



Risk and Audit Committee

Agenda Item 4c

June 21, 2023

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 December 31, 2022.

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 second quarter, OFAS completed 60 employer compliance reviews with a total of 92 observations, and 72 reviews were in progress.

The Employer Account Management Division (EAMD) and Health Account Management Division (HAMD) reported 58 observations were resolved, of which 15 were aged one to two years and 43 were aged less than one year. This leaves 293 observations open as of December 31, 2022, of which 43 were aged one to two years, and 250 were aged less than one year. In addition, OFAS validated 36 resolved observations during the quarter. Please refer to Attachment 1 for additional information on employer compliance observations.

Internal Audits

During the second quarter, OFAS completed three internal audits with two observations. The observations were in operational areas relating to the creation of duplicate accounts in myCalPERS and meeting performance measures for the Data Warehouse contract.

As of December 31, 2022, there were no unresolved internal audit observations over one-year-old. During the quarter, two observations were resolved, leaving nine observations open.

Financial Statement Audit Report and Management Letter

The management letter prepared by BDO USA, LLP for the fiscal year ended June 30, 2022, was presented during the November 15, 2022 RAC meeting. FRAS reported the observation was resolved during the February 16, 2023 RAC meeting. The observation in the Management Letter will be reported to RAC until it is reviewed and validated by the financial statement auditor. The summarized status of the current year observation is in Attachment 2.

Status of Audit Plan

The Fiscal Year 2022-23 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. OFAS will defer the following internal audits due to organizational changes:

- *Conflict of Interest*: CalPERS is currently reviewing and revising the controls in this area.
- *Preferred Provider Organization Contract Development*: OFAS's consulting services were no longer required.
- *Investment Trading Management System for Charles River*: This risk has been resolved through the findings in a related review.
- *CalPERS Parking and Rideshare Program*: This risk has been addressed through the increased capacity that resulted from the hybrid work environment.

Further, OFAS has a sustained high vacancy rate in its audit classifications resulting in the need to defer the following internal audits:

- Participant Record Maintenance
- Death and Survivor Benefits Calculations
- Cybersecurity
- Health Plan Funded Services and Procurement
- Investment Office Policy Exceptions and Violations Reporting
- Cost Effectiveness Measurement Benchmark
- Investment Office Contracting
- Investment Office Travel Expense Claims
- Monitoring of Post-Investment Private Equity Funds
- Strategic Planning
- Tax Withholding Practices
- Recruitment Process
- Remote Access
- Risk Management
- Member Services Changes
- Write-off Retroactive Health Premiums

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

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

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