



## Risk and Audit Committee Agenda Item 5c

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**November 19, 2019**

**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 September 30, 2019.

### **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 (RAC) on audit activity and audit resolution status.

### **Analysis**

#### Employer Compliance Reviews

During the first quarter, OFAS completed 60 reviews that are under final review. Currently, 61 reviews are in progress.

The Employer Account Management Division, Benefit Services Division, and Health Administration Division reported 36 findings were resolved, leaving 236 findings open as of September 30, 2019. In addition, OFAS validated 50 resolved findings during the quarter. Please refer to Attachment 1 for additional information on the employer findings.

#### Internal Audits

During the first quarter, six internal and two real estate audits were issued with a total of 28 findings in operational areas such as improving processes, procedures, and maintaining proper documentation within files. Please see Attachment 1 for additional information on internal audit findings.

As of September 30, 2019, 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, 16 findings were resolved, leaving 39 findings open. Overall, there is significant trend toward more timely resolution of internal findings over the past several years.

Financial Statement Audit Report and Management Letter

The draft management letter prepared by BDO USA, LLP for fiscal year ended June 30, 2019 will be presented in Agenda Item 6b. Observations in the Management Letter will be reported to RAC until each observation is fully resolved. The summarized status of prior year's observations are in Attachment 2.

**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, employer compliance, risk assessment, financial audits, health programs, information technology systems, information technology security, investments, and benefit administration. In addition, staff exhibit high level of educational achievement, complemented with many years of CalPERS and total audit experience, as shown below in Tables 1 through 3.

*Table 1 – OFAS Audit Experience*

Total OFAS Experience (Years)	Staff
Up to Two	21
Three to Five	13
Six to Ten	8
More than 10	8

*Table 2 – Total Years of Audit Experience*

Total Years of Audit Experience (Years)	Staff
Up to Two	9
Three to Five	8
Six to Ten	18
More than 10	15

*Table 3 – Highest Level of Education*

Highest Level of Education	Degrees
Bachelor of Arts / Science	49
Masters	11

## Certifications

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

*Table 4 – Professional Certifications*

<b>Certification</b>	<b>No. of Staff</b>
Certified Public Accountant	6
Certified Internal Auditor	6
Certified Information Systems Auditor	4
Certified Fraud Examiner	3
Certified Investments and Derivatives Auditor	2
Certified Government Auditing Professional	1
Certification in Risk Management Assurance	<u>1</u>
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 2019-20. 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 employer compliance reviews. The survey questions focus on the audit process and report, overall value, and communication. For Fiscal Year 2018-19, the return response from internal management and employers was 25 and 11 percent, respectively. The results of the survey indicate internal management and employers' overall responses to the questions were positive. From the suggestions provided, we have identified communication of the audit process as an area we plan to target for improvement in Fiscal Year 2019-20.

## 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, articulate 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 Prior Year Report

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Beliz Chappuie  
Chief Auditor  
Office of Audit Services

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Matthew G. Jacobs  
General Counsel