



## Risk and Audit Committee Agenda Item 5d

June 20, 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 March 31, 2018.

### **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.

### **Analysis**

#### Public Agency Reviews

During the third quarter, two public agency review cycles were completed. One review cycle, covering 60 public agencies, was performed to gain an understanding of agencies' policies and procedures, or practices as they relate to Industrial Determination Retirement processes for local safety members. The other review cycle, covering 62 state and public agencies, was performed to determine whether employees hired on or after January 31, 2013 were enrolled into CalPERS membership in accordance with the California Public Employees' Pension Reform Act of 2013. In addition, a review cycle of 55 public agencies completed during the first quarter is waiting for executive feedback to issue the final reports. Currently, 145 reviews are in progress.

The Employer Account Management Division, the Benefit Services Division, and the Financial Office reported that 109 findings were resolved, leaving 154 findings open as of March 31, 2018. In addition, OFAS validated 99 resolved findings during the quarter. Please refer to Attachment 1 for additional information on the public agency findings.

#### Internal Audits

During the third quarter, three internal audits were issued with a total of 12 findings in operational areas such as clarifying roles and responsibilities, improving processes and procedures, and maintaining proper documentation within system files. Please see Attachment 1 for additional information on internal audit findings.

As of March 31, 2018, 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, 20 findings were resolved, leaving 13 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 third quarter, four real estate reviews were completed. One review was performed to assess the external manager's compliance with specific provisions of the operating agreement which resulted in one issue relating to the manager not reporting compensation information to CalPERS. The other three completed reviews were related to data input verifications with various findings primarily related to: Consumer Price Index factor, asset management fees, time-weighted return calculations, and distributions.

#### Financial Statement Audit Report and Management Letter

The Board's financial statement auditor presented their Management Letter for the June 30, 2017 financial statement audit at the November 2017 Risk and Audit Committee. The financial statement auditor 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 are 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.

#### **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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Office of Audit Services

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