



# Internal Audit

## City of San Jose Office of Retirement Services (ORS)

### Police & Fire Department Retirement Plan Board Meeting:

Proposed FY'26-FY'27 Internal Audit Plan

*Presenter: Stacey Gill, Director*

**June 17, 2026**



# Agenda

- Background
- Risk Assessment approach
- Risk Assessment Results
- Proposed Audit Plan

# Background

The ORS engaged Baker Tilly Advisory Group, LP (Baker Tilly) in 2026 to conduct an agency wide risk assessment and prepare a five-year internal audit plan to span the fiscal years of 2027 to 2031.

- The risk assessment process evaluates key risks across the organization's operations and functions
- Results of the assessment are used to prioritize audit areas based on risk level and impact

Risk is defined as “the possibility of an event or condition occurring that will have an impact on the ability of an organization to achieve its objectives.” The risk assessment process involves identifying and measuring risks associated with the audit universe (a list of specific ORS divisions, functions, processes, programs, etc. that can be subject to an audit, i.e. auditable units).

Rick A, Wright Jr., CIA, “The Internal Auditor’s Guide to Risk Assessment” The Institute of Internal Auditors (IIA) Research Foundation (IIARF), 2018

# Risk Assessment Approach

Baker Tilly's risk assessment approach consisted of four phases as illustrated in the graphic below.



## Planning

- Performed risk assessment interviews with key stakeholders and leadership

## Information Gathering

- Reviewed key documents (strategic plans, audit, budgets, organizational materials)

## Analysis

- Scored auditable units based on likelihood and impact of risks
- Prioritized high-risk areas to inform audit focus

## Reporting

- Developed and documented the proposed internal audit plan

# FY 2027 – 2031 Risk Assessment

*Listed in order of risk level, high to low*

Division	Key Function	Risk Score	Previously Audited	Proposed Audit Plan Year
IT	1099-R Reporting	20	No	FY 2027
IT	Cybersecurity and Data Protection	15	No	FY 2028
Accounting	ACFR Requirements	12	No	TBD
Accounting	Benefits Disbursements Process	12	FY2020	FY 2029
Accounting	Cash Disbursements Process	12	FY2020	TBD
Administration	Business Continuity Planning	12	No	FY 2029
Administration	Employee training	12	No	FY 2031
Benefits	Disability Payments	12	No	FY 2031
Benefits	Return of Contributions	12	FY2021	TBD
Benefits	Service Purchase Contracts	12	No	FY 2028
Investments	Asset Allocation	12	No	FY2030
Investments	Due Diligence	12	No	FY2030
Investments	Investment Cash Outflows (Wires and Internal Transfers)	12	FY2020	TBD
Investments	Investment Compliance Monitoring	12	No	FY 2030
Investments	Investment Manager Reconciliation	12	No	FY 2027
Investments	Investment Process	12	No	FY 2030
IT	Compliance and Regulatory Requirements	12	No	FY 2030
IT	IT Operations and System Administration	12	No	FY 2028
IT	Physical Security	12	No	FY 2028
Accounting	COLA Posting	9	No	TBD
Accounting	Contribution Reconciliation	9	FY2021	TBD
Accounting	Custodian Bank Reconciliation	9	No	TBD
Accounting	Interest Posting	9	No	TBD
Benefits	Member Enrollment Set-up	9	FY2020	TBD

\*TBD = "To Be Determined" items did not fit into the current, budgeted 5-year audit plan. Only items that were rated as "high" were selected for the audit plan with the exception of some IT areas that naturally fit with auditing IT Operations and Systems Controls. Each year the audit plan will be evaluated and project changes may be suggested to the audit committee based on the prior year's work, organizational changes, or new/emerging risks.



# FY 2027 – 2031 Risk Assessment (Continued)

Listed in order of risk level, high to low

Division	Key Function	Risk Score	Previously Audited	Proposed Audit Plan Year
Benefits	Member Termination	9	FY2020	TBD
Benefits	Military Time Purchase	9	No	TBD
Benefits	Rehired Retirees	9	No	TBD
IT	Application Controls	9	No	TBD
IT	Change Management	9	No	FY 2028
IT	Data Management and Data Integrity	9	No	FY 2028
IT	Identity and Access Management (IAM)	9	No	FY 2028
IT	IT Governance and Management	9	No	FY 2028
IT	Logging, Monitoring, and Audit Trails	9	No	FY 2028
IT	Third-Party Vendor Management	9	No	TBD
IT	Access to Programs and Data	8	No	TBD
Administration	Communication Audit	6	No	TBD
Benefits	Deferred Vested	6	No	TBD
Benefits	Disability Retirement Application	6	No	TBD
Benefits	Reciprocity	6	No	TBD
Benefits	Service Retirement Application	6	FY2020	TBD
Investments	Cash Projection Process	6	No	TBD
Investments	Investment Manager Fees	6	No	TBD
Investments	Sweep Vehicle Process	6	No	TBD
IT	Systems Development, Acquisitions, and Implementation	6	No	TBD
IT	New Accounts Opening	4	No	TBD
Benefits	Member Death Verification	3	FY2020	TBD

\*TBD = "To Be Determined" items did not fit into the current, budgeted 5-year audit plan. Only items that were rated as "high" were selected for the audit plan with the exception of some IT areas that naturally fit with auditing IT Operations and Systems Controls. Each year the audit plan will be evaluated and project changes may be suggested to the audit committee based on the prior year's work, organizational changes, or new/emerging risks.



## Proposed Audit Plan for FY 2027

Planned Year	Division	Functional Areas	Potential Risks	Planned Audit & Scope	Planned Hours
FY 2027	IT	1099-R Reporting	<p>Inaccurate information</p> <p>Unreconciled variances</p> <p>Delays in processing and communication to members</p> <p>Incorrect reporting to IRS</p> <p>Failure to comply with IRS filing deadlines/ requirements</p> <p>Inadequate validation between source systems and reported amounts</p> <p>Lack of audit trail supporting adjustments or corrections</p>	<p><b>1099-R Reporting Advisory Project:</b> Assess the design and operating effectiveness of controls related to the organization's transition from the IRS FIRE system to the IRIS platform, including the integration between LRS (PensionGold) and Yearli. Evaluate whether risks associated with increased filing complexity, reliance on a new third-party vendor, data accuracy, and regulatory compliance are being appropriately identified, mitigated, and monitored.</p>	180
FY 2027	Investments	Investment Manager Reconciliation	<p>Inaccurate Net Asset Valuation (NAV) reported</p> <p>Late closing of books</p> <p>No resolution for variances</p> <p>Performance and compliance reporting delays</p> <p>Incomplete or inaccurate data received from investment managers</p> <p>Pricing discrepancies (e.g., stale or incorrect valuations for illiquid assets)</p> <p>Failure to reconcile capital calls, distributions, and expenses</p> <p>Lack of independent review and approval of reconciliations</p>	<p><b>Investment Management Process:</b> Assess the design and effectiveness of controls over investment valuation and financial reporting, including accuracy of NAV, completeness and accuracy of data from investment managers, and timeliness of the close process. Evaluate controls over pricing and valuation, as well as reconciliations of capital calls, distributions, and expenses, including independent review and the timely identification and resolution of variances to ensure accurate and timely reporting.</p>	250



# Questions?

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# Risk Scoring Rubric

## Impact

Score	Description	Service Delivery & Operational Impact	Financial & Resource Impact (Illustrative)	Public Trust & Reputational Impact	Legal, Regulatory & Political Impact
<b>1 - Negligible</b>	No discernible impact or very minor, easily absorbed.	Minor inconvenience; no disruption to core services.	Minimal financial waste (e.g., < \$10,000); no impact on budget.	No public notice; minimal internal concern.	No breach of law/policy; minor administrative error.
<b>2 - Low</b>	Minor impact, manageable with existing resources, minimal disruption.	Minor disruption to non-critical services; easily rectified.	Low financial impact (e.g., \$10,000 - \$100,000); minor budget reallocation.	Limited negative perception internally or among immediate stakeholders.	Minor non-compliance with internal policies or less significant regulations.
<b>3 - Medium</b>	Moderate impact, requiring additional resources to manage, some disruption.	Moderate disruption to some core services; short-term delays or reduced quality.	Moderate financial impact (e.g., \$100,001 - \$1,000,000); potential for budget shortfall requiring minor adjustments.	Potential for negative local media attention or stakeholder concern; moderate erosion of trust.	Non-compliance with significant policies or minor statutory requirements; potential for low-level public inquiry.
<b>4 - High</b>	Significant impact, major disruption, significant resources required to manage.	Significant disruption or failure of critical services; inability to meet key mandates.	High financial impact (e.g., \$1,000,001 - \$10,000,000); significant budget deficit, requiring major financial intervention.	Widespread negative media attention; significant loss of public trust; political scrutiny.	Breach of significant laws, regulations, or constitutional mandates; potential for large fines, sanctions, or widespread public outcry.
<b>5 - Critical</b>	Catastrophic impact, existential threat to an agency/program, severe and long-lasting consequences.	Complete failure or sustained inability to deliver essential services; poses a threat to public safety or welfare.	Catastrophic financial impact (e.g., > \$10,000,000); severe budget crisis, jeopardizing long-term financial stability.	Widespread public outrage, severe reputational damage, potential for loss of mandates, political fallout, loss of public confidence in government function.	Major legal action, criminal charges, legislative intervention, loss of delegated authority, impeachment proceedings.



# Risk Scoring Rubric

## Likelihood

Score	Description	Probability/Frequency	Qualitative Description (Public Sector Context)
<b>1 - Rare</b>	May occur only in exceptional circumstances.	< 5%	Has never happened in this or similar public entities; highly unlikely given current environment.
<b>2 - Unlikely</b>	Could occur at some time.	5% - 20%	Has occurred in other public sector entities, or there are very limited indicators it could happen here.
<b>3 - Possible</b>	Might occur or is likely to occur at some time.	21% - 50%	Has occurred infrequently within this entity, or there are known, albeit manageable, conditions that could lead to it (e.g., pending legislative changes).
<b>4 - Likely</b>	Will probably occur in most circumstances.	51% - 80%	Has occurred multiple times within this entity or sector; strong indicators or trends suggest it will occur (e.g., identified recurring audit findings, persistent capacity issues).
<b>5 - Almost Certain</b>	Is expected to occur in most circumstances.	> 80%	Is a recurring event or a known systemic issue within the entity; current conditions make it highly probable or inevitable (e.g., critical staffing shortages, outdated systems, consistent public complaints).

