

# 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

March 18, 2015 – 9:00 a.m.

### 2015 COMMITTEE MEMBERS

**PRESENT:** Alan Bernstein – *Chair*  
Joseph Kelly – *Vice Chair*  
Diane A. Sandoval – *Secretary*  
John Barger  
David Green

**ABSENT:** Shawn Kehoe

### BOARD MEMBERS AT LARGE

None

### AUDIT COMMITTEE CONSULTANT

Timothy O'Brien

### STAFF, ADVISORS, AND PARTICIPANTS

Gregg Rademacher	Beulah Auten
Robert Hill	Bernie Buenaflor
John Popowich	Roxana Castillo
Richard Bendall	Calvin Chang
Nathan Amick	Ted Granger
Sylvia Botros	John Nogales
Leisha Collins	James Pu
Elvia Gonzalez	Steven Rice
George Lunde	Penelope Rodriguez
Quoc Nguyen	Robb Van Der Volgen
David Redman	Roberta Van Nortrick
Darla Vidger	

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### **I. ELECTION OF AUDIT COMMITTEE CHAIR, VICE CHAIR, AND SECRETARY FOR CALENDAR YEAR 2015**

Mr. Barger opened the meeting with the *Pledge of Allegiance* and then called for the nomination of the Chair, Vice-Chair, and Secretary of the Audit Committee for the 2015 Calendar Year. Mr. Green nominated Mr. Bernstein for Chair and Mr. Kelly seconded the nomination. Mr. Bernstein was unanimously elected Chair of the 2015 Audit Committee.

Mr. Bernstein then called for the nomination of the new Vice-Chair. Mr. Barger nominated Mr. Kelly for Vice Chair and Mr. Green seconded the nomination. Mr. Kelly was unanimously elected Vice Chair of the 2015 Audit Committee.

Mr. Bernstein finally called for the nomination of Secretary. Mr. Kelly nominated Ms. Sandoval for Secretary and Mr. Barger seconded the nomination. Ms. Sandoval was unanimously elected Secretary of the 2015 Audit Committee.

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

Mr. Bernstein called for a motion to approve the Minutes of the Audit Committee Meeting of July 16, 2014. A motion for approval was presented by Mr. Barger. A second was provided by Mr. Green. The Minutes were approved with Ms. Sandoval and Mr. Kelly abstaining as they were not members of the 2014 Audit Committee.

### **III. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF DECEMBER 4, 2014**

Mr. Bernstein called for a motion to approve the Minutes of the Audit Committee Meeting of December 4, 2014. A motion for approval was presented by Mr. Barger. A second was provided by Mr. Green. The Minutes were approved with Ms. Sandoval and Mr. Kelly abstaining as they were not members of the 2014 Audit Committee.

### **IV. PUBLIC COMMENT**

No items to report.

### **V. EXECUTIVE SUMMARY**

Richard Bendall, *Chief Audit Executive*

*(Updated: March 3, 2015)*

*(This item was taken out of order to accommodate the election of the Audit Committee Officers.)*

Mr. Bendall provided an overview and purpose of the March 18, 2015 Audit Committee meeting.

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Mr. Barger commented that he would like to see Mr. Bendall solicit input from the Audit Committee Consultant regarding goal-setting for Internal Audit. Mr. O'Brien responded to Mr. Barger's question via conference call that he would be glad to support the Internal Audit goal-setting process. Mr. Kelly asked that the goals of the Chief Audit Executive be reported separately from the Internal Audit goals and that the number of goals should be attainable – no more than five to seven. Mr. Barger concurred and added that, although the goals should be attainable, they should also be "reach" goals in keeping with best practices. Mr. Kelly requested that goals should be quantifiable with clearly defined, measurable outcomes. Mr. Bendall agreed.

### VI. REPORTS

#### A. **Audit Committee Guide and Orientation**

Richard Bendall, *Chief Audit Executive*

Darla Vidger, *Internal Auditor*

*(Updated: March 3, 2015)*

Mr. Bendall and Ms. Vidger provided an overview of the Audit Committee Orientation Guide and Audit Committee Consultant's Statement of Work. Mr. Barger and Mr. Kelly asked that the Audit Committee Consultant Statement of Work more clearly identify the Consultant's role and responsibilities. Mr. Bendall responded that this would be done.

Mr. Bendall then presented the Audit Committee Orientation content. Mr. Barger asked for regularly scheduled discussions between the Chair, Vice Chair, Chief Audit Executive and the Audit Committee Consultant. Mr. Bernstein and Mr. O'Brien concurred with this and agreed to move forward towards implementation.

Mr. Bendall discussed the purpose and requirement for the Internal Audit Quality Assurance Review (QAR). Mr. Kelly asked how the recommendations from the QAR report are addressed. Specifically, Mr. Kelly noted that the last QAR report recommended that Internal Audit narrow the list of audit projects included in the Annual Audit Plan. Mr. O'Brien added that Internal Audit has made significant progress toward refining the list of audit projects and will continue to do so.

Mr. Bernstein commented that Orientation presentation was very helpful.

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### B. **Audit Plan Status Report**

Richard Bendall, *Chief Audit Executive*

Nathan Amick, *Internal Auditor*

*(Memo Dated: March 3, 2015)*

Mr. Bendall noted that the current Audit Plan Status Report covers the Three Year Rolling Audit Plan 2015 – 2017. Mr. Bendall reviewed the Risk Assessment scoring factors as well as prioritization and project planning.

Mr. Kelly asked whether or not Control Self-Assessments (CSAs) were used at LACERA as he found these to be beneficial. Mr. Bendall responded that although these were not used, Internal Audit conducts risk assessment meetings with division managers throughout the year. Mr. O'Brien added that it might benefit LACERA to consider using a similar tool.

Mr. Kelly also asked if there were a master list of audit firms that can be leveraged for audit projects. Mr. Bendall responded that Internal Audit has developed several audit firm pools for audit projects as appropriate. A discussion of Internal Audit resources followed.

Ms. Sandoval inquired about current audit activities within LACERA Private Equity. Mr. Nguyen responded that the Private Equity Audit is underway. A brief discussion of the Private Equity audit resources and activities followed.

Mr. Barger and Mr. Kelly further inquired required external audit resources that could be easily accessed for future audit projects. Mr. Bendall agreed and responded that he could investigate further leveraging qualified audit pools as appropriate and necessary.

### C. **Highlights of Work Performed**

Richard Bendall, *Chief Audit Executive*

*(Updated: March 3, 2015)*

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.

Ms. Sandoval asked that the Wire Transfer Audit Report references business continuity.

Mr. Bernstein asked for clarification regarding whether or not LACERA is required to comply with the federal Health Insurance Portability and Accountability Act (HIPAA). Mr. Bendall responded that it was determined by outside counsel during the last privacy audit that LACERA is not legally required to conform to HIPAA. However, Mr. Bendall noted that he intended to have another Privacy Compliance Review performed this year. Mr. Kelly also asked that LACERA's Chief Legal Counsel also provide his opinion to the Boards with regard to privacy and LACERA HIPAA compliance.

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### D. Recommendation Follow-Up Report

Quoc Nguyen, *Senior Internal Auditor*

*(Memo Dated: February 25, 2015)*

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

Mr. Nguyen summarized that between November 1, 2014 and January 31, 2015; there were 8 new recommendations made and, since the last Audit Committee meeting, there were 10 recommendations implemented by Management. Currently, there are 49 audit recommendations pending implementation. Mr. Nguyen noted that these audits pending implementation are not considered mission-critical.

Mr. Kelly inquired about the nature of the 49 outstanding audit recommendations. Mr. Bendall clarified that the majority of these older recommendations were actually "items for consideration" from a past fiduciary review. Mr. Bendall agreed that these outstanding items should be cleared if it is unnecessary to continue to follow-up on these items.

## VII. ACTION ITEMS

- A. 1.) Authorize staff to issue a Request for Proposal (RFP) for an Audit Committee Consultant (Consultant) and direct staff to extend the current Consultant's Agreement until such time that the RFP process and selection is complete, or
- 2.) Direct staff to execute and negotiate the optional two year extension for the current Consultant and if successful, defer the open search process until March 2017 as submitted by Richard Bendall, *Chief Audit Executive* and Leisha Collins, *Senior Internal Auditor*.

*(Memo Dated: March 3, 2015)*

*(Mr. O'Brien was muted for this discussion.)*

Ms. Collins stated the Audit Committee Consultant Agreement between LACERA and Timothy O'Brien will expire on March 31, 2015. Mr. O'Brien was initially hired in July 2006 and served as the Consultant for an initial three year term with an optional two year extension. Following an open search, Mr. O'Brien was rehired in 2012 by the Committee for an additional three years with the option of a two year extension. Ms. Collins then described both options and the timeline that would be

Mr. Green made a motion to extend Mr. O'Brien's contract which was seconded by Ms. Sandoval.

Mr. Kelly expressed concerns with the timing of the recommendation as well as the outreach for the competitive bid process. Mr. Bendall and Ms. Collins clarified that LACERA did perform an extensive search during the last competitive

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bid process in 2011. A discussion of the Audit Committee Consultant's role, requirements, compensation, best practices, and contract structure followed. Mr. Van Der Volgen cautioned the Audit Committee that the existing Consultant should not be asked to provide advice or input in the design of the Consultant Statement of Work or Request for Proposal as this is prohibited by the Public Contract Code.

Mr. Bernstein called for the Committee to respond to the standing motion to extend Mr. O'Brien's contract for additional two years as stated in the second staff recommendation. The motion was passed unanimously.

- B.**
- 1.)** Authorize staff to issue a Request for Proposal (RFP) to hire a consultant to perform a Quality Assessment Review; and,
  - 2.)** Authorize the Chief Audit Executive to negotiate and sign the resultant contract with the selected individual or firm as submitted by Richard Bendall, *Chief Audit Executive* and Leisha Collins, *Senior Internal Auditor*.

*(Memo Dated: March 2, 2015)*

Ms. Collins discussed Internal Audit's plans to undergo a Quality Assessment Review (QAR) this year. The QAR, which is conducted at least once every five years, is performed in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Mr. Bernstein called for a motion regarding staff's recommendation. A motion for approval was presented by Ms. Sandoval. A second was provided by Mr. Kelly. The motion was passed unanimously to issue the RFP and contract for a consultant to perform the QAR.

### VIII. FOR INFORMATION ONLY

**A. Member Data Security – Security Testing**

James Pu, *Chief Information Officer*

George Lunde, *Senior Internal Auditor*

David Redman, *Senior Internal Auditor*

*(Presentation Dated: February 26, 2015)*

Mr. Lunde discussed the results of the Member Data Security – Security Testing report of the external security specialist's penetration test performed for LACERA.

A discussion of previous penetration testing followed. Mr. Pu added auditing is embedded into Systems' processes and that continuous testing is performed and will continue to be performed by LACERA.

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### **B. Process for Forwarding Fraud Cases to a Prosecuting Agency – Update**

Rob Hill, *Assistant Executive Officer*

Quoc Nguyen, *Senior Internal Auditor*

*(Memo Dated: February 25, 2015)*

Mr. Hill and Mr. Nguyen discussed staff's progress in the development of a draft policy on how to proceed when individuals commit fraud against LACERA.

A discussion of the progress toward this policy goal and the significant support from the District Attorney's Office followed.

### **IX. CONSULTANT COMMENTS**

Timothy O'Brien, *Audit Committee Consultant*

*(Verbal Presentation)*

Mr. O'Brien had no additional comments.

### **X. GOOD OF THE ORDER**

*(For Information Purposes)*

No items to report.

### **A. Chief Audit Executive Performance Evaluation – 2015 Goals & Expectations**

Richard Bendall, *Chief Audit Executive*

*(Verbal Presentation)*

*(This item was taken out of order at the end of the meeting.)*

The Audit Committee, with the exception of Mr. Kehoe discussed the 2015 Performance Evaluation Goals and Expectations of Mr. Bendall, the Chief Audit Executive and Mr. Rademacher, Chief Executive Officer.

### **XI. ADJOURNMENT**

The meeting was adjourned at 11:45 a.m.

DV/dv