

AGENDA

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

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

December 5, 2013 – 9:00 a.m.

2013 COMMITTEE MEMBERS

Michael Schneider, Chair
Alan Bernstein, Vice-Chair
Yves Chery
Mark Saladino
Herman B. Santos
Leonard Unger

CONSULTANT

Timothy O'Brien, Audit Committee Consultant

I. APPROVAL - MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF JULY 17, 2013 (Attached)

II. PUBLIC COMMENT

III. REPORTS

A. Brown Armstrong Presentation of the Reports for FYE June 30, 2013

Agenda and Reports from Brown Armstrong et. al.

- *Report on Internal Control Over Financial Reporting and on Compliance*
- *Required Communications to the Audit Committee*
- *Agreed Upon Conditions Report*

Andrew Paulden, Managing Partner

Connie Perez, Partner

B. Audit Plan Status Report – October 31, 2013

Richard Bendall, Chief Audit Executive

Nathan Amick, Internal Auditor

(Memo dated November 21, 2013)

C. Recommendation Follow-up Report – October 31, 2013

Sarah Marks, Principal Internal Auditor

(Memo dated November 21, 2013)

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

Richard Bendall, Chief Audit Executive
(Verbal presentation only)

E. Chief Audit Executive Performance Evaluation

Richard Bendall, Chief Audit Executive
(Verbal presentation only)

IV. FOR INFORMATION ONLY

Division Profiles are presented as follows

- Risk Assessment
- Audit Plan Status
- Work Completed / In Progress
- Audit Reports

A. Systems

1. Systems Access Procedures

George Lunde, Senior Internal Auditor
(Memo dated October 31, 2013)

B. Claims Processing

1. Previous Service Contracts Consulting Review – OPA, Military, and Federal Contracts

Quoc Nguyen, Senior Internal Auditor
Sylvia Botros, Internal Auditor
Darla Vidger, Internal Auditor
(Memo dated November 25, 2013)

2. Unlocked Member Accounts with Unclaimed Member Contributions

Quoc Nguyen, Senior Internal Auditor
(Memo dated November 20, 2013)

C. FASD

1. LACERA Annual Financial Audit Facilitation – FYE 2013

David Redman, Senior Internal Auditor
(Verbal presentation only)

D. Investments

E. Member Services

F. Communications

G. Disability Retirement

H. Executive Office

AGENDA – REGULAR MEETING OF THE AUDIT COMMITTEE

DECEMBER 5, 2013

PAGE 3 OF 4

- I. Human Resources
- J. Retiree Health Care
- K. Administrative Services
 - 1. **Fixed Asset Inventory**
Nathan Amick, Internal Auditor
(Memo dated September 16, 2013)
 - 2. **Records Retention**
Darla Vidger, Internal Auditor
(Memo dated July 26, 2013)

L. Internal Audit

M. Quality Assurance

N. Legal

O. Disability Litigation

V. CONSULTANT COMMENTS

Timothy O'Brien, Audit Committee Consultant
(Verbal presentation only)

VI. GOOD OF THE ORDER

(For information purposes only)

VII. ADJOURNMENT

AGENDA – REGULAR MEETING OF THE AUDIT COMMITTEE

DECEMBER 5, 2013

PAGE 4 OF 4

***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

REGULAR 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

December 5, 2013 – 9:05 a.m.

COMMITTEE MEMBERS

Present: Yves Chery
Mark J. Saladino
Leonard Unger, Secretary

Absent: Alan Bernstein, Vice-Chair
Herman B. Santos
Michael Schneider, Chair

BOARD MEMBERS AT LARGE

None

AUDIT COMMITTEE CONSULTANT

Timothy O'Brien

STAFF, ADVISORS, AND PARTICIPANTS

Gregg Rademacher
Robert Hill
John Popowich
Richard Bendall
Sarah Marks
Nathan Amick
Sylvia Botros
Leisha Collins
Elvia Gonzalez
George Lunde
Quoc Nguyen
David Redman
Darla Vidger

Beulah Auten
Carlos Barrios
Bernie Buenaflor
Roxana Castillo
Calvin Chang
Ted Granger
Gloria Harriel
Kimberly Hines
James Pu
Cassandra Smith
Roberta Van Nortrick
Robb Van Der Volgen

Brown Armstrong Advisors

Andrew Paulden
Connie Perez
Brooke Baird

MINUTES OF THE AUDIT COMMITTEE

December 5, 2013

Page 2 of 7

I. APPROVAL - MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF JULY 17, 2013

This motion could not be presented as the Audit Committee Member attendance did not meet the quorum required by Audit Committee Charter.

II. PUBLIC COMMENT

No items to report.

III. REPORTS

A. Brown Armstrong Presentation of the Reports for FYE June 30, 2013

- Andrew Paulden, Managing Partner
- Connie Perez, Partner
- Brooke Baird, Audit Manager

Andrew Paulden presented LACERA's audited financial statements for the Fiscal Year-End of June 30, 2013. Mr. Paulden discussed the purpose of the audit, the audit process, significant audit areas included in the scope of work, the audit report, and required communications. LACERA's Financial Statements were given an unqualified opinion; there were no material weaknesses or significant deficiencies reported. Brooke Baird then discussed some of the finer points of the audit process.

Connie Perez briefly discussed current changes affecting the audit report as a result of GASB 63 as well as future changes as a result the implementations of the new GASB 67 and 68 standards including the establishment of a cross-functional task force, implementation schedule, and decision catalog.

Mr. Unger asked for a highlight of some of the changes that will result from the new GASB 67 and 68 standards. Mr. Paulden responded that from a plan perspective it will affect required disclosures more than anything and it will most significantly impact the plan sponsor in 2015 as they will soon be required to report a pension liability in their statement of net position.

Mr. Paulden further discussed the responsibilities and required communication in the SAS 114 Report.

Mr. Saladino asked if there is a formal rule that requires LACERA to periodically change auditors as Brown Armstrong has been LACERA's auditor for 11 years. Mr. Bendall responded that there is no formal GASB rule requiring a change in auditors it is just considered a best practice. Mr. Paulden explained that the requirement to rotate audit teams and upper level auditing managers applies under Sarbanes-Oxley.

MINUTES OF THE AUDIT COMMITTEE

December 5, 2013

Page 3 of 7

A. **Brown Armstrong Presentation of the Reports for FYE June 30, 2013- Continued**

- Andrew Paulden, Managing Partner
- Connie Perez, Partner
- Brooke Baird, Audit Manager

Mr. Chery inquired if there was best practice standard time frame to rotate auditors. Mr. Bendall responded it varies with other pension systems and that there is no set time limit. Mr. Bendall noted that there are very few firms qualified to perform a pension audit. Mr. Chery asked Mr. Bendall if he felt that 11 years was a reasonable duration of employment for the same auditing firm. Mr. Bendall responded that he felt it was and noted that next year is the fifth year of the contract with Brown Armstrong following which the Board may choose to continue the contract in a 2-year extension. Mr. Unger asked how long the County of Los Angeles has contracted with their auditor. Mr. Bendall responded that he was not sure, but possibly as long as 10 years.

Mr. Unger noted that under the new GASB standards, part of the liability calculation could be divided into two calculations and asked whether or not it has been determined if the 10-year buy would be part of the calculation for LACERA. Mr. Paulden responded that they have not done that yet and he does not anticipate it being a problem. Mr. Paulden noted that the situation Mr. Unger described only comes into play when a pension fund runs out of assets to pay benefits when you have a change in the rate much lower than the assumed rate and thus spiking the obligation. Mr. Unger then asked Mr. Paulden where LACERA's assumed rate of return falls in comparison with other 37-Act pension funds. Mr. Paulden responded that LACERA's rate has a reasonable placement in the range with some funds higher and some lower.

B. **Audit Plan Status Report [October 31, 2013]**

- Richard Bendall, Chief Audit Executive
- Nathan Amick, Internal Auditor
(Memo dated November 21, 2013)

Mr. Bendall briefly described the reporting schedule for the annual Audit Plans and then an overview of the Meeting Book and how it is organized. Mr. Bendall then provided the Interim Audit Plan Status Report. During the year, Internal Audit completed 7 projects with 28 projects in progress.

C. **Recommendation Follow-up Report [October 31, 2013]**

- Sarah Marks, Principal Internal Auditor
(Memo dated November 21, 2013)

Ms. Marks briefly described the nature and schedule of the Recommendation Follow-Up Report and how it provides a status of management's progress toward audit recommendations.

MINUTES OF THE AUDIT COMMITTEE

December 5, 2013

Page 4 of 7

C. **Recommendation Follow-up Report** [October 31, 2013] - *Continued*

- Sarah Marks, Principal Internal Auditor
(Memo dated November 21, 2013)

At the end of the past fiscal year, Internal Audit was tracking 65 recommendations. Ms. Marks explained that during the first 4 months of the current fiscal year, there were 22 new recommendations. Between July 1st and October 31st, 2013; LACERA implemented new policies and procedures to address 17 of the audit recommendations.

Ms. Marks also highlighted some of the improvements made in the Claims Processing Division and the Systems Divisions as a result of Internal Audit recommendations.

Mr. Unger asked if there were any known areas at LACERA where there are informal or unwritten work procedures. Mr. Bendall responded that there are some areas where LACERA knows there are informal or unwritten procedures including exception processing. Mr. Unger asked if there was a process to capture important information related to unwritten procedures during the exit interview process. Mr. Hill noted that there are a number of initiatives in Claims Processing to address the issue of unwritten procedures and capturing important process information, including the staff rotation process, exception process reviews, and new documentation efforts which include the recent hire of a Process Manager.

Mr. Chery followed with a question related to when cases get “stuck” on a staff member’s desk or an individual’s work cue and how this issue is being addressed. Mr. Buenaflor responded that they have a work log procedure that is being followed in addition to the work log that is already available on the LACERA system to address this concern. Mr. Chery asked a specific question about the Active Death process. Mr. Buenaflor noted that every single case is addressed and tracked by a work team on a weekly basis.

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

- Sarah Marks, Principal Internal Auditor
(Verbal Presentation Only)

Ms. Marks noted that IBM is performing a software license audit conducted by KPMG on their behalf. They have submitted preliminary findings to the Systems Division. These findings are currently being reviewed with one of LACERA’s Systems resellers with a draft report to be issued early in 2014.

MINUTES OF THE AUDIT COMMITTEE

December 5, 2013

Page 5 of 7

D. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit - Continued**

- Sarah Marks, Principal Internal Auditor
(Verbal Presentation Only)

Ms. Marks also noted that Price Waterhouse Cooper (PWC) is conducting an audit of the custodial bank transition on behalf of State Street to provide third-party assurance that the transition of all of LACERA's assets went as planned. State Street met with PWC on December 5, 2013 to review the findings with a final report to be issued in January 2014. Mr. Bendall further noted that there were no material variations.

Ms. Marks stated the Centers for Medicare and Medicaid Services is performing an audit that pertains to the County's participation in the early retiree reinsurance program to determine compliance. This audit began in June 2013 with anticipated completion in May or June 2014.

IV. **FOR INFORMATION ONLY**

- ### A. Division Profiles and Completed Projects
- Richard Bendall, Chief Audit Executive

Mr. Bendall provided an overview of the Division Profiles and welcomed any questions.

1. Systems Division

- George Lunde, Senior Internal Auditor
(Memo dated October 31, 2013)

a. *Systems Access Procedures*

Mr. Lunde presented the purpose, focus and results of the Systems Access Procedures Audit. Mr. Lunde found that LACERA has effective business practices and control procedures are in place.

2. Claims Processing Division

- Quoc Nguyen, Senior Internal Auditor
- Sylvia Botros, Internal Auditor
- Darla Vidger, Internal Auditor
(Memo dated November 25, 2013)

a. *OPA, Military, and Federal Contract Process Review*

Mr. Nguyen provided a brief review of the consulting review project being conducted by Internal Audit at the request of Bernie Buenaflor and a summary of the most recent review completed of the OPA, Military and Federal Contract processes in Claims Processing.

MINUTES OF THE AUDIT COMMITTEE

December 5, 2013

Page 6 of 7

a. OPA, Military, and Federal Contract Process Review (continued)

The primary objectives of this review were to determine if staff have updated documented procedures to process transactions and areas where process controls can be strengthened and efficiency measures can be improved. Ms. Vidger briefly highlighted the findings of the review and Ms. Botros explained the management action plan to update and standardize the processes and procedures.

b. Unlocked Member Accounts with Unclaimed Contributions

Mr. Nguyen provided a summary of a review of member accounts with unclaimed contributions that did not have a system lock feature present. This review was conducted at the request of management as a proactive step to ensure member accounts with unclaimed contributions were as secure as necessary. As a result of the accounts identified during this review, the Systems Division in cooperation with management will determine which of the identified accounts should have the lock feature applied as an additional measure of control.

Mr. Saladino asked why unclaimed member contributions held were not escheated. Mr. Bendall responded that LACERA was not allowed to escheat the funds per CERL, but the funds are moved to the employer reserve after a certain number of years.

3. Administrative Services Division

- Nathan Amick, Internal Auditor
(Memo dated September 16, 2013)

a. Fixed Asset Inventory

Mr. Amick provided a summary of the fixed asset inventory review and how it has changed over the years. Mr. Amick noted that LACERA has not recently conducted fixed asset inventory, but does maintain a perpetual inventory and other appropriate controls. In lieu of a fixed asset inventory review, a review of the inventory process and test of supplementary controls of fixed assets was performed with positive results. In the future, instead of a traditional fixed asset inventory, management will conduct regular inventory cycle counts.

Mr. Saladino asked if there was an issue regarding staff plugging into the network and if there were controls to prevent this. Mr. Lunde responded that there were system controls in place to address this issue. Mr. Pu added that controls are in place for certain devices and a policy is in place to control all external device access as well.

MINUTES OF THE AUDIT COMMITTEE

December 5, 2013

Page 7 of 7

a. Fixed Asset Inventory (continued)

Mr. O'Brien asked how it is determined if the items represented on the fixed asset inventory list actually exist. Mr. Amick responded that there is a fixed asset inventory procedure that includes tracking tags, purchase dates, and item locations in addition to the door lock system, video cameras and security.

- Darla Vidger, Internal Auditor
(Memo dated July 26, 2013)

b. Records Retention

Ms. Vidger provided an overview of the Records Retention review. This included the recommendations to update the Policy and Manual and work with managers to improve their division-specific record retention procedures. Ms. Vidger noted that management has agreed with those recommendations and will update the Records Retention Policy and Manual.

Mr. Saladino asked what documents are still kept in physical form. Ms. Vidger and Mr. Bendall responded that historic, administrative, and contract documents are still kept at LACERA and in offsite storage.

D. CONSULTANT COMMENTS

Timothy O'Brien – Audit Committee Consultant

No additional comments.

E. GOOD OF THE ORDER

Mr. Unger noted that the meeting booklet was very thorough and informative.

F. ADJOURNMENT

The meeting was adjourned at 10:24 a.m.