

# 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 4, 2014 – 9:00 a.m.

### 2014 COMMITTEE MEMBERS

Michael Schneider, *Chair*  
David Green, *Vice-Chair*  
Shawn Kehoe, *Secretary*  
John Barger  
Alan Bernstein  
Yves Chery

### AUDIT COMMITTEE CONSULTANT

Timothy O'Brien

### I. EXECUTIVE SUMMARY

Richard Bendall, *Chief Audit Executive*  
(Memo Dated: December 4, 2014)

### II. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF JULY 16, 2014

(Attached)

### III. PUBLIC COMMENT

### IV. REPORTS

#### A. Brown Armstrong Presentation of the Reports – June 30, 2014

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. Internal Audit Staffing Report

Richard Bendall, *Chief Audit Executive*  
(Verbal Presentation)

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**C. Audit Plan Status Report – October 31, 2014**

Richard Bendall, *Chief Audit Executive*  
(Memo Date: November 6, 2014)

**D. Highlights of Work Performed**

Richard Bendall, *Chief Audit Executive*  
(Verbal Presentation)

**E. Recommendation Follow-up Report – November 13, 2014**

Quoc Nguyen, Senior Internal Auditor  
(Memo Date: November 6, 2014)

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

Richard Bendall, *Chief Audit Executive*  
(Verbal Presentation)

**1. Performance Audit Report for the Early Retirement Reinsurance Program**

Richard Bendall, *Chief Audit Executive*  
(Verbal Presentation)

**G. Chief Audit Executive Performance Evaluation**

Richard Bendall, *Chief Audit Executive*  
(Verbal Presentation)

**V. FOR INFORMATION ONLY**

**VI. CONSULTANT COMMENTS**

Timothy O'Brien, Audit Committee Consultant  
(Verbal Presentation)

**VII. GOOD OF THE ORDER**

(For Information Purposes)

**VIII. ADJOURNMENT**

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## **AGENDA – REGULAR MEETING OF THE AUDIT COMMITTEE**

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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.**

**Documents subject to public disclosure that relate to an agenda item for an open session of the Board and/or Committee that are distributed less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the members of any such Board and/or Committee at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101 during normal business hours [e.g., 8:00 a.m. to 5:00 p.m. Monday through Friday].**

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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 4, 2014 – 9:00 a.m.

### 2014 COMMITTEE MEMBERS

**PRESENT:** Michael Schneider, *2014 Chair*  
John Barger  
Alan Bernstein

**ABSENT:** David Green, *2014 Vice-Chair*  
Shawn Kehoe, *2014 Secretary*  
Yves Chery

### BOARD MEMBERS AT LARGE

None

### AUDIT COMMITTEE CONSULTANT

Timothy O'Brien

### STAFF, ADVISORS, AND PARTICIPANTS

Gregg Rademacher	Bernie Buenaflor	<b>Brown Armstrong</b>
Robert Hill	Calvin Chang	Andrew Paulden
John Popowich	Gloria Harriel	Connie Perez
Richard Bendall	Ted Granger	Elena Sanchez
Nathan Amick	Cynthia Guider	
Sylvia Botros	Michael Herrera	
Leisha Collins	John Nogales	
Elvia Gonzalez	Mary Phillips	
George Lunde	James Pu	
Quoc Nguyen	Robb Van Der Volgen	
David Redman		
Darla Vidger		

# MINUTES OF THE AUDIT COMMITTEE

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## I. EXECUTIVE SUMMARY

Richard Bendall, *Chief Audit Executive*

Mr. Bendall provided an overview of the December 4, 2014 Audit Committee meeting and updates to the Audit Committee meeting book.

## II. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF JULY 16, 2014

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

## III. PUBLIC COMMENT

No items to report.

## IV. REPORTS

### A. Brown Armstrong Presentation of the Reports – June 30, 2014

Agenda and Reports from Brown Armstrong et. al.

- *Independent Auditor's Report on the Audited Financial Statements re LACERA and the OPEB Trust for the Fiscal Year ended June 30, 2014*
  - *[included] Independent Auditor's Opinion*
- *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*

Elena Sanchez, *Senior Accountant*

Ms. Sanchez presented LACERA's audited financial statements for the Fiscal Year-End of June 30, 2014. In her presentation, Ms. Sanchez noted the purpose of the audit, the audit process, significant audit areas included in the scope of work, the OPEB trust audit, the audit report itself, and required communications. LACERA's and the OPEB Trust's Financial Statements were given an unqualified opinion; there were no material weaknesses or significant deficiencies reported.

Mr. Barger asked when performing the audit how they determine areas of high risk. Mr. Paulden stated that due to the high dollar value, the Investments Area is inherently risky; particularly, "non-traditional" investments such as alternatives investments and real-estate because valuations of these types of assets are less clear cut. Also, participant and actuarial data and participant and employer contributions are carefully reviewed because they are the building block of the fund. The fund's largest outflows, benefit payments, are also an area of importance.

Mr. Paulden briefly discussed current changes affecting the audit report as a result of GASB 67 as well as future changes resulting from the implementation of the new

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GASB 68 standard. Mr. Paulden commended LACERA in coordinating with the plan sponsor on the establishment of a cross-functional task force responsible for implementing GASB 67 and 68. Mr. Paulden stated, from an audit standpoint, the testing of the participant data is essential in ensuring a proper implementation from GASB 67 and 68. No material differences were identified in the testing of participant data.

Ms. Perez concluded Brown Armstrong's presentation by going over the various elements of the Independent Auditor's Report, including audit responsibilities and authority, reliance on other audit opinions, review of internal audit reports and findings, confirmation of asset balances, coordination with plan sponsor and actuary on implementation of GASB 67 and 68, and changes to the notes of the financial statements.

Chairman Schneider asked when confirming the balance of private equity firms, if they also review the financial statements of organizations in which the private equity firm has an interest. Mr. Paulden responded that they only review the financial statements of the private equity firm and rely on the work and opinion of the auditor of the private equity firm to perform those duties. However, any significant change in value, from one year to the next, of private equity assets would be further investigated.

Several questions followed regarding possible effects of changes required by GASB 67 & 68. These were successfully addressed by Mr. Rademacher.

### B. **Internal Audit Staffing Report**

Richard Bendall, *Chief Audit Executive*  
(*Verbal Presentation*)

Mr. Bendall noted that there were two staff out during the last period – one due to administrative leave and one on special assignment in Member Services.

For months, Sylvia Botros has been serving as Acting Division Manager of the Member Services. So, member verification processes within Internal Audit are being successfully handled in her absence by Mr. Amick.

### C. **Audit Plan Status Report – October 31, 2014**

Richard Bendall, *Chief Audit Executive*  
(*Memo Date: November 6, 2014*)

Mr. Bendall described the Audit Plan cycle and gave a high level recap of work hours performed since the last Audit Committee meeting.

There were questions related to LACERA's IT Security and IT audit resources applied to this area that were addressed by Mr. Pu and Mr. Bendall. Specifically, Mr. Bendall discussed the need to create a dedicated Senior IT Auditor position within LACERA Internal Audit.

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### D. **Highlights of Work Performed**

Richard Bendall, *Chief Audit Executive*  
(*Verbal Presentation*)

Mr. Bendall presented Internal Audit's approach to projects in both LACERA's Administrative and Investment functions as well as a high-level overview of work performed.

There were several questions regarding insurance to protect LACERA against possible misappropriation by an outside investment firm having custody of LACERA assets, all of which were addressed by Mr. Bendall.

The Committee asked several questions pertaining to Internal Audit's role as it relates to risk mitigation that were addressed by Mr. Bendall and Mr. Rademacher.

Mr. Nguyen provided a synopsis of PEPRA-compliance projects currently underway.

Mr. Lunde provided a brief summary of the annual, portal security review.

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

Richard Bendall, *Chief Audit Executive*  
(*Verbal Presentation*)

#### 1. **Performance Audit Report for the Early Retirement Reinsurance Program**

Richard Bendall, *Chief Audit Executive*  
(*Verbal Presentation*)

Mr. Bendall noted since the last period there was only one external review performed, which was the compliance review of the Early Retiree Reinsurance Program conducted by the Center for Medicare and Medicaid Services with a resultant report soon to be presented to the Insurance and Benefits Legislative Committee by Retiree Health Care.

The Committee posed several questions regarding the prosecution of fraud cases that were addressed by Mr. Nguyen and Mr. Hill.

### F. **Recommendation Follow-up Report – November 13, 2014**

Quoc Nguyen, Senior Internal Auditor  
(*Memo Date: November 6, 2014*)

Mr. Nguyen described the nature and schedule of the Recommendation Follow-Up Report and how it provides the status of management's progress toward audit recommendations.

Mr. Nguyen then gave an overview of the Recommendation Aging Report. He summarized that between June 1, 2014 and October 31, 2014, there were 6 new recommendations made and, since the last Audit Committee meeting, there were 16 recommendations implemented by Management. Currently, there are 54 audit recommendations pending implementation that were not mission-critical.

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### **G. Chief Audit Executive Performance Evaluation**

Richard Bendall, *Chief Audit Executive*  
(*Verbal Presentation*)

The Audit Committee, with the exception of Mr. Bernstein, Mr. Green, Mr. Kehoe, and Mr. Chery, discussed the performance evaluation of Mr. Bendall, the Chief Audit Executive.

### **V. FOR INFORMATION ONLY**

No items to report.

### **VI. CONSULTANT COMMENTS**

Timothy O'Brien, Audit Committee Consultant  
(*Verbal Presentation*)

Mr. O'Brien had no additional comments.

### **VII. GOOD OF THE ORDER**

(*For Information Purposes*)

No items to report.

### **VIII. ADJOURNMENT**

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