



Risk & Audit Committee Agenda Item 5d

September 25, 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 June 30, 2018.

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 135 public agency reviews with a total of 42 benefits findings. Currently, 126 reviews are in progress.

The Employer Account Management Division, the Benefit Services Division, and the Financial Office reported that 115 findings were resolved, leaving 81 findings open as of June 30, 2018. In addition, OFAS validated 93 resolved findings during the quarter. Please refer to Attachment 1 for additional information on the public agency findings.

Internal Audits

During the fourth quarter, three internal audits were issued with a total of 11 findings in operational areas such as improving processes and procedures and maintaining proper documentation within files. Please see Attachment 1 for additional information on internal audit findings.

As of June 30, 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, one finding was resolved, leaving 23 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 fourth quarter, two real estate reviews were completed. One review was performed to assess the Manager's compliance with investment policies and specific provisions of the operating agreement which resulted in one issue related to insurance. The other review was related to a data input verification with findings related to: capital contributions and distributions recorded in incorrect periods; insufficient detail in audited financial statements; and quarterly reporting. Please see Attachment 1 for additional information on real estate audit findings.

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 2017-18 Audit Plan

- OFAS issued 257 public agency final reports.
- The internal audit plan included 38 projects. OFAS completed 22 projects and issued 5 in draft by June 30, 2018. 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 on page 3.

Table 1 – OFAS Audit Experience

Total OFAS Experience (Years)	Staff
Up to Two	16
Three to Five	15
Six to Ten	16
More than 10	6

Table 2 – Total Years of Audit Experience

Total OFAS Experience (Years)	Staff
Up to Two	5
Three to Five	9
Six to Ten	23
More than 10	16

Table 3 – Highest Level of Education

Highest Level of Education	Degrees
Bachelor of Arts / Science	39
Masters	12

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	8
Certified Internal Auditor	5
Certified Information Systems Auditor	2
Certified Investments and Derivatives Auditor	2
Certified Fraud Examiner	<u>2</u>
Total Certifications	19

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 2018-19. In addition to our internal assessments of the internal audit activity, an external peer review is performed every five years. The next external peer review will be conducted in 2021.

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 2017-18, the return response from internal management and public agencies was 7 and 4 percent, respectively. 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 as areas we plan to target for improvement in Fiscal Year 2018-19.

Definition of Internal Auditing, the Code of Ethics, and the *Standards*

Standards 1010 requires the Chief Auditor to discuss the mission of Internal Auditing and the mandatory elements of the International Professional Practices Framework with senior management and the Board. The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Core Principles, taken as a whole, articulates internal audit effectiveness. The definition of internal auditing states that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process. The Code of Ethics states the principles and expectations governing 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 a set of principles-based, mandatory requirements 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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