



## Risk and Audit Committee

# Agenda Item 4c

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**June 14, 2022**

**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, 2022.

### **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 third quarter, OFAS completed 60 reviews with a total of 31 observations. Currently, 120 reviews are in progress.

The Employer Account Management Division (EAMD/Contracts/Membership/EAR), Retirement Benefit Services Division (RBSD), and Health Account Management Division (HAMD) reported 34 observations were resolved, leaving 159 observations open as of March 31, 2022. In addition, OFAS validated 29 resolved observations during the quarter. There are no open aged observations over one year old as of March 31, 2022. Please refer to Attachment 1 for additional information on employer compliance observations.

#### Internal Audits

Total of six reports were issued in quarter with 11 observations. The observations were in operational areas relating to separation of duties, risk assessment, defining roles and responsibilities, training, and assigning backup.

As of March 31, 2022, there were no unresolved internal audit observations over one year old, continuing the enterprise's compliance with the Board approved Audit Resolution Policy. During the third quarter, ten observations were resolved, leaving 12 observations open. Please see Attachment 1 for additional information on internal audit observations.

Financial Statement Audit Report and Management Letter

The management letter prepared by BDO USA, LLP for the fiscal year ended June 30, 2021, was presented during the November 16, 2021 RAC. Respective CalPERS divisions reported observations were resolved. The observations in the Management Letter will be reported to RAC until they are reviewed and validated by the financial statement auditor. The summarized status of the current year observation is 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 has proficiency in many areas: internal controls, employer compliance, risk assessment, financial audits, health programs, information technology systems, information technology security, investments, and benefits administration. In addition, the staff exhibit a high level of education, 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 Three	21
Three to Five	13
Six to Ten	11
More than 10	7

*Table 2 – Total Years of Audit Experience*

Total Years of Audit Experience (Years)	Staff
Up to Three	7
Three to Five	9
Six to Ten	14
More than 10	22

*Table 3 – Highest Level of Education*

Highest Level of Education	Degrees
Bachelor of Arts / Science	52
Masters	13

## 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	9
Certified Information Systems Auditor	6
Certified Internal Auditor	5
Certified Fraud Examiner	4
Certified Investments and Derivatives Auditor	1
Certified Government Auditing Professional	<u>1</u>
Total Certifications	26

## 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. Our QAIP Review for Fiscal Year 2020-21, issued January 2022, concluded that OFAS generally conforms to the Definition of Internal Auditing, the Code of Ethics, and the Standards. Our internal assessment of OFAS internal audit activity is consistent with the independent evaluation performed by the Department of Finance and documented in its Quality Assurance Report issued in December 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 2020-21, the return response from internal management and employers was 24 and 12 percent, respectively. The results of the survey indicate internal management and employers' overall responses to the questions were positive.

## 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.

Internal auditing 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 Observations Dashboard

Attachment 2 – Summary of Financial Statement Audit Management Letter Comments Current Year Report

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Beliz Chappuie  
Chief Auditor  
Office of Audit Services

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Matthew G. Jacobs  
General Counsel