



Risk and Audit Committee

Agenda Item 4c

September 17, 2025

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, 2025.

Strategic Plan

This item is not a specific product of the Strategic Plan but is required by OFAS' Audit Resolution Policy and 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 started 25 new projects and 28 are currently in progress.

The Employer Account Management Division (EAMD), and Pension Contracts & Prefunding Programs Division (PCPP) reported 116 observations were resolved, of which one was aged three to four years, one was aged two to three years, three were aged one to two years, and 111 were aged less than one year. This leaves 182 observations open as of March 31, 2025, of which three were aged three to four years, one was aged two to three years, 13 were aged one to two years, and 165 were aged less than one year. In addition, OFAS validated 61 resolved observations during the quarter. Please refer to Attachment 1 for additional information on employer compliance observations.

Internal Audits

During the third quarter, OFAS completed two internal audit projects with a total of four observations. The observations were in operational areas relating to the compliance with CalPERS Security Control Standards for user access to AREIS and the effectiveness of controls

over the arrears determination process for certified payroll data, accuracy, and the assessment and reversal of Employer fees.

There were three unresolved internal audit observations that were over one-year-old. Two observations are related to the Review of Compliance Program, which we first reported in the RAC meeting in November of 2023. The third is related to the PeopleSoft HCM User Access Management review and was first reported in the RAC meeting in February of 2024. In each of the three cases, the divisions have provided corrective action plans and will continue working toward resolving the observations. During the quarter, one observation was resolved, leaving 11 observations open.

Status of Audit Plan

The Fiscal Year 2025-26 Board 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.

Quality Assurance and Improvement Program (QAIP)

The Institute of Internal Auditors (IIA) requires the chief audit executive (CAE) to develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. QAIP is designed to evaluate the internal audit activity's conformance with the IIA's auditing standards, assess the efficiency and effectiveness of the internal audit activity, and identify opportunities for improvement.

In January 2024, the IIA published revised standards titled the Global Internal Auditing Standards (Standards), to supplant the prior International Standards for the Professional Practice of Internal Auditing. To meet the new requirements, QAIP completed a "Standards Alignment Project", an internal assessment to align Office of Audit Services' (OFAS) business practices, policies, and procedures with the revised Standards.

The project identified and resolved gaps between OFAS's existing policies and those required by the updated standards. For example, OFAS presented a revised audit charter, and strategic plan to the CalPERS Board and Risk and Audit Committee in February 2025. OFAS also updated a variety of its internal policies and procedures to align with the new standards. OFAS is currently utilizing its revised practices, policies, and procedures in audits started after January 9th, 2025, as required by the Standards.

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

The Standards require 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 processes. The Code of Ethics states the principles and expectations governing the 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, OFAS' Audit Resolution Policy, and OFAS' Charter. The risk of not reporting periodically is non-compliance with the Standards.

Attachments

Attachment 1 – Employer Compliance Review - Open Observations Over 1 Year

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