

June 20, 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 March 31, 2017.

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

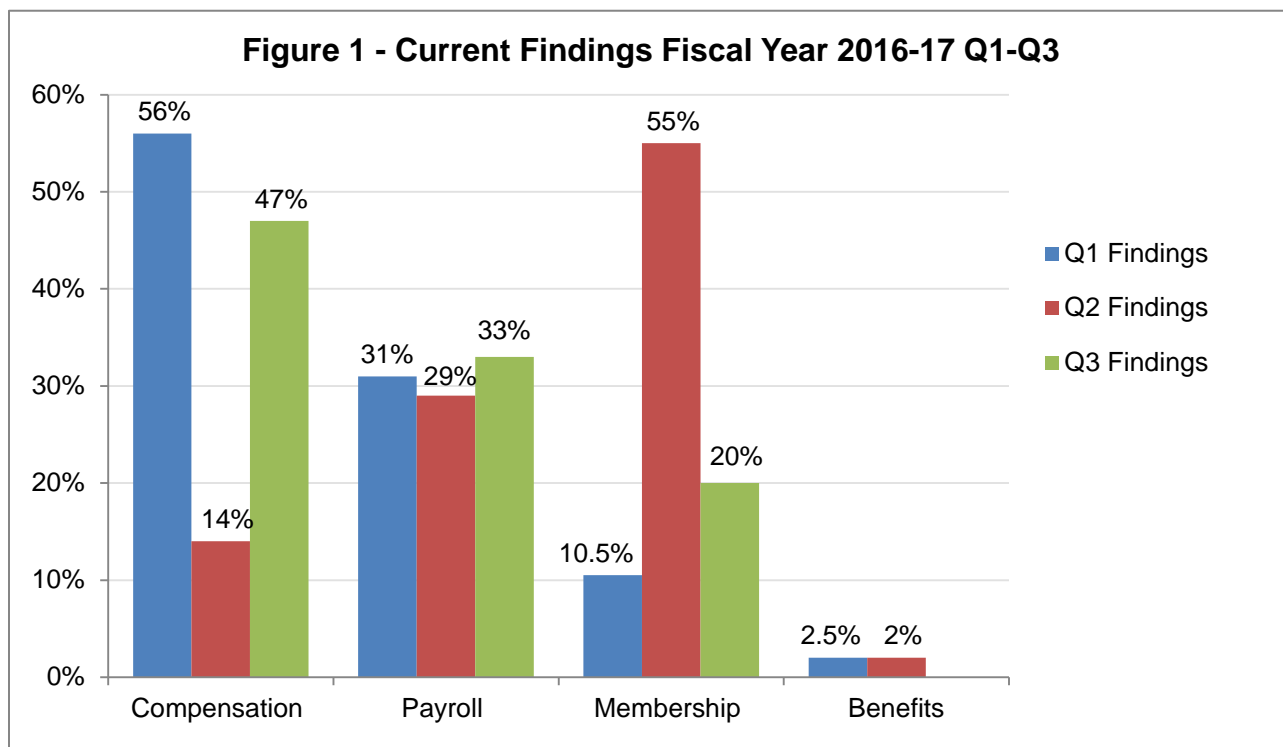
On a quarterly basis, OFAS updates the Risk and Audit Committee on audit activity and audit resolution status.

Analysis**Public Agency Reviews**

During the third quarter, OFAS finalized 1 public agency review with a total of 15 findings. Of the 15 new findings, 47 percent were compensation findings, such as member's regular earnings and special compensation being incorrectly reported. Figure 1 on page 2 provides a summary of the types of findings per quarter. Currently, 124 reviews are in progress. Of the 124 reviews, 122 reviews were limited scope from Cycle 2 and Cycle 3 of the 2016-17 Audit Plan, and 2 reviews were full compliance reviews.

The Employer Account Management Division, the Benefit Services Division, and the Financial Office reported that 155 findings were resolved, leaving 452 findings open as of March 31, 2017. In addition, OFAS validated 242 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 third quarter, one internal audit was finalized with a total of 4 findings in operational areas such as updating written policies and procedures and properly securing hard copy files. Please see Attachment 1 for additional information on internal audit findings.

As of March 31, 2017, 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, 23 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 third quarter, two real estate reviews were completed. Both reviews were performed to determine whether the external manager charged fees and expenses in accordance with the terms of their agreements with CalPERS. Findings related to certain fees, costs, expenses and payments were provided to the Investment Office for follow up with the external managers. Some of the findings have been resolved and the team is working to monitor and resolve the remaining 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 auditor, Macias Gini & O'Connell LLP (MGO), 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.

Status of Audit Plan

The Fiscal Year 2016-17 Approved Audit Plan is in progress. As required by the Standards, we review and adjust the audit plan, as necessary, in response to changes in the organization's business, roles, operations, programs, systems, and controls. OFAS is removing the following from the Audit Plan for the reasons listed.

- Investment Commitment Disclosure internal audit due to MGO determining within the current Fiscal Year that the prior external audit finding related to investment commitment disclosures has been resolved.
- Coordination for Long-Term Care Actuarial Parallel Valuation and Certification Services because currently there is sufficient assurance coverage due to outside vendor review.
- Software License Count (Consulting) due to management no longer needing consulting services.

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

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