



Risk and Audit Committee Agenda Item 6a

June 17, 2020

Item Name: 2020-21 Office of Audit Services Plan

Program: Audit Services

Item Type: Action

Recommendation

Approve the proposed Office of Audit Services Plan for Fiscal Year 2020-21.

Executive Summary

In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), the Office of Audit Services (OFAS) presents to the Risk and Audit Committee (Committee) the proposed audit plan for the Committee's review and approval. The proposed audit plan is attached to this agenda item as Attachment 1, and covers audits and activities to be performed in Fiscal Year 2020-21.

Strategic Plan

This item is not a specific product of the Strategic Plan, but is required by the Standards and the OFAS Charter.

Background

The Standards require OFAS to establish a risk-based plan to determine the priorities of the internal audit projects and consulting engagements, consistent with the organization's goals. The Standards also require OFAS to consider input of the Board of Administration (Board) and CalPERS management during an annual risk assessment.

The OFAS Charter states at least annually, the Chief Auditor will submit an internal audit plan to the Committee and the Board for review and approval. The audit plan will be refreshed as needed.

Analysis

The Standards require the internal audit activity to evaluate and improve the effectiveness of risk management, control, and governance processes using a systematic and disciplined approach. Specifically, the internal audit activity must evaluate risk exposures and the

effectiveness of controls responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

Audit Universe and Risk Assessment Methodology

In developing a risk-based audit plan, OFAS first established an audit universe. The audit universe is a list of all the possible audits that could be performed for the organization. To perform the risk assessment, OFAS took into consideration the CalPERS strategic plan goals and objectives and input from the Board, executive team, and senior team leaders.

To ensure that resources are used in the most efficient and effective way, OFAS coordinated its risk assessment activity with the Enterprise Compliance Division and Enterprise Risk Management Division to prevent duplication of work while still achieving our respective objectives. This approach ensures that the assurance process provided through the Three Lines of Defense is adequate to assess the risks of the organization and to provide proper coverage while minimizing duplication of efforts. OFAS conducts employer compliance reviews and internal audits.

a. Employer Compliance Reviews

OFAS performs reviews of contracting public agencies, including cities, counties, special purpose districts and authorities, schools, state agencies including California state universities, and agricultural districts. The objective of the reviews is to assess whether the employers comply with applicable sections of the PERL, and prescribed reporting and enrollment procedures as they relate to the employers' contracts with CalPERS.

Through an on-going risk assessment process, OFAS identified four high risk compliance areas for review during Fiscal Year 2020-21. Using data analytics, OFAS will determine the high risk agencies for these compliance areas for review. OFAS' goal is to identify approximately 60 to 80 agencies for each compliance activity selected for review.

b. Internal Audits

OFAS performs internal audits that evaluate the effectiveness of controls designed and implemented in response to the risks regarding the achievement of the organization's strategic objectives, reliability and integrity of financial and operational information, effectiveness and efficiency of operations and programs, safeguarding of assets, and compliance with laws, regulations, policies, procedures, and contracts.

OFAS performed an annual risk assessment to select and determine the priorities of auditable activities for Fiscal Year 2020-21. For each auditable activity, we evaluated multiple risks, assigned a value for likelihood and impact to each risk factor, and calculated an overall risk score for each auditable activity. Factors considered in developing the internal audit plan include CalPERS current strategic goals, degree of Board and team leaders' concerns, recent audits and findings, known risks and planned mitigation in progress, value-added consulting engagements, logical sequencing of

audits, coverage provided by other assurance functions, impact on business areas, and available audit resources. Taking all these into account and applying the professional judgment of experienced auditors, we selected the areas to include in our audit plan.

To remain flexible and responsive to changes in the organization's business, risks, operations, programs, systems, and controls, we will review and adjust the Fiscal Year 2020-21 plan, as necessary. Modifications to the audit plan, if necessary, will be presented to the Committee in the quarterly status reports.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The proposed audit plan will set the direction and priorities of the internal audit activities for the next fiscal year. Implementation of this audit plan will result in compliance with the Standards while providing the Board and team leaders a higher level of assurance that appropriate controls are in place and working as intended and contracting public agencies comply with the PERL and prescribed procedures. Not implementing the audit plan would result in non-compliance with the Standards, decreased levels of assurance, and reduced ability to detect non-compliance with the PERL and prescribed procedures by public agencies.

Attachments

Attachment 1 – Office of Audit Services Audit Plan FY 2020-21

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