

June 20, 2017

**Item Name:** 2017-18 Office of Audit Services Plan

**Program:** Audit Services

**Item Type:** Action

**Recommendation**

Approve the proposed Office of Audit Services Plan for Fiscal Year 2017-18.

**Executive Summary**

In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), the Office of Audit Services (OFAS) presents to the Risk and Audit Committee (Committee) the proposed audit plan for the Committee's review and approval. The proposed audit plan is attached to this agenda item as Attachment 1, and covers audits and activities to be performed in Fiscal Year 2017-18.

**Strategic Plan**

This item is not a specific product of the Strategic Plan, but is required by the Standards and the OFAS Charter.

**Background**

The Standards require OFAS to establish a risk-based plan to determine the priorities of the internal audit projects and consulting engagements, consistent with the organization's goals. The Standards also require OFAS to consider input of the Board of Administration (Board) and CalPERS management during an annual risk assessment.

The OFAS Charter states at least annually, the Chief Auditor will submit an internal audit plan to the Committee and the Board for review and approval. The audit plan will be refreshed as needed.

**Analysis**

The Standards require the internal audit activity to evaluate and improve governance, risk management, and control processes using a systematic and disciplined approach. Specifically, the internal audit activity must evaluate risk exposures relating to, and the adequacy and effectiveness of controls within, the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;

- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

#### Audit Universe and Risk Assessment Methodology

In developing a risk-based audit plan, OFAS first established an audit universe. The audit universe is a list of all the possible audits that could be performed for the organization. To perform the risk assessment, OFAS took into consideration the CalPERS strategic plan goals and objectives, any changes in laws and regulations, significance of operations to financial reporting, and CalPERS information security program and information technology services management. OFAS also considered input from the Board, executive team, and senior team leaders. To obtain input from the Board and team leaders, OFAS conducted surveys and interviews. Input from the Board and team leaders are incorporated into the assessment of risks and exposures.

To ensure that resources are used in the most efficient and effective way, OFAS coordinated its risk assessment activity with the Enterprise Compliance Division and Enterprise Risk Management Division to prevent duplication of work while still achieving our respective objectives. Integrated assurance approach ensures that the assurance process provided through the Three Lines of Defense is adequate to assess the risks of the organization and to ensure proper coverage while minimizing duplication of efforts. OFAS conducts public agency reviews and internal audits.

#### a. Public Agency Reviews

OFAS performs reviews of contracting public agencies, including cities, counties, special purpose districts and authorities, schools, state agencies, California state universities, and agricultural districts. The objective of the reviews is to assess whether the contracting agencies comply with applicable sections of the PERL and prescribed reporting and enrollment procedures as they relate to the agencies' contracts with CalPERS.

OFAS performed a risk assessment and identified four high risk compliance areas for review during Fiscal Year 2017-18. Using data analytics, OFAS will determine the high risk agencies for these compliance areas for review. OFAS' goal is to identify approximately 60 agencies for each compliance activity selected for review.

#### b. Internal Audits

OFAS performs internal audits that evaluate the adequacy and effectiveness of controls designed and implemented in response to the risks regarding the achievement of the organization's strategic objectives, reliability and integrity of financial and operational information, effectiveness and efficiency of operations and programs, safeguarding of assets, and compliance with laws, regulations, policies, procedures, and contracts.

OFAS performed an annual risk assessment to select and determine the priorities of auditable activities for Fiscal Year 2017-18. For each auditable activity, we evaluated multiple risk factors, assigned a risk value and weight to each risk factor, and calculated an overall risk score for each auditable activity. The risk factors included contribution to strategic goals, changes in operations and regulations, size of operation and impact on financial statements, significant compliance requirements within the unit, character of activity and complexity, adequacy and effectiveness of implemented controls over key functions, sensitivity of information processed, degree of Board and team leaders'

concerns, and prior internal and external audit findings. We ranked the auditable activities' overall risk scores to develop a preliminary risk-based audit plan.

Additional factors considered in developing the internal audit plan include recent audits and findings, known risks and planned mitigation in progress, value-added consulting engagements, logical sequencing of audits, coverage provided by other assurance functions, impact on business areas, and available audit resources. Taking all these into account and applying the professional judgment of experienced auditors, we selected the areas to include in our audit plan.

Since one of the goals of the audit function is to not only provide assurance to the Board, but to also provide assistance to management, we also allocate resources toward responding to special requests and consulting projects. In addition to our planned audit activities, OFAS coordinates contracted external audits and reviews, including the financial statement audit, Governmental Accounting Standards Board Statement No. 68 and 75 audits, real asset reviews, and parallel actuarial valuation and certification service reviews.

To remain flexible and responsive to changes in the organization's business, risks, operations, programs, systems, and controls, we will review and adjust the Fiscal Year 2017-18 plan, as necessary. Modifications to the audit plan, if necessary, will be presented to the Committee with the quarterly status reports.

#### **Budget and Fiscal Impacts**

Not Applicable.

#### **Benefits and Risks**

The proposed audit plan will set the direction and priorities of the internal audit activities for the next fiscal year. Implementation of this audit plan will result in compliance with the Standards while providing the Board and team leaders a higher level of assurance that appropriate controls are in place and working as intended and contracting public agencies comply with the PERL and prescribed procedures. Not implementing the audit plan would result in non-compliance with the Standards, decreased levels of assurance, and reduced ability to detect non-compliance with the PERL and prescribed procedures by public agencies.

#### **Attachment**

Attachment 1 – Proposed Audit Plan for Fiscal Year 2017-18

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Office of Audit Services

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MATTHEW G. JACOBS  
General Counsel

