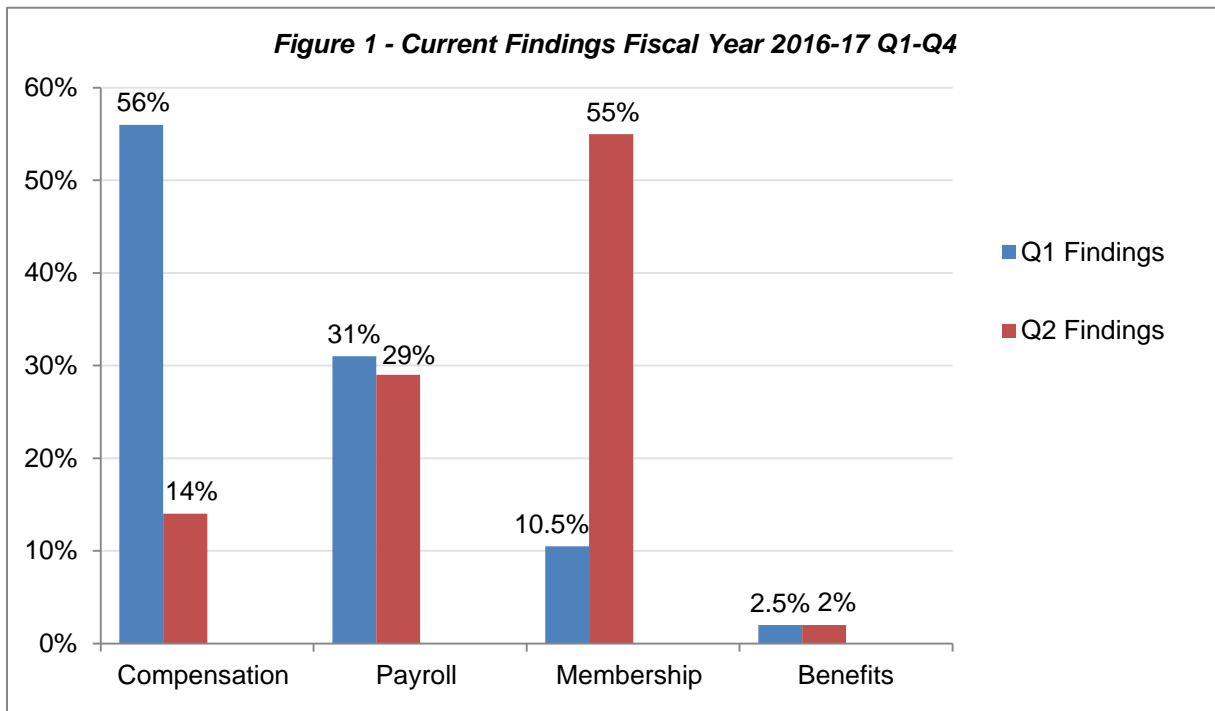
Analysis

Public Agency Reviews

During the second quarter, OFAS finalized 69 public agency reviews with a total of 154 findings. Of the 154 new findings, 55 percent were membership findings, including employment status, birth dates, and names. Figure 1 on page 2 provides a summary of the types of findings per quarter. Currently, 70 reviews are in progress. Of the 70 reviews, 67 reviews are from Cycle 2 of the 2016-17 Audit Plan.

The Employer Account Management Division and the Benefit Services Division reported that 142 findings were resolved, leaving 592 open as of December 31, 2016. In addition, OFAS validated 45 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 second quarter, two internal audits were completed with a total of 9 findings in operational areas such as updating written policies and procedures and clearly defining roles and responsibilities between divisions. Please see Attachment 1 for additional information on internal audit findings.

As of December 31, 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, 16 findings were resolved and the risk was accepted by the division for one finding. Overall, we have noted a significant trend toward more timely resolution of internal findings over the past several years.

Real Estate Reviews

During the second quarter, nine real estate reviews were completed. One review was performed to assess whether the Manager complied with the operating agreement, and the other eight reviews were performed to assist Investment Office with validating the accuracy of select data used by external managers in profit sharing distribution calculation and annual cash yield incentive distribution calculation. Findings were provided to the Investment Office for follow up with the external managers and assessment of impact on the calculations when necessary. OFAS will continue to monitor the resolution of these findings. 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, 2016 financial statement audit at the November 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. Summarized status of prior year findings is in Attachment 3.

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 remained open are summarized in Attachment 4 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 Financial Statement Audit Management Letter Comments Current Year Report

Attachment 3 – Summary of Financial Statement Audit Management Letter Comments Prior Year Report

Attachment 4 – Summary of State Controller's Office Review Report on Pension Controls and Mechanisms

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