

AUDIT COMMITTEE AGENDA 3-16-11

LACERA

300 N. Lake Ave., Suite 810
Pasadena, CA 91101

9:00 AM

2011 COMMITTEE MEMBERS

Simon S. Russin, 2010 Chair
Ed C. Morris, 2010 Vice Chair
John Barger
Les Robbins
Michael Schneider

CONSULTANT

Timothy O'Brien — Audit Committee Consultant

I. ELECTION OF AUDIT COMMITTEE CHAIR, VICE CHAIR, AND SECRETARY FOR CALENDAR YEAR 2011

II. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF NOVEMBER 17, 2010

III. PUBLIC COMMENT

IV. REPORTS

- A. Internal Audit Staffing Report
Richard Bendall, Chief Internal Auditor
(Oral presentation only)
- B. LACERA Internal Audit Quality Assurance Report — Follow Up
Richard Bendall, Chief Internal Audit
Leisha Collins, Senior Internal Auditor
(Memo dated February 24, 2011)
- C. Audit Plan Status Report — YTD ending February 28, 2011
Richard Bendall, Chief Internal Auditor
Sarah Marks, Principal Internal Auditor
(Memo dated March 1, 2011)
- D. Summary of Significant Work Completed / In-Progress Since Last Audit Committee Meeting [As of February 28, 2011]
Richard Bendall, Chief Internal Auditor
(Memo dated February 28, 2011)
- E. Status of Other External Audits Not Conducted at the Discretion of Internal Audit — LACERA's Member Services Call Center Audit
David Redman, Senior Internal Auditor
(Oral Presentation Only)

V. ACTION ITEMS

- A. Recommendation as submitted by Richard Bendall, Chief-Internal Audit and Sarah Marks, Principal Internal Auditor:
Approve the revised 2010-2011 Audit Plan
(Memo dated March 1, 2011)

VI. FOR INFORMATION ONLY

- A. None

VII. CONSULTANT COMMENTS

Timothy O'Brien — Audit Committee Consultant
(Oral presentation only)

VIII. GOOD OF THE ORDER

(For discussion purposes only)

IX. ADJOURNMENT

AUDIT COMMITTEE MINUTES 3-16-11

2011 COMMITTEE MEMBERS

PRESENT

Simon S. Russin, Chair
Michael Schneider, Vice Chair
John Barger, Secretary
Ed C. Morris

ABSENT

Les Robbins

ALSO ATTENDING:

BOARD MEMBERS AT LARGE

Yves Chery

AUDIT COMMITTEE CONSULTANT

Timothy O'Brien

STAFF, ADVISORS, PARTICIPANTS

Gregg Rademacher
Janice Golden
Robert Hill
Richard Bendall
Kimberly Hines
Jeannine Smart
Sarah Marks
Ted Granger
David Redman
Elvia Gonzalez
Sylvia Botros
Leisha Collins
Nathan Amick

I. ELECTION OF AUDIT COMMITTEE CHAIR, VICE CHAIR, AND SECRETARY FOR CALENDAR YEAR 2011

Mr. Morris nominated Mr. Russin for Audit Committee Chairman. Mr. Schneider seconded the motion. Mr. Morris moved the nominations be closed. Mr. Russin was elected Chair of the Audit Committee in a unanimous vote.

Mr. Barger nominated Mr. Schneider for Audit Committee Vice Chairman. Mr. Barger moved the nominations be closed. Mr. Schneider was elected Vice Chair of the Audit Committee in a unanimous vote.

Vice Chairman Schneider nominated Mr. Barger for Audit Committee Secretary. Mr. Barger was elected Secretary of the Audit Committee in a unanimous vote.

II. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF NOVEMBER 17, 2010

Vice Chair Schneider stated he felt there was a lack of detail in the minutes with regards to the Audit Committee's question, to Mr. Berman of Brown Armstrong, regarding the inclusion of STAR COLA reserves in determining LACERA's actuarial funding. A discussion ensued between staff, the Audit Committee, and Mr. Rademacher as to what the STAR COLA issue was, whether the issue had been addressed subsequent to the November 17, 2010 Audit Committee meeting, and which board or committee should be addressing the issue. It was determined that a discussion of the STAR reserves will be agendaized and addressed at the next Audit Committee Meeting.

A motion was made by Vice Chair Schneider and seconded by Mr. Morris, to approve the Audit Committee minutes prepared for the November 17, 2011 meeting as presented. The motion passed with a unanimous vote.

III. PUBLIC COMMENT

No items to Report

IV. REPORTS

A. Internal Audit Staffing Report

Richard Bendall, Chief Audit Executive

Richard Bendall, Chief Audit Executive, briefly discussed the following Internal Audit staffing issues:

Bernie Buenaflor, Principal Internal Auditor, is nine months into his one year assignment as the Acting Division Manager of the Claims Processing department.

- Leisha Collins, a former LACERA Internal Auditor, is working as a contract employee, in the capacity of a Senior Internal Auditor.
- Trial basis staffing switch, with Ruwen Liu, Senior Internal Auditor, working in the Investment Office, and in return Internal Audit will gain the services of the Investment Office's Michelle Masters.

B. LACERA Internal Audit Quality Assurance Report — Follow Up

Richard Bendall, Chief Audit Executive

Leisha Collins, Senior Internal Auditor

Mr. Bendall discussed the results of the recommendations made in the recent LACERA Internal Audit Quality Assurance Review, and the status of Internal Audit efforts to address those recommendations.

C. Audit Plan Status Report — YTD ending February 28, 2011

Richard Bendall, Chief Internal Auditor

Sarah Marks, Principal Internal Auditor

Mr. Bendall stated that as of February 28, 2011 the fiscal year end 2010–2011 Audit Plan is fifty-five percent complete with nineteen projects completed, and twenty-two projects in progress.

Secretary Barger asked Mr. Bendall if any of the projects targeted for modification or postponement should be of concern? Mr. Bendall responded no, and explained if he had any reservations about any of the projects they would not be on the list of projects targeted for postponement or modification.

Secretary Barger requested additional information on the in-depth risk assessment postponed in Claims Processing. Mr. Bendall explained the project objective is to review critical processes, identify risk areas, and mitigating controls. The project was postponed due to a change in senior management who is working to realign divisional goals and reorganize critical processes.

Vice Chair Schneider requested that going forward a column be added to the Audit Plan Status Report detailing each individual project's percentage of completion as of the previous Audit Committee meeting.

Secretary Barger asked Mr. Bendall how many audit hours were planned for the year, and how much staff does he have? Mr. Bendall discussed the total audit plan hours (11,966), the total number of full time staff currently employed, and the total number of staff assumed when creating the audit plan.

D. Summary of Significant Work Completed / In-Progress Since Last Audit Committee Meeting [As of February 28, 2011]

Richard Bendall, Chief Internal Auditor

Mr. Bendall gave an overview of the following projects completed since the last Audit Committee meeting:

- Microfiche Conversion Audit
- Special Incident Investigations
- Rehired Retirees Audit
- Board and Staff Travel Expense Testing
- Investment Management Fees Audit
- ARC Cost Letters Audit
- Disaster Recovery Exercise

Committee inquiries included:

- What was time frame for the Microfiche Conversion project? Mr. Bendall stated that planning began in September 2009, process set up and testing began in October 2009, and the conversion process began in January 2010 and is ongoing.
- What were the results of the Rehired Retirees Audit? Mr. Bendall gave an overview of the audit findings, the cause of the findings, and staff's intent to report these findings to the County CEO for follow-up.
- Were there any errors found in management fee calculations as part of the Investment Management Fees Audit? Sarah Marks, Principal Auditor, stated that no errors were found. Mrs. Marks proceeded to give an overview of the basic procedures performed to verify investment management fees.
- How were the total numbers of project hours, as stated in the Audit Plan Status Report, calculated? Mrs. Marks gave a detailed description of how the calculation was performed and the numerous variables included in the calculation.
- What were the scenarios simulated during the disaster recovery? Mr. Bendall gave an overview of some of the scenarios and the safeguards in place to maintain the Information Technology network, and protect LACERA's assets.

Mr. Bendall also gave a status update on the Actuarial Services RFP, which will result in a Consulting Actuary and an Audit Actuary for both the retirement benefits program and the OPEB program.

E. Status of Other External Audits Not Conducted at the Discretion of Internal Audit — LACERA's Member Services Call

Center Audit

Mr. Bendall stated that the Member Services Division has contracted with the International Customer Management Institute to perform a Call Center Operations Audit.

V. ACTION ITEMS

- A. Recommendation as submitted by Richard Bendall, Chief-Internal Audit and Sarah Marks, Principal Internal Auditor:
Approve the revised 2010–2011 Audit Plan.

A motion was made by Vice Chair Schneider to approve the revised 2010–2011 Audit Plan as presented. The motion was seconded by Mr. Morris, and passed with a unanimous vote.

VI. VI. FOR INFORMATION ONLY

- A. None

VII. CONSULTANT COMMENTS

Timothy O'Brien — Audit Committee Consultant

No comment

VIII. GOOD OF THE ORDER

Secretary Barger congratulated Chairman Russin and Vice Chairman Schneider on their elections as Audit Committee Chairman and Vice Chairman, respectively.

Vice Chairman Schneider congratulated Secretary Barger on his election as Audit Committee Secretary.

IX. ADJOURNMENT