

AGENDA

MEETING OF THE AUDIT COMMITTEE AND BOARD OF RETIREMENT AND/OR BOARD OF INVESTMENTS*

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. Lake Avenue, Suite 810
Pasadena, CA 91101**

July 18, 2012 – 9:00 a.m.

2012 COMMITTEE MEMBERS:

Simon S. Russin, 2012 Chair
Michael Schneider, 2012 Vice Chair
Ed C. Morris
Les Robbins
Herman B. Santos
Leonard Unger

CONSULTANT:

Timothy O'Brien – Audit Committee Consultant

- I. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF MARCH 21, 2012 (see attachment)
- II. PUBLIC COMMENT
- III. REPORTS
 - A. GASB New Defined Benefit Pension Standards
(Presentation dated July 2012)
Eric S. Berman, MSA, CPA, Partner
Brown Armstrong Accountancy Corporation
 - B. Internal Audit Staffing Report
Richard Bendall, Chief Internal Auditor
(Verbal presentation only)
 - C. Internal Audit Project – Automated Continuous Auditing Goal Status
Richard Bendall, Chief Audit Executive
George Lunde, Senior Internal Auditor
(Memo dated July 7, 2012)
 - D. Audit Plan Status Report – Fiscal Year ended June 30, 2012
Richard Bendall, Chief Audit Executive
Sarah Marks, Principal Internal Auditor
(Memo dated July 3, 2012)

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

Richard Bendall, Chief Audit Executive
(Verbal Presentation Only)

- F. Risk Management Process and Organizational Risk Assessment

Richard Bendall, Chief Audit Executive
Sarah Marks, Principal Internal Auditor
(Memo dated June 29, 2012)

IV. ACTION ITEMS

- A. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Sarah Marks, Principal Internal Auditor, that the Audit Committee approve the Fiscal Year 2012-2013 Audit Plan
(Memo dated July 2, 2012)

V. FOR INFORMATION ONLY

- A. Audit/Consulting Reports

- 1) Retirement Agenda and First Payment
- 2) Final Average Compensation Audit

- B. Education Item

IIA Tone at the Top, Issue 55, June/July 2012
“Strong Links for Effective Risk Management”

- C. Education Item

IIA/RIMS Executive Report
“Risk Management and Internal Audit: Forging a Collaborative Alliance”

- D. Education Item

Association of Certified Fraud Examiners -2012 Global Fraud Study
“Report to the Nations on Occupational Fraud and Abuse
(Provided under Separate Cover)

VI. CONSULTANT COMMENTS

Timothy O’Brien – Audit Committee Consultant
(Verbal presentation only)

VII. GOOD OF THE ORDER

(For discussion purposes only)

VIII. ADJOURNMENT

Agenda – Regular Meeting of the Audit Committee

July 18, 2012

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***The Board of Retirement and Board of Investments have adopted a policy permitting any member of the Boards to attend a standing committee meeting open to the public. In the event five (5) or more members of either the Board of Retirement and/or the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement and/or Board of Investments. Members of the Board of Retirement and Board of Investments who are not members of the Committee may attend and participate in a meeting of a Board Committee but may not vote on any matter discussed at the meeting. Except as set forth in the Committee's Charter, the only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.**

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Minutes of the Audit Committee

MEETING OF THE AUDIT COMMITTEE AND BOARD OF RETIREMENT AND/OR BOARD OF INVESTMENTS*

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. Lake Avenue, Suite 810
Pasadena, CA 91101**

July 18, 2012 – 9:00 a.m.

COMMITTEE MEMBERS:

Present: Simon S. Russin, 2012 Chair
Michael Schneider, 2012 Vice Chair
Ed C. Morris
Les Robbins
Herman B. Santos
Leonard Unger

Absent: None

BOARD MEMBERS AT LARGE:

Yves Cherry
Shawn Kehoe
Sadonya Antebi

AUDIT COMMITTEE CONSULTANT:

Timothy O'Brien – Audit Committee Consultant

STAFF, ADVISORS, PARTICIPANTS

Gregg Rademacher	Elvia Gonzalez
Robert Hill	Leisha Collins
John Popowich	George Lunde
Richard Bendall	David Redman
James Pu	Darla Vidger
Beulah Auten	Sylvia Botros
David Kushner	Quoc Nguyen
John Nogales	Nathan Amick
Robb Van Der Volgen	Gloria Harriel
Ted Granger	Susana Seeckts
Carlos Barrios	Eric Berman

I. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF MARCH 21, 2012 (see attachment)

A motion was made by Mr. Morris and seconded by Mr. Unger, to approve the Audit Committee minutes prepared for the March 21, 2011 meeting as presented. All Committee Members voted aye, with the exception of Mr. Robbins who abstained.

II. PUBLIC COMMENT

Mark Klein, of local SEIU 721, spoke regarding how he felt the upcoming new GASB standards (#67 and #68) were a political move, and how he thought they would negatively affect the sustainability of public pension funds.

III. REPORTS

A. GASB New Defined Benefit Pension Standards (#67 and #68)
(Presentation dated July 2012)
Eric S. Berman, MSA, CPA, Partner
Brown Armstrong Accountancy Corporation

Richard Bendall, LACERA's Chief Audit Executive, introduced Eric Berman a partner at Brown Armstrong Accountancy Corporation, LACERA's external auditors. Mr. Berman gave a presentation on the new, soon to be issued, GASB pronouncements numbers sixty-seven and sixty-eight. The topics covered were as follows:

- Liability Recognition
- Total Pensionable Liability
- Measurement Dates
- Reporting Dates
- Biennial Actuarial Evaluations
- Recognition of Significant Changes
- Discount Rating
- Net Pension Liability
- Total Pensionable Assets
- Cost Sharing, Plan Sponsor
- Financial Statement Notes
- Required Supplementary Information
- Amortization of Market Values
- Amortization of Plan Changes
- Amortization of Plan Assumptions
- Timing of Financial Reporting
- Actuarial Required Calculation
- Implementation Date

Mr. Berman's second to last slide provided for illustration purposes, based on estimated 2011 numbers, the apportionment of LACERA's net plan assets and net pension liability between the primary plan sponsor, LA County and the approximate 12 members of special districts, separate plan sponsors. The liabilities would be apportioned to be reflected separately on each plan sponsors financial statements. Mr. Rademacher, Chief Executive Officer, asked Mr. Berman, since LACERA itself is a separate budget authority from LA County, whether LACERA would also have to be "carved out from the County's position." Mr. Berman responded, "potentially yes."

Mr. Cherry asked what the time line should be in order to properly implement the new pronouncements. Mr. Berman stated that other organizations are implementing a task force that will meet monthly and become more frequent until the implementation date at July 1, 2013, and meet continuously through the preparation of the 2013-2014 fiscal year financial statements.

B. Internal Audit Staffing Report

Richard Bendall, Chief Audit Executive
(Verbal presentation only)

Mr. Bendall stated that no changes have occurred in staffing since the last Audit Committee Meeting in March.

C. Internal Audit Project – Automated Continuous Auditing Goal Status

Richard Bendall, Chief Audit Executive
George Lunde, Senior Internal Auditor
(Memo dated July 7, 2012)

George Lunde, Senior Internal Auditor, gave a presentation on how Internal Audit is using automated continuous auditing. The topics covered were as follows:

- Data Access
- Automated Tool(s)
- Staff Training
- Current Tests
- Future Tests and Programs

Mr. Russin asked if Internal Audit had found any exceptions using the automated auditing. Mr. Lunde stated that no significant exceptions have been identified at this time. Mr. Kehoe asked if this process has the ability to notify management of automatic alerts. Mr. Bendall stated no, that the automation is not an in-line tool and is not used in such a manner.

D. Audit Plan Status Report – Fiscal Year ended June 30, 2012
Richard Bendall, Chief Audit Executive
Sarah Marks, Principal Internal Auditor
(Memo dated July 3, 2012)

Mr. Bendall gave a brief overview of the current status of Internal Audit's plan, including audits performed and completed, audits in progress, and audits to be performed in the future.

E. Status of Other External Audits Not Conducted at the Discretion of Internal Audit
Richard Bendall, Chief Audit Executive
(Verbal Presentation Only)

None noted.

F. Risk Management Process and Organizational Risk Assessment
Richard Bendall, Chief Audit Executive
Sarah Marks, Principal Internal Auditor
(Memo dated June 29, 2012)

Mr. Bendall gave a presentation of Internal Audit's risk assessment evaluation of LACERA. The topics covered were as follows:

- Risk Management Process Assessment
- Organizational Risk Assessment
- Enterprise Risk Management (ERM)
- Relative Risk Rankings
- Inherent Risk

Mr. Kehoe asked if the scoring was based solely on interviews with Management. Mr. Bendall stated that Division Management, and Executive Management were interviewed, and Internal Audited added their organization knowledge along with risk assessment knowledge.

Timothy O'Brien, LACERA's Audit Committee Consultant, informed the Audit Committee that internal audit standards require Internal Audit to perform an annual organizational risk assessment.

IV. ACTION ITEMS

- A. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Sarah Marks, Principal Internal Auditor, that the Audit Committee approve the Fiscal Year 2012-2013 Audit Plan
(Memo dated July 2, 2012)

A motion was made by Mr. Unger and seconded by Mr. Morris, to approve the Fiscal Year 2012-2013 Audit Plan as presented. The motion passed unanimously.

V. FOR INFORMATION ONLY

- A. Audit/Consulting Reports
1) Retirement Agenda and First Payment
2) Final Average Compensation Audit
- B. Education Item
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VI. CONSULTANT COMMENTS

Timothy O’Brien – Audit Committee Consultant
(Verbal presentation only)

Mr. O'Brien commended Internal Audit on the use of automated auditing. He also stated, that with regards to the new pronouncements, he thinks LACERA will be in good shape financially.

VII. GOOD OF THE ORDER

(For discussion purposes only)

Mr. Kehoe said he was looking forward to seeing how the pronouncements, once implemented, will affect LACERA.

Mr. Cherry, Mr. Unger, and Mr. Morris complimented Mr. Berman on his presentation.

Mr. Rademacher informed the Audit Committee that LACERA is working diligently, with all necessary parties, to implement the new GASB pronouncements.

VIII. ADJOURNMENT

The meeting was adjourned at 10:32 AM.

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