

AUDIT COMMITTEE MINUTES 3-17-10

2010 COMMITTEE MEMBERS

PRESENT

- Simon S. Russin, Chair
- Ed C. Morris, Vice Chair
- Estevan R. Valenzuela, Secretary
- John Barger

ABSENT

- Les Robbins
- Herman B. Santos

ALSO ATTENDING:

BOARD MEMBERS AT LARGE

- Michael Schneider

AUDIT COMMITTEE CONSULTANT

- Timothy O'Brien

STAFF, ADVISORS, PARTICIPANTS

- Gregg Rademacher
- Richard Bendall
- Janice Golden
- Robert Hill
- Lisa Mazzocco
- Robb Van Der Volgen
- Beulah Canevari
- J.J. Popowich
- Nathan Amick
- Sylvia Botros
- Bernie Buenaflor
- Elvia Gonzalez
- Ruwen Liu
- George Lunde
- Sarah Marks
- David Redman
- Susana Seeckts

1. ELECTION OF AUDIT COMMITTEE CHAIR, VICE CHAIR, AND SECRETARY FOR CALENDAR YEAR 2010

Mr. Barger nominated Mr. Russin for Audit Committee Chair. Mr. Valenzuela moved the nominations be closed, the motion was seconded by Mr. Morris.

Mr. Russin was elected Chair of the Audit Committee in a unanimous vote.

Chair Russin nominated Mr. Morris for Audit Committee Vice Chair.

Mr. Valenzuela moved the nominations be closed. Mr. Morris was elected Vice Chair of the Audit Committee in a unanimous vote. Chair Russin nominated Mr. Valenzuela for Audit Committee Secretary.

Mr. Russin moved the nominations be closed, the motion was seconded by Mr. Morris. Mr. Valenzuela was elected Secretary of the Audit Committee in a unanimous vote.

2. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF DECEMBER 9, 2009

A motion was made by Vice Chair Morris and seconded by Mr. Barger, to approve the Audit Committee minutes prepared for the December 29, 2009 meeting as presented. The motion passed with a unanimous vote.

3. PUBLIC COMMENT

No items to report.

It was decided that Agenda item V. would be discussed prior to agenda item IV., in order to accommodate Secretary Valenzuela's schedule.

4. REPORTS

1. Overview of LACERA's Organization-Wide Risk Assessment Richard Bendall, Chief, Internal Audit Bernie Buenaflor, Principal Internal Auditor Sarah, Marks, Principal Internal Auditor (Memo dated March 3, 2010)

Bernie Buenaflor, Principal Internal Auditor, gave an overview of LACERA's Organization-Wide Risk Assessment. The topics covered were as follows; methodology, current assessment status, and the top risks to be considered in the 2010-2011 audit plan. A discussion ensued as to how and why the top 50 organization wide risks were identified. At this time Bernie gave a detailed explanation of how risks are identified moving from a process level to a divisional level and finally to an organization wide level.

2. Review of Risk Assessment Process

Sarah Marks, Principal Internal Auditor (Oral presentation only)

Sarah Marks, Principal Internal Auditor, gave an overview of the risk control assessment process. This process is performed via a divisional workshop and facilitated by Internal Audit. These workshops identify the processes performed, the objectives of the processes, the possible risks or hurdles to the objectives, and the controls in place to mitigate those possible risks. Sarah highlighted that as a result of these divisional workshops, staff become trained and experienced in identifying risks and associating control processes with managing those risk. In addition, workshop attendees are more motivated to take ownership of the control processes they are involved in, and corrective actions taken by these individuals are often more effective and timely.

3. Consolidation of Member Verification Functions Richard Bendall, Chief, Internal Audit Bernie Buenaflor, Principal Internal Auditor Sylvia Botros, Internal Auditor (Memo dated March 3, 2010)

Bernie Buenaflor, Principal Internal Auditor, gave an overview of the history of how Internal Audit has come to develop various member verification processes over the past 10 years. The processes covered were the Death Verification Process, Member Status Verification Process, and Auto-locator Process. For each process, Bernie discussed how the process came to be, the steps undertaken to perform each process, a statistical analysis of cases over the years, and the financial impact of those cases.

4. Summary of Significant Work Completed / In-Progress Since Last Audit Committee Meeting [As of February 28, 2010] Richard Bendall, Chief-Internal Audit (Memo dated March 4, 2010)

Richard Bendall, Chief, Internal Audit, indicated the memo reflects the current status of each project, broken down by division. Final reports for those projects that have been completed since the last Audit Committee meeting, and not previously distributed, are attached to the memo.

5. Report on the planned external audit of LACERA's annual financial statements by Brown Armstrong, CPAs for the Fiscal Year Ended June 30, 2010.

David Redman, Senior Internal Auditor (Oral presentation only)

Mr. Redman gave a brief presentation on the planned time line for LACERA's annual financial audit performed by Brown Armstrong. David presented tentative dates and timelines for the following items; interim work, audit work, issuance of Financial Statements and Opinions, issuance of Management Letters and issuance of the Comprehensive Annual Financial Report (CAFR).

6. Brown Armstrong – Private Equity Funds Auditor Verifications Sarah Marks, Principal Internal Auditor (Memo dated March 3, 2010)

Sarah Marks, Principal Auditor, indicated in April of 2009 Internal Audit attempted to conduct a verification review of the private equity fund's financial auditors. At that time Internal Auditor was unsuccessful in getting the external auditors to respond to our requests. Brown Armstrong's attempt to perform the review was unsuccessful as well. Brown Armstrong recommended that LACERA Management work with the necessary regulatory agencies to promote and increase reporting requirements to limited partners, including the rendering of opinions on limited partner positions. Internal Audit plans to work on promoting a joint submission, from the Association of Public Pension Fund Auditors, to various regulatory agencies recommending increased private equity fund reporting requirements to limited partners.

A discussion followed with Internal Audit Staff, Investments Staff, and the Committee as to what information LACERA may be entitled to as a limited partner as well as what we might dictate, contractually, in the future with regards to private equity investments.

7. Audit of the Princeville Hotel for Fiscal Year Ended June 30, 2009, Reznick Group PC management letter and communications with Cornerstone Real Estate Advisors, LLC.

Sarah Marks, Principal Internal Auditor (Memo dated March 3, 2010) As stated by Sarah Marks, Principal Internal Auditor, Reznick Group P.C. recently completed the Fiscal Year End June 30, 2009 financial statement audits of the Princeville Hotel and Golf Course. The final financial statement reports were issued with an unqualified (clean) opinion. In conjunction with the completed audit Reznick issued two separate Management Letters related to better documentation procedures of Cornerstone's (Real Estate Advisor) valuation processes. Cornerstone has provided LACERA with action plans deemed adequate to address Reznick's concerns.

8. Status of Other External Audits Not Conducted at the Discretion of Internal Audit

No items to report.

5. ACTION ITEMS

1. Recommendation as submitted by Richard Bendall, Chief, Internal Audit:

Staff requested your Committee approve the modified Fiscal Year 2009-2010 Audit Plan, with adjustments made to more accurately reflect actual work completed and the expected work to be completed by year end. (Memo dated March 4, 2010)

Richard Bendall, Chief, Internal Audit, gave a rundown of the Audit Plan's annual life cycle. In July Internal Audit presents to the Audit Committee a best estimate Audit Plan, based upon current risk factors, staffing, planned audit projects and time for unplanned projects. Richard emphasized the Audit Plan is a best estimate that requires updating and modification throughout the year based on changing risks, changes in staffing levels, over estimation and or under estimation of planned project hours, urgent issues requiring immediate attention and, other unplanned projects. Prior to March meetings, Internal Audit makes necessary modifications based upon the aforementioned issues. At the March Audit Committee meeting Internal Audit requests the Committee to approve the proposed changes to the Audit Plan.

Internal Audit modified the Fiscal Year Ending June 30, 2010 Audit Plan and requested the Audit Committees' approval of the proposed changes.

A discussion followed with Internal Audit staff and the Committee as to the planned status of those projects classified as high priority.

A motion was made by Secretary Valenzuela and seconded by Chair Russin to approve the modified Fiscal Year 2009-2010 Audit Plan, with adjustments made to more accurately reflect work completed and work expected to be completed by year end, taking into consideration comments and suggestion made by the Committee to be reflected in the next Audit Plan Status Report.

The motion passed with a unanimous vote.

6. FOR INFORMATION ONLY

No items to report.

7. CONSULTANT COMMENTS

Timothy O'Brien – Audit Committee Consultant

No items to report.

8. . GOOD OF THE ORDER

Mr. Barger wanted to thank Internal Audit Staff for meeting with him and bringing him up to speed prior to his first meeting as an Audit Committee member.

Sarah Marks wanted to commend Ruwen Liu on passing her level one CFA test.

9. ADJOURNMENT

 PROMISED BENEFITS | In 1937, a promise was made to County employees; we exist to uphold that promise.

8/25/10