

September 19, 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 June 30, 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**

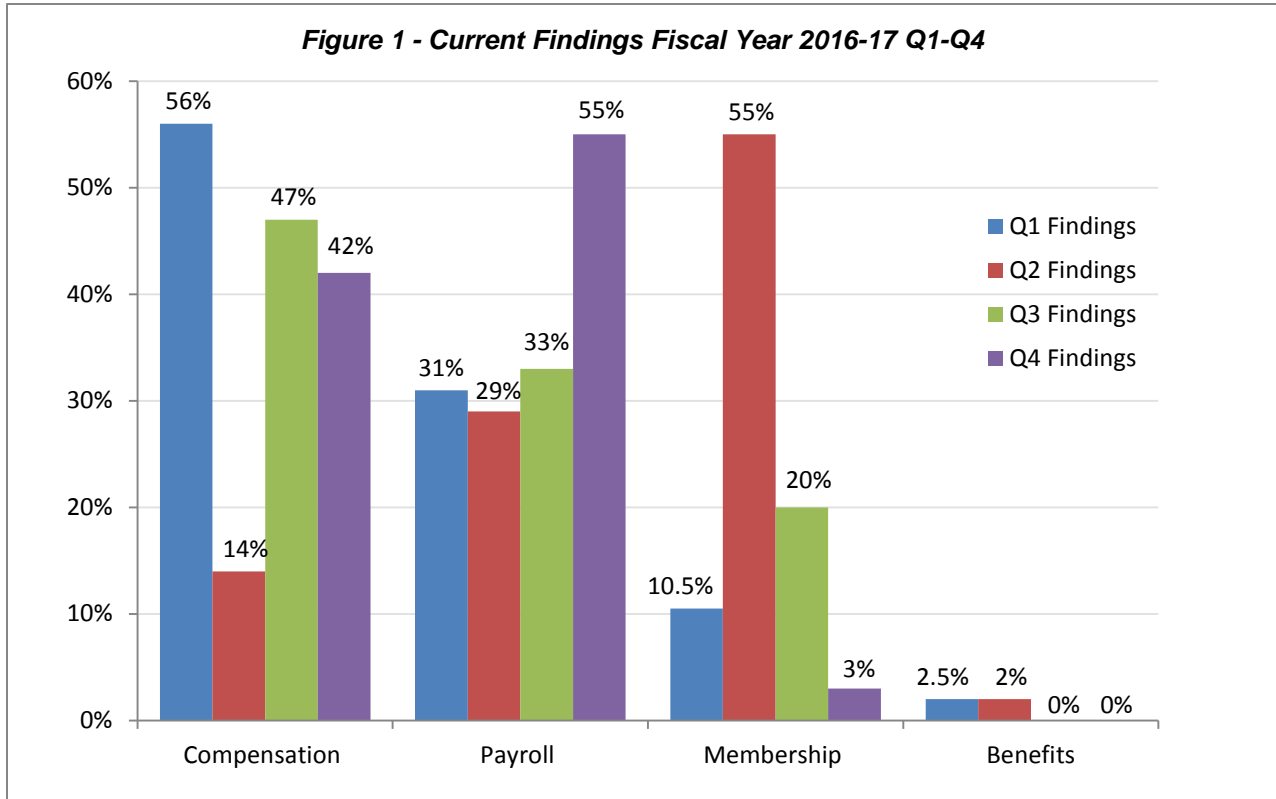
#### Public Agency Reviews

During the fourth quarter, OFAS finalized 69 public agency reviews with a total of 120 findings. Of the 120 new findings, 55 percent were payroll findings, such as special compensation being incorrectly reported. Figure 1 on page 2 provides a summary of the types of findings per quarter. Currently, 115 reviews are in progress. The Employer Account Management Division, Benefit Services Division, and Financial Office reported that 149 findings were resolved, leaving 429 findings open as of June 30, 2017. In addition, OFAS validated 144 resolved findings during the quarter. Please refer to Attachment 1 for additional information on the public agency findings.

#### Internal Audits

During the fourth quarter, five internal audits were finalized with a total of 18 findings in operational areas such as updating written policies and procedures and adequately meeting contract provisions. Please see Attachment 1 for additional information on internal audit findings.

As of June 30, 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 fourth quarter, 14 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 fourth quarter, eight real estate reviews were completed. Two reviews were performed to assess whether the external managers complied with the operating agreements, and the other six reviews were performed to assist the Investment Office, Real Assets Unit, with validating the accuracy of select data used by external managers in profit sharing distribution calculations and annual cash yield incentive distribution calculations. Findings were provided to the Investment Office for follow up with the external managers. 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 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 2016-17 Audit Plan**

- OFAS issued 160 public agency final reports and 55 draft reports. In addition, 60 reports were significantly completed and will be issued as soon as possible.
- The internal audit plan included 28 projects. OFAS completed 27 projects and issued 4 in draft by June 30, 2017. The final reports will be issued shortly after we receive the division’s responses.

**YEAR END INFORMATION**

**OFAS 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	17
Three to Five	16
Six to Ten	12
More than 10	7

**Table 2 – Total Years of Audit Experience**

Total OFAS Experience (Years)	Staff
Up to Two	3
Three to Five	15
Six to Ten	19
More than 10	15

**Table 3 – Highest Level of Education**

Highest Level of Education	Degrees
Bachelor of Arts / Science	39
Masters	11

### Certifications

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

**Table 4 – Professional Certifications**

Certification	No. of Staff
Certified Public Accountant	10
Certified Internal Auditor	7
Certified Information Systems Auditor	2
Certified Investments and Derivatives Auditor	2
Certified Fraud Examiner	2
Total Certifications	23

### 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 2017-18. In addition to our internal assessments of the internal audit activity, an external peer review is performed every five years. The external peer review was completed in December 2016 by the Department of Finance for the period of July 1, 2011 through June 30, 2016. OFAS received the highest overall opinion possible, generally conform to the Standards and Code of Ethics, and there were no recommendations for improving OFAS' internal audit function.

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 2016-17, the return response from internal management and public agencies was 23 and 12 percent, respectively. This is a decrease in the response rates from the previous year by 16 percent for internal and 22 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 2017-18.

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 Current Year Report

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

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Chief Auditor  
Office of Audit Services

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**MATTHEW G. JACOBS**

General Counsel