
February 12, 2018**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, 2017.

Strategic Plan

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

AnalysisPublic Agency Reviews

During the second quarter, OFAS completed 60 reviews, in addition to the 55 completed reviews from the first quarter, and is waiting for executive feedback to issue the final reports. Currently, 142 reviews are in progress, with 62 being finalized.

The Employer Account Management Division, Benefit Services Division, and Financial Office reported that 117 findings were resolved, leaving 211 findings open as of December 31, 2017. In addition, OFAS validated 102 resolved findings during the quarter. Please refer to Attachment 1 for additional information on public agency findings.

Internal Audits

During the second quarter, two internal audits were issued with a total of one operational finding regarding accurate reporting of information to CalPERS. Please see Attachment 1 for additional information on internal audit findings.

As of December 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, seven findings were resolved, leaving 21 findings open. 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, two real estate reviews were completed. One review was performed to assess the external manager's compliance with the operating agreement. Two issues were noted during the review: fees paid without approvals and fees were combined with expenditures and incorrectly categorized. The other review was related to data input verification with findings for two transaction amounts that were incorrectly included in the calculation. Real estate reviews are available upon request from OFAS. Please see Attachment 1 for additional information on real estate findings.

Financial Statement Audit Report and 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, 2017 financial statement audit at the November 2017 Risk and Audit Committee. MGO reported on three observations, which require corrective actions. The current year observations and their status are summarized in Attachment 2. The summarized status of prior years’ observations is in Attachment 3.

Status of Audit Plan

The Fiscal Year 2017-18 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 will defer Investment Portfolio Analytics due to a current external review. However, we plan to add the following projects to the Audit Plan which we anticipate issuing final in Fiscal Year 2018-19:

- Appeals and Grievances
- Central Receiving
- Investment Contract Management
- Long-Term Care Third Party Administrator
- Personnel Operations and Compensation (State Disability Insurance)
- State Street

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

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

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