

LIVE VIRTUAL COMMITTEE MEETING



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

You may submit a request to speak during Public Comment or provide a written comment by emailing PublicComment@lacera.com. If you would like to remain anonymous at the meeting without stating your name, please let us know.

Attention: Public comment requests must be submitted via email to PublicComment@lacera.com.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

AGENDA

A MEETING OF THE AUDIT COMMITTEE

AND BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

9:00 A.M., THURSDAY, JUNE 24, 2021

This meeting will be conducted by the Audit Committee under the Governor's Executive Order No. N-29-20.

Any person may view the meeting online at
https://members.lacera.com/lmpublic/live_stream.xhtml

*The Committee may take action on any item on the agenda
and agenda items may be taken out of order.*

2021 AUDIT COMMITTEE MEMBERS

Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

AUDIT COMMITTEE CONSULTANT

Robert H. Griffin

I. CALL TO ORDER

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Audit Committee Meeting of April 23, 2021

III. PUBLIC COMMENT

(Written Public Comment - You may submit written public comments by email to PublicComment@lacera.com. Correspondence will be made part of the official record of the meeting. Please submit your written public comments or documentation as soon as possible and up to the close of the meeting.

Verbal Public Comment - You may also request to address the Committee. A request to speak must be submitted via email to PublicComment@lacera.com. We will contact you with information and instructions as to how to access the meeting as a speaker. If you would like to remain anonymous at the meeting without stating your name, please let us know.)

IV. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor, and Christina Logan, Principal Internal Auditor: That the Committee approve the proposed Fiscal Year 2021-2022 Internal Audit Plan. (Memo dated June 17, 2021)

- B. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, George Lunde, Senior Internal Auditor and Nathan K. Amick, Internal Auditor: That the Committee review and discuss the Audit of Los Angeles County's Compliance with Requirements for Rehired Retirees and provide the following action(s):
 1. Accept and file report;
 2. Instruct staff to forward report to Boards or Committees;
 3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or
 4. Provide further instruction to staff.
(Memo dated June 16, 2021)

- C. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor, Christina Logan, Principal Internal Auditor and Nathan K. Amick, Internal Auditor: That the Committee review and discuss the Title Holding Company (THC) Stale Check Review and provide the following action(s):
 1. Accept and file report;
 2. Instruct staff to forward report to Boards or Committees;

IV. NON-CONSENT ITEMS (Continued)

3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or
4. Provide further instruction to staff.
(Memo dated June 17, 2021)

V. REPORTS

- A. Plante Moran Pre-Audit Communication
Jean Young, Partner, CPA
Amanda Cronk, Senior Manager, CPA
(Presentation) (Memo dated June 17, 2021)
- B. Ethics Hotline Overview
Richard P. Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(Presentation) (Memo dated June 16, 2021)
- C. Status of Other External Audits Not Conducted at the Discretion of Internal Audit
Richard P. Bendall, Chief Audit Executive
(Verbal Presentation)
- D. 2021 Audit Committee Annual Calendar
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
(Memo dated June 1, 2021)
- E. Recommendation Follow-Up Report
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
(Memo dated June 17, 2021)
- F. Recommendation Follow-Up KPMG's External Quality Assessment (EQA) on Internal Audit's Recommendation Follow-Up Process
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
(Memo dated June 10, 2021)

V. REPORTS (Continued)

G. Recommendation Follow-Up Sensitive Information

Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Memo dated June 10, 2021)

H. Continuous Auditing Program (CAP)

Richard P. Bendall, Chief Audit Executive
Gabriel Tafoya, Senior Internal Auditor
George Lunde, Senior Internal Auditor
Nathan K. Amick, Internal Auditor
(Memo dated June 15, 2021)

I. FYE 2021 Audit Plan Status Report

Richard P. Bendall, Chief Audit Executive
Leisha E. Collins, Principal Internal Auditor
(For Information Only) (Memo dated June 16, 2021)

VI. CONSULTANT COMMENTS

Robert H. Griffin, Audit Committee Consultant
(Verbal Presentation)

VII. REPORT ON STAFF ACTION ITEMS

VIII. GOOD OF THE ORDER

(For Information Purposes Only)

IX. ADJOURNMENT

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].

Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.

MINUTES OF THE REGULAR MEETING OF THE AUDIT COMMITTEE OF THE

BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

9:00 A.M., FRIDAY, APRIL 23, 2021

This meeting was conducted by teleconference pursuant to the Governor's Executive Order N-29-20. The public may attend the meeting at LACERA's offices.

PRESENT: Joseph Kelly, Chair

 Shawn R. Kehoe, Vice Chair

 Vivian H. Gray, Secretary

 Alan J. Bernstein

 Keith Knox

 Ronald A. Okum

 Gina V. Sanchez

MEMBERS AT LARGE

Patrick Jones

Herman Santos

STAFF, ADVISORS, PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer

Richard Bendall, Chief Audit Executive

Leisha Collins, Principal Internal Auditor

Christina Logan, Principal Internal Auditor

STAFF, ADVISORS, PARTICIPANTS (Continued)

Kathryn Ton, Senior Internal Auditor

Nathan K. Amick, Internal Auditor

Johanna Fontenot, Interim Chief Counsel

Robert H. Griffin, Audit Committee Consultant

I. CALL TO ORDER

The meeting was called to order at 9:00 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF THE MINUTES

A. Approval of the Minutes of the Special Audit Committee Meeting of February 19, 2021.

Ms. Gray made a motion, Mr. Okum seconded, to approve the minutes of the Special Audit Committee meeting of February 19, 2021. The motion passed (roll call) with Messrs. Kehoe, Bernstein, Kelly, Knox, Okum, Ms. Gray and Ms. Sanchez voting yes.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT ITEMS

A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Christina Logan, Principal Internal Auditor: That the Committee provide direction to staff on the proposed revisions to the Audit Committee Charter, and upon approval, recommend to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter. (Memo dated April 15, 2021)

IV. NON-CONSENT ITEMS (Continued)

Mr. Knox made a motion, Mr. Bernstein seconded, to approve and recommend to the Board of Retirement and Board of Investments the Audit Committee Charter with the following revisions: 1) Delete the requirement that the Committee recommend a contingent budget; and 2) Include the addition of the following language: LACERA will provide appropriate funding, as determined by the Audit Committee, for compensation to the Financial Auditor, to any Professional Service Provider that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The motion passed (rollcall) with Messrs. Kehoe, Bernstein, Kelly, Knox, Okum, Ms. Gray and Ms. Sanchez voting yes.

- B. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Christina Logan, Principal Internal Auditor: That the Committee approve a One-Year Extension Request for Plante Moran Financial Audit Contract. (Memo dated April 15, 2021)

Mr. Okum made a motion, Mr. Knox seconded, to approve staff's recommendations. The motion passed (rollcall) with Messrs. Kehoe, Bernstein, Kelly, Knox, Okum, Ms. Gray and Ms. Sanchez voting yes.

- C. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Leisha Collins, Principal Internal Auditor: That the Committee authorize staff to issue a Request for Proposal for an External Assessment of the Internal Audit Division. (Memo dated March 31, 2021)

IV. NON-CONSENT ITEMS (Continued)

Mr. Bernstein made a motion, Mr. Okum seconded, to approve staff's recommendations. The motion passed (rollcall) with Messrs. Kehoe, Bernstein, Kelly, Knox, Okum, Ms. Gray and Ms. Sanchez voting yes.

- D. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor and Kathryn Ton, Senior Internal Auditor: That the Committee (1) Review and approve the proposed firms to be included in the pre-qualified pool; and (2) Direct staff to work with the Legal Office to finalize the master contracts with each firm.

(Memo dated April 7, 2021)

Ms. Sanchez made a motion, Mr. Okum seconded, to approve staff's recommendations. The motion passed (rollcall) with Messrs. Kehoe, Bernstein, Kelly, Knox, Okum, Ms. Gray and Ms. Sanchez voting yes.

- E. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Nathan K. Amick, Internal Auditor: That the Committee review and discuss the Death Legal Unit Audit Amendment to Report and provide the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees;
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or
4. Provide further instruction to staff.

(Memo dated March 30, 2021)

Mr. Kelly made a motion, Mr. Kehoe seconded, to accept and file the report. The motion passed (rollcall) with Messrs. Kehoe, Bernstein, Kelly, Knox, Okum, Ms. Gray and Ms. Sanchez voting yes.

V. NON-CONSENT ITEMS (Continued)

F. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Kristina Sun, Senior Internal Auditor: That the Committee review and discuss the Quality Assurance Operations Review and provide the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees;
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or
4. Provide further instruction to staff.
(Memo dated April 15, 2021)

Mr. Kehoe made a motion, Mr. Okum seconded, to accept and file the report. The motion passed (rollcall) with Messrs. Kehoe, Bernstein, Kelly, Knox, Okum, Ms. Gray and Ms. Sanchez voting yes.

V. REPORTS

A. The Institute for Internal Auditor's Three Lines Model
Richard P. Bendall, Chief Audit Executive
Nathan K. Amick, Internal Auditor
(Presentation) (Memo dated March 30, 2021)

Mr. Amick presented a brief presentation and answered questions from the
Committee

B. 2021 Risk Assessment Survey Results of LACERA
Richard P. Bendall, Chief Audit Executive
Kristina Sun, Senior Internal Auditor
(Presentation) (Memo dated April 15, 2021)

Mr. Bendall presented a brief presentation and answered questions from the
Committee

V. REPORTS

The following items were received and filed.

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

Richard P. Bendall, Chief Audit Executive
(Verbal Presentation)

D. Legal Review of Incorrect SSNs on Form 1099-Rs

Steven Rice, Chief Counsel
(For Information Only) (Memo dated April 9, 2021)

E. FYE 2021 Audit Plan Status Report

Richard P. Bendall, Chief Audit Executive
Leisha E. Collins, Principal Internal Auditor
(For Information Only) (Memo dated April 15, 2021)

F. Ethics Hotline Status Report

Richard P. Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated March 30, 2021)

VI. CONSULTANT COMMENTS

Robert H. Griffin, Audit Committee Consultant
(Verbal Presentation)

Mr. Griffin provided additional comments regarding Item IV. A.

VII. REPORT ON STAFF ACTION ITEMS

Staff to provide the Committee the CalPers Article of Embezzlement.

VIII. GOOD OF THE ORDER

There was nothing to report during Good of the Order.

IX. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 10:14 a.m.



June 17, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Senior Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT Fiscal Year 2021-2022 Internal Audit Plan

RECOMMENDATION

Approve the proposed Internal Audit Plan for Fiscal Year (FY) 2021-2022.

BACKGROUND

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional practice of Internal Auditing (Standards)*, the Chief Audit Executive (CAE) must establish risk based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. To remain in compliance with the *Standards*, as well as the Audit Committee Charter, Internal Audit has developed the attached Internal Audit Plan (*Audit Plan*) for FY 2021-2022.

The projects included in our Audit Plan are primarily identified through our on-going risk assessment. This process includes keeping abreast of the concerns of the Audit Committee and Boards throughout the year, discussions with Executive Management, review of LACERA's Strategic Plan, risk meetings with division managers, and identifying risk areas from prior internal and external audits. Furthermore, as recommended by the IIA, the Audit Plan includes assurance, consulting, and advisory engagements. We have also provided time in our plan for Internal Audit Administration projects and for Unplanned Work.

In considering the Audit Plan, we remind the Committee that the Audit Plan is intended as a living document. Changes to the Audit Plan will occur from time to time due to changes in business risks, timing of initiatives, and staff availability. Any amendments to the Audit Plan will be submitted to the Committee for approval during the fiscal year.

The presentation, Attachment 2, provides an overview of the Audit Plan process and allocation of audit resources. Staff will make a presentation of the plan to the Audit Committee at the June 24th meeting.

RECOMMENDATION

Approve the proposed Internal Audit Plan for Fiscal Year 2021-2022

RPB:lec:cl

Attachments

A: Audit Plan for Fiscal Year 2021-2022

B: Audit Plan presentation

ATTACHMENT A

INTERNAL AUDIT PLAN FY 2021-2022

Audit Projects	Division	Service Type	Frequency	Audit Assignment	Quarter Assigned
EXECUTIVE / LEGAL / ORGANIZATION					
1 Organizational Governance Review		Consulting	Annual	External	Q1
2 Organizational Ethics & Values Review		Consulting	Annual	External	Q1
3 Risk Assessment & Audit Planning		Assurance	Continuous	Internal	Q1
4 Oversight of SOC-1 Type 2		Assurance	Annual	Internal	Q3
5 Business Continuity Plan / Disaster Recovery		Consulting	Periodic	Internal	Q4
6 Review of Prior Privacy Audit		Assurance	Periodic	Internal	Q2
7 Organizational Check Management Policy Review		Consulting	Periodic	Internal	Q2
8 Ethics Hotline & Investigations		Consulting	Annual	Internal	Q1
9 Board Vantage Security Settings Audit		Assurance	Periodic	Internal	Q2
Total Estimated Hours					2150
ADMINISTRATION - Admin Services, HR, Systems					
10 Continuous Auditing Program	ADMINISTRATION	Assurance	Continuous	Internal	Q1
11 Recommendation Follow-Up	ADMINISTRATION	Assurance	Continuous	Internal	Q1
12 Procurement Audit	Admin Serv	Assurance	Periodic	Internal	Q1
13 Review of HR's Recruiting & Hiring Processes	HR	Consulting	Periodic	External	Q1
14 Employee Salary Bonuses Audit	HR	Assurance	Periodic	Internal	Q1
15 Penetration & Social Engineering Audit	Systems	Assurance	Annual	External	Q1
16 Review of IT Policies	Systems	Advisory	Periodic	Internal	Q1
17 Cyber Security Incident Events Management (SIEM) Audit	Systems	Assurance	Periodic	External	Q3
18 Privilege Access Audit	Systems	Assurance	Periodic	Internal	Q2
Total Estimated Hours					1850
INVESTMENTS & FASD					
19 Oversight of THC Real Estate Financial Audits	FASD / Invest	Assurance	Annual	Internal	Q1
20 Oversight of Real Estate Manager Reviews	FASD / Invest	Assurance	Annual	Internal	Q1
21 Oversight of Actuarial Services	FASD	Assurance	Annual	Internal	Q1
22 Oversight of Financial Audit	FASD	Assurance	Annual	Internal	Q1
23 Investments Due Diligence	Investments	Consulting	Periodic	External	Q1
24 THC Operations & Management Audit	Investments	Assurance	Periodic	External	Q3
25 Wire Transfers Audit	FASD / Invest	Assurance	Periodic	Internal	Q3
Total Estimated Hours					1200
OPERATIONS - Benefits, DRS, RHC, Member Services, QA					
26 Continuous Audit Program	OPERATIONS	Assurance	Continuous	Internal	Q1
27 Recommendation Follow-Up	OPERATIONS	Assurance	Continuous	Internal	Q1
28 LA County Rehired Retirees	Benefits	Assurance	Annual	Internal	Q2
29 DLU's Death Claim Processing Audit	Benefits	Assurance	Periodic	Internal	Q3
30 Required Minimum Distribution (RMD) Audit	Benefits	Assurance	Periodic	Internal	Q3
31 Account Settlement Collections Audit	Benefits	Assurance	Periodic	Internal	Q4
32 Member Communications Audit	MS / RHC	Assurance	Periodic	External	Q4
33 Governance, Risk, & Compliance _ RHC	RHC	Assurance	Periodic	Internal	Q3
Total Estimated Hours					2200
INTERNAL AUDIT					
Quality Assurance Improvement Plan	Internal Audit	IA Admin	Continuous	Internal	Q1
Professional Development	Internal Audit	IA Admin	Continuous	Internal	Q2
Audit Committee Support	Internal Audit	IA Admin	Continuous	Internal	Q4
KPMG Recommendation Follow-Up	Internal Audit	IA Admin	Periodic	Internal	Q4
External Quality Assessment	Internal Audit	IA Admin	Periodic	External	Q2
Total Estimated Hours					1580

Audit Plan
for
Fiscal Year
2021-2022



Executive Summary



Audit Plan Development

The Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget.

As recommended by the Institute of Internal Auditors (IIA) and consistent with our Internal Audit Charter, the Audit Plan includes assurance, consulting, and advisory engagements to ensure we provide a mix of compliance reporting and strategic advice to Management. We have also, included time for Internal Audit Administration projects to continue our own improvement and time for Unplanned Work.

Internal Audit completed a risk assessment for the purpose of developing this Audit Plan of LACERA's operations as required by the IIA Standards.

Scope Limitations

Although this Audit Plan contemplates a wide-ranging scope of activities, it does not provide coverage for all operations or systems. Internal Audit Services has tried to maximize the limited resources to provide reasonable coverage to the activities believed to require the most attention based on the risk assessment results.

Audit Plan Modification

Interim changes to the Audit Plan will occur from time to time due to changes in business risks, timing of initiatives, and staff availability. Amendments to the approved Audit Plan will be submitted to the Audit Committee for approval in advance.

Guidelines Used to Develop the Audit Plan



Types of Audit Engagements:

Assurance: Provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA.

Consulting: Provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Advisory: Provide Management with informal advice.

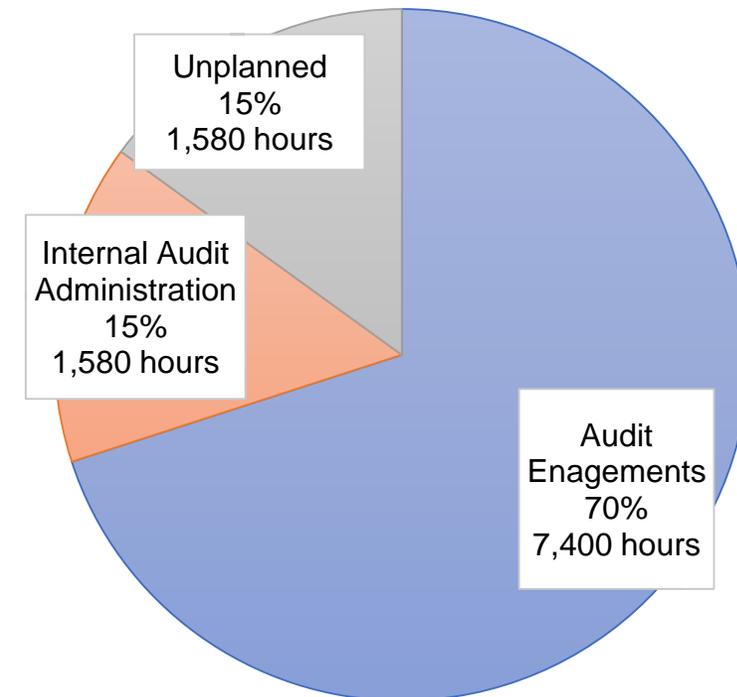
Calculating Total Available Staff Hours



Fiscal Year 2021-2022

Total Annual Hours - One FTE		
Standard Hours (52 weeks X 40 hours)		2,080
Less: Vacation (15 days X 8 hours)		(120)
Less: Sick Time Est. (4 days X 8 hours)		(32)
Less: Holidays (12 days X 8 hours)		(96)
Less: Other / Rounding		(72)
Total Available Work Hours - One FTE		1,760
IA Staff available as of June 15, 2021		6
Total Available Staff Hours		10,560

Target Breakdown of Total Available Staff Hours



Audit Engagements - Executive / Legal / Organizational



Audit Engagement Name	Audit Engagement Overview	Engagement Type	Quarter Assigned
Organizational Governance Review	Working with Executive Management to assess and assist in LACERA's development of formalized governance, risks, ethics, fraud, and compliance programs.	Consulting	Q1
Organizational Ethics & Value Review	Assist the Audit Committee in their responsibilities of organizational ethics values as stated in their charter.	Consulting	Q1
Risk Assessment & Audit Planning	Updating the audit universe, researching and assessing current risks, developing and modifying Audit Plan.	Assurance	Continuous
Oversight of Systems & Organization Change -1 Type 2 (SOC)	Plante Moran (PM) will perform a SOC audit over the controls related to OPEB data. Due to the complexity of this project and coordination among several divisions, IA is acting as the project manager.	Assurance	Q3
Business Continuity /Disaster Recovery	Review of BC process for completeness and effectiveness. Participation in DR testing.	Consulting	Q4
Review of Prior Privacy Audit	Follow-up of prior Privacy Audit Recommendations to assess if changes have adequately addressed areas of concerns from the audit and assess areas for more in-depth review.	Advisory	Q2
Organizational Check Management Policy Review	Review of check handling practices throughout the organization and identify areas to strengthen controls and establish formal organizational procedures.	Consulting	Q2
Ethics Hotline & Investigations	Monitor and administer the Ethics Hotline. Provide to the Committee a summary on all incidents reported.	Consulting	Q1
Board Vantage Security Settings Audit	Audit of access rights to Board Vantage Security	Assurance	Q2
Total Estimated Hours		2150	

Audit Engagements - Administration



Audit Engagement Name	Audit Engagement Overview	Engagement Type	Quarter Assigned
Continuous Auditing Program (CAP)	Automated testing of LACERA's transactions and information systems. CAP provides continuous assurance in key areas of compliance and includes fraud detection audits.	Assurance	Continuous
Recommendation Follow-Up	Staff follow-up with management on the status of recommendations which is reported to the Committee on a quarterly basis.	Assurance	Continuous
Procurement Audit	The audit will focus on the workflow of the procurement process and organizational compliance with the policy.	Assurance	Q1
Review of HR's Recruiting & Hiring Processes	Consulting engagement of hiring practices in HR to assess areas for improvement to for talent management and fill vacancies timely.	Consulting	Q1
Employee Salary Bonuses Audit	Audit of policies and procedures for employee bonuses. This was also an area of concern to address in the LA County Audit.	Assurance	Q1
Penetration Tests & Social Engineering Audit	Audit to evaluate the information security over the network from an external perspective to determine any risks posed from an uncredentialed attacker.	Assurance	TBD
Review of IT Policies	Internal Audit will review updates to IT Policies.	Advisory	Q1
Privilege Access Review	Audit in Systems Division to review the creation, monitoring, and maintenance of privileged access credentials for compliance with best practice guidelines	Assurance	Q2
Cyber Security Information Event Management (SIEM) Review	Audit to ensure good practices exist in our Systems Division for analyzing log-event data used to monitor threats and facilitate timely incident response.	Assurance	Q3
Total Estimated Hours		1,850	

Audit Engagements - FASD & Investments Operations



Audit Engagement Name	Audit Engagement Overview	Engagement Type	Quarter Assigned
Oversight of the THC Real Estate Financial Audits	Internal Audit manages the relationship with the Real Estate external auditors who perform the real estate THC financial audits.	Assurance	Q1
Oversight of Real Estate Manager Reviews	Internal Audit oversees the external audit firms who conduct Real Estate Manager contract compliance and operational reviews on an as-needed basis	Assurance	Q1
Oversight of Actuarial Services	Internal Audit manages the relationship with the Actuarial Consultant and Auditor for services relating to actuarial projects.	Assurance	Q1
Oversight of External Financial Audit	Internal Audit manages the relationship with LACERA's external financial auditors for the annual financial statement audit	Assurance	Q1
Investments Due Diligence	Review of due diligence practices in the Investment Office relating to all asset classes for efficiency and effectiveness.	Consulting	Q1
THC Operations & Management Audit	Audit of Investment and Legal Offices process and procedures relating to the management of real estate THCs to assess areas of risks and where additional controls process and procedures are needed.	Assurance	Q3
Wire Transfer Audit	Audit of wire transfer processes and procedures in FASD and the Investment Office to assess appropriateness of levels of review and approval for wire transfer.	Advisory	Q3
Total Estimated Hours		1200	

Internal Audit – Operations



Audit Engagement Name	Audit Engagement Overview	Engagement Type	Quarter Assigned
Continuous Audit Program (CAP)	Automated testing of LACERA's transactions and information systems. CAP provides continuous assurance in key areas of compliance and includes fraud detection audits.	Assurance	Continuous
Recommendation Follow Up	Staff follow-up with management on the status of recommendations which is reported to the Committee on a quarterly basis.	Assurance	Continuous
LA County Rehired Retirees	Audit of LA County's Rehired Retirees to ensure compliance with PEPRA.	Assurance	Q2
Death Legal Unit's Death Claim Processing Audit	Audit in Benefits, Member Services, and Legal divisions' processes for tracking and processing member death and legal split cases.	Assurance	Q3
Required Minimum Distribution (RMD) Audit	Audit in Benefits Division of process and procedures to ensure compliance with RMD requirements.	Assurance	Q3
Account Settlement Collections (ASC)	This audit will serve as follow-up of management's progress in addressing areas of concern and deficiency from the FY 2019 review.	Assurance	Q4
Member Communications Audit	Audit to assess the quality of communication and service provided to our members from Member Services and Retiree Health Care Divisions.	Assurance	Q4
Governance, Risk, and Controls - RHC	Assessment of RHC to gain a deeper understanding of its governance, risks, and controls.	Assurance	Q3
Total Estimated Hours		2,200	

Internal Audit – Administration Projects



Project Name	Project Overview	Quarter Assigned
Quality Assurance & Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA performance through periodic and on-going internal self-assessments, clientsurveys, and communication of results to key stakeholders.	Continuous
Professional Development	Annual self-assessment, developing self-development program, minimum required 30 hours of training per staff.	Continuous
Audit Committee Support	Preparation of Audit Committee materials, and attendance at meetings	Continuous
KPMG Recommendation Follow-Up	Internal Audit will continue to implement action plans to address recommendations from the KPMG Audit Report. We will provide quarterly status updates to the Committee of our progress.	Continuous
External Quality Assessment Review	Working with an external independent reviewer for the required Quality Assessment Review.	Q2
Total Estimated Hours		1,580

Questions



June 16, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

George Lunde 
Senior Internal Auditor

Nathan K. Amick 
Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **Audit of Los Angeles County's Compliance with Requirements for Rehired Retirees**

RECOMMENDATION

In accordance with your current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the following engagement report to take the following action(s):

- 1. Accept and file report;**
- 2. Instruct staff to forward report to Boards or Committees;**
- 3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings: and/or**
- 4. Provide further instruction to staff.**

ENGAGEMENT REPORTS

- a. Audit of Los Angeles County's Compliance with Requirements for Rehired Retirees
Richard P. Bendall, Chief Audit Executive
George Lunde, Senior Internal Auditor
Nathan K. Amick, Internal Auditor
(Report issued: June 15, 2021)



June 15, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall *RPB*
Chief Audit Executive

George Lunde *GL*
Senior Internal Auditor

Nathan K. Amick *NA*
Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **Audit of Los Angeles County's Compliance with Requirements for Rehired Retirees**

Executive Summary

As part of our Audit Plan, we conducted an audit of Los Angeles County's (County) compliance with requirements for hiring County retirees for fiscal year ended June 30, 2020. We perform this audit annually as failure to adhere to the regulations and requirements not only violates the state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law.

Background

The State of California's County Employees Retirement Law (CERL) provides that if the County believes its retirees possess special skills or knowledge, the County has the option to employ those retirees as "Rehired Retirees." Under Government Code Section 31680.3, Rehired Retirees may work up to 960 hours per fiscal year, on a strictly temporary basis, without affecting their retirement status or benefits.

In addition, Internal Revenue Service (IRS) regulations require a "bona fide" break in service after retirement if the retiree is under the "normal retirement age," before the retiree can be rehired. To comply with the IRS regulation, LACERA's Board of Retirement adopted a resolution in 2006 stating that a member under the "normal retirement age" may not return to temporary County service within 90 days of his or her retirement date.

All Rehired Retirees under their "normal retirement age" must comply with the 90-day break in service requirement.

"Normal retirement age", as defined by LACERA's Board of Retirement, is as follows:

- Age 57 for general members of Plan A, B, C, D, or G
- Age 65 for general members of Plan E
- Age 55 for safety members

In addition to IRS requirements, the California Public Employees' Pension Reform Act of 2013 (PEPRA) added additional restrictions for Rehired Retirees under "the normal age of retirement". The PEPRA regulations reinforced the 960-hour limit and added its own break in service requirement of 180 continuous days before allowing for rehire. PEPRA does allow the following two exceptions to the 180-day requirement:

- If the employer can certify it is necessary to fill a critically needed position and the hiring has been approved by the Board of Supervisors (or the Board of Retirement, for LACERA positions) in an open meeting
- If the retiree is a public safety officer or firefighter

Those who are eligible for the PEPRA 180-day exceptions still must comply with the IRS's "bona fide" break in service of 90 days.

On March 4, 2020, the Governor of California declared a statewide emergency due to the COVID-19 pandemic. He issued Executive Order N-25-20 on March 12, 2020, to enhance California's ability to respond to COVID-19 by suspending certain reinstatement and work hour limitations under California Public Employees' Pension Reform Act (PEPRA). Subsequently, he issued Executive Order N-35-20 on March 21, 2020, to extend the suspension of these limitations to local governments.

On March 30, 2020, the County chief Executive Officer (CEO) issued a notification to Department Heads that the Governor's declarations superseded applicable portions of Countywide Policy, Procedure, and Guideline (PPG) 505 "Reinstatement of Retirees to a 120-Day Temporary Assignment."

Effective March 12, 2020, as a result of both the State Executive Orders and the related County notification, the following compliance requirements were suspended for those rehired retirees working on job assignments directly related combating the Covid-19 pandemic:

- Limitation of 960 hours per fiscal year
- 90-day IRS break in service requirements
- 180-day PEPRA break in service requirements

This suspension of compliance requirements remained in place through the end of our testing year of fiscal year ended June 30, 2020.

Objective and Scope

For Fiscal Year Ended June 30, 2020, LACERA Internal Audit received payroll detail from the County Auditor-Controller identifying 475 rehired retirees of which we tested all 475 (100%) for compliance with:

1. CERL's 960-hour requirement, hours worked did not exceed 960 hours for the fiscal year except where the Rehired Retiree's time was coded as COVID-19 related work,
2. IRS' "bona fide" break in service requirement, defined as 90 days by LACERA's Board of Retirement, except where the Rehired Retiree's assignment was coded as COVID-19 related work, and
3. PEPRA's 180-day break in service requirement, except where the Rehired Retiree's assignment was coded as COVID-19 related work.

Testing Results

As indicated in the table below, our testing noted an improvement in the number of noncompliant Rehired Retirees compliance with the 960-hour limit relative to prior years. However, the one exception noted was over 414 hours and has been reported to the Benefits and Employee Relations Division of the County's CEO office. There were 11 others that exceeded 960 hours but for each of them we verified that they had the appropriate documentation to support the COVID-19 exemption.

Fiscal Year Ended June 30	Rehired Retirees	Noncompliant Rehired Retirees	Noncompliance as a Percentage	Total Overage Hours	Average Hours Over
2020	475	1	<1.0%	414	414
2019	591	5	<1.0%	47	9.4
2018	602	6	1.0%	145	21

For the one exception, the individual in question did have additional COVID-19 related hours, and while we do suspect some or all of the 414 overage hours were also COVID-19 related we did not receive the necessary documentation to support such a claim.

We noted no issues of noncompliance with regards to both the IRS 90 day and PEPRA 180-day break-in-service requirements.

NOTED AND APPROVED



Richard Bendall
 Chief Audit Executive

Date: June 15, 2021

C:

2021 Audit Committee	Steve Rice	Allan Cochran
Santos H. Kreimann	Fern Billingsy	Carlos Barrios
JJ Popowich	Johanna Fontenot	Internal Audit Staff

**Version with Audit Committee Comments & Internal Audit Responses**

June 15, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall
Chief Audit Executive

George Lunde
Senior Internal Auditor

Nathan K. Amick
Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **Audit of Los Angeles County's Compliance with Requirements for Rehired Retirees**

Executive Summary

As part of our Audit Plan, we conducted an audit of Los Angeles County's (County) compliance with requirements for hiring County retirees for fiscal year ended June 30, 2020. We perform this audit annually as failure to adhere to the regulations and requirements not only violates the state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law.

Background

The State of California's County Employees Retirement Law (CERL) provides that if the County believes its retirees possess special skills or knowledge, the County has the option to employ those retirees as "Rehired Retirees." Under Government Code Section 31680.3, Rehired Retirees may work up to 960 hours per fiscal year, on a strictly temporary basis, without affecting their retirement status or benefits.

In addition, Internal Revenue Service (IRS) regulations require a "bona fide" break in service after retirement if the retiree is under the "normal retirement age," before the retiree can be rehired. To comply with the IRS regulation, LACERA's Board of Retirement adopted a resolution in 2006 stating that a member under the "normal retirement age"

may not return to temporary County service within 90 days of his or her retirement date. All Rehired Retirees under their "normal retirement age" must comply with the 90-daybreak in service requirement.

"Normal retirement age", as defined by LACERA's Board of Retirement, is as follows:

- Age 57 for general members of Plan A, B, C, D, or G
- Age 65 for general members of Plan E
- Age 55 for safety members

In addition to IRS requirements, the California Public Employees' Pension Reform Act of 2013 (PEPRA) added additional restrictions for Rehired Retirees under "the normal age of retirement". The PEPRA regulations reinforced the 960-hour limit and added its own break in service requirement of 180 continuous days before allowing for rehire.

AC Member Question: Even for members who joined prior to PEPRA?
IA Response: Yes, all rehired retirees are subject to PEPRA requirements.

PEPRA does allow the following two exceptions to the 180-day requirement:

- If the employer can certify it is necessary to fill a critically needed position and the hiring has been approved by the Board of Supervisors (or the Board of Retirement, for LACERA positions) in an open meeting
- If the retiree is a public safety officer or firefighter

Those who are eligible for the PEPRA 180-day exceptions still must comply with the IRS's "bona fide" break in service of 90 days.

On March 4, 2020, the Governor of California declared a statewide emergency due to the COVID-19 pandemic. He issued Executive Order N-25-20 on March 12, 2020, to enhance California's ability to respond to COVID-19 by suspending certain reinstatement and work hour limitations under California Public Employees' Pension Reform Act (PEPRA). Subsequently, he issued Executive Order N-35-20 on March 21, 2020, to extend the suspension of these limitations to local governments.

On March 30, 2020, the County Chief Executive Officer (CEO) issued a notification to Department Heads that the Governor's declarations superseded applicable portions of Countywide Policy, Procedure, and Guideline (PPG) 505 "Reinstatement of Retirees to a 120-Day Temporary Assignment."

Effective March 12, 2020, as a result of both the State Executive Orders and the related County notification, the following compliance requirements were suspended for those rehired retirees working on job assignments directly related to combating the Covid-19 pandemic:

AC Member Question: "State Executive Order's" should be plural not possessive.
IA Response: Noted and amended to "State Executive Orders" ...plural not possessive.

- Limitation of 960 hours per fiscal year
- 90-day IRS break in service requirements
- 180-day PEPRA break in service requirements

This suspension of compliance requirements remained in place through the end of our testing year of fiscal year ended June 30, 2020.

Objective and Scope

For Fiscal Year Ended June 30, 2020, LACERA Internal Audit received payroll detail from the County Auditor-Controller identifying 475 rehired retirees of which we tested all 475 (100%) for compliance with:

1. CERL's 960-hour requirement, hours worked did not exceed 960 hours for the fiscal year except where the Rehired Retiree's time was coded as COVID-19 related work,
2. IRS' "bona fide" break in service requirement, defined as 90 days by LACERA's Board of Retirement, except where the Rehired Retiree's assignment was coded as COVID-19 related work, and
3. PEPRA's 180-day break in service requirement, except where the Rehired Retiree's assignment was coded as COVID-19 related work

Testing Results

As indicated in the table below, our testing noted an improvement in the number of noncompliant Rehired Retirees compliance with the 960-hour limit relative to prior years. However, the one exception noted was over 414 hours and has been reported to the Benefits and Employee Relations Division of the County's CEO office. There were 11 others that exceeded 960 hours but for each of them we verified that they had the appropriate documentation to support the COVID-19 exemption.

AC Member Question: I would suggest reversing the order of these two sentences. First you should note the test results for the FYU 2020 and then you can comment on the pattern, if any, over several years.

IA Response: Noted

Fiscal Year Ended June 30	Rehired Retirees	Noncompliant Rehired Retirees	Noncompliance as a Percentage	Total Overage Hours	Average Hours Over
2020	475	1	<1.0%	414	414
2019	591	5	<1.0%	47	9.4
2018	602	6	1.0%	145	21

AC Member Question: Was the one exception also an exception in 2019 or 2018?

IA Response: No, this individual was not previously an exception.

For the one exception, the individual in question did have additional COVID-19 related hours, and while we do suspect some or all of the 414 overage hours were also COVID-19 related we did not receive the necessary documentation to support such a claim.

We noted no issues of noncompliance with regards to both the IRS 90-day and PEPPRA 180-day break-in-service requirements.

NOTED AND APPROVED



Richard Bendall
Chief Audit Executive

Date: June 15, 2021

C:

2021 Audit Committee
Santos H. Kreimann
JJ Popowich

Steve Rice
Fern Billingsy
Johanna Fontenot

Allan Cochran
Carlos Barrios
Internal Audit Staff



June 17, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Principal Internal Auditor

Nathan K. Amick 
Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **Title Holding Company (THC) Stale Check Review**

RECOMMENDATION

In accordance with your current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the following engagement report to take the following action(s):

- 1. Accept and file report;**
- 2. Instruct staff to forward report to Boards or Committees;**
- 3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings: and/or**
- 4. Provide further instruction to staff.**

ENGAGEMENT REPORT

- a. Title Holding Company (THC) Stale Check Review
Richard P. Bendall, Chief Audit Executive
Leisha E. Collins, Principal Internal Auditor
Christina Logan, Principal Internal Auditor
Nathan K. Amick, Internal Auditor
(Report Issued: June 15, 2021)



INTERNAL AUDIT DIVISION

**TITLE HOLDING COMPANY (THC)
STALE CHECK REVIEW**

June 15, 2021

REVIEW PERFORMED BY:

Richard P. Bendall
Leisha E. Collins
Christina Logan
Nathan K. Amick

AUDIT REPORT

Audit Name:	Title Holding Company (THC) Stale Check Review
Project Number:	2021 47
Responsible Division:	Investments
Audit Rating*:	Unsatisfactory
Prior Audit Rating*:	N/A
Prior Report Date:	N/A

BACKGROUND

During LACERA's annual financial audit for fiscal year-ended June 30, 2020, it was reported in September 2020, to our external auditor, Plante Moran, by a non-Investment Office LACERA employee that some Title Holding Companies (THC) checks were not deposited in a timely manner. The employee reported that a few checks of significant amounts sat in Administrative Services' safe for approximately six months and eight checks of small amounts went stale while in the Investments Office Real Estate team's (Real Estate team) suite.

Plante Moran met with Financial & Accounting Service Division (FASD) and the Administrative Services Division (Administrative Services) in September 2020, to understand the issue that had occurred. Plante Moran learned that six THC checks totaling \$409,248 were sent to Administrative Services for deposit but were held in the safe for approximately six months past the February 2019 check date. When this issue was discovered by staff in September 2019, the checks were then immediately deposited and a LACERA Incident Report (LIRT) meeting was called to discuss the incident. Subsequently, FASD, Administrative Services, Legal, and Investments worked together to develop a formalize non-member check depositing process. After discussions and reviewing the process, PM was satisfied with the new controls and procedures established for the checks sent to Administrative Services for deposit.

In September 2020, Plante Moran informed Internal Audit of the check incidents and explained they were now focused on the eight stale checks that were not deposited by the Real Estate team. Internal Audit then met with the Real Estate team and other key divisions involved with cash management of these checks, to gain an understanding of the extent of the problem and the potential lack of controls that had contributed to the issue. Based on these discussions, we constructed the following timeline of events:

- In June 2018, staff on the Real Estate team informed their supervisor that 104 checks totaling \$268,532, had not been deposited timely and had gone stale. These checks were issued between calendar years 2013 through 2018 but were not deposited for a variety of reasons and stored in a desk drawer of the Real Estate Team. The issue was not elevated within the Investments Office nor to the

* See Appendix 1 for Audit Rating

Legal Office but was only discussed amongst a few individuals within the Real Estate team.

- In January 2019, the Real Estate team attempted to deposit eight of the 104 stale checks. The eight checks were from the California Franchise Tax Board (CA FTB), totaling \$5,788. Because the checks had gone stale, they could not be deposited, so Financial & Accounting Services Division (FASD) notified the Real Estate team, Legal, and Administrative Services that LACERA's bank had not accepted the deposit. The Real Estate team responded they would have the checks reissued.
- In April 2019, the Real Estate team requested assistance from the Legal Office to have the eight CA FTB checks reissued.
- In June 2020, the Real Estate team notified the Legal Office of an additional 21 of the 104 stale checks would need to be reissued. These were CA FTB checks, totaling \$15,325.

In October 2020, after Internal Audit informed Plante Moran of the 104 stale checks, Plante Moran included this as an internal control suggestion in its October 2020 Comments to Management Report which was provided to the Chief Executive Officer (CEO). In December 2020, management brought PM's Comments to Management Report and their related responses to the Audit Committee.

By the conclusion of our fieldwork, Internal Audit had verified the status of 104 checks as follows:

- 46 checks, totaling \$180,498, had been received and deposited into the appropriate bank accounts.
- 41 more checks, totaling \$68,244, had been requested and were pending receipt, 37 of which are from the California Franchise Tax Board.
- 17 checks, totaling \$19,790, were unable to be replaced for a variety of reasons but before writing these off, the Real Estate team is continuing in their efforts to obtain replacements.

OVERVIEW OF THC MANAGEMENT

The Real Estate team manages its core wholly owned real estate portfolio through THCs. Real Estate Investment Managers (RE Managers) oversee the acquisition, asset management and disposition of the properties.

The Legal Office supports the Real Estate team with the negotiation and creation of these RE Manager contracts, as well as THC formation and maintenance, THC tax exemptions filings, and overseeing the legal aspects of acquisitions, dispositions and financings for assets held within the THCs.

FASD processes wire transfers from LACERA's custodial account in connection with the purchase or sale of real estate held by the THCs. The Administrative Services division receives, and deposits these "non-member" checks for non-active THCs, to LACERA's custodial account.

THC CHECK PROCESS

Based on our review, the following is an overview of the THC Check process:

LACERA hired Bank of America through an RFP process to maintain bank accounts for individual THCs. The Real Estate team oversees this relationship and the bank accounts. There are also property level bank accounts overseen by the RE Managers and property managers. When the THCs entities are under the active oversight of the RE Manager, most of the checks and financial activity, except for funds relating to acquisition, financing, and dispositions, flows are managed by either the property managers or the external RE Managers directly. Occasionally, checks may be sent directly to LACERA (the Real Estate team or Legal Office) relating to these entities for items such as tax refunds, bankruptcy settlements, or tenants mistakenly sending a rent check to the THC instead of the property manager. In most of these cases, the Real Estate team or Legal Office sends the RE Manager the checks to deposit in the property level bank account. If the RE Manager directs LACERA to deposit the check or the RE Manager does not have access to a Bank of America account, the Real Estate team deposits it to the active THC bank account.

However, LACERA periodically receives these types of checks for inactive THCs with bank accounts that have already been closed, usually after the property has been sold. During the time that the 104 stale checks were issued, there was no established process or procedure for depositing a check related to an inactive THC with a closed bank account. Therefore, staff in the Real Estate team were unable to deposit them and they accumulated over time.

After November 2018, the Investment's Office obtained approval from LACERA's custodial bank to deposit checks for inactive THCs into LACERA's bank account. As a result, the Real Estate team began to deposit the 104 stale checks into the custodial account and if they were stale, requested them to be reissued. The current process for depositing checks for inactive THCs is for either the Real Estate team or Legal to forward the check to Administrative Services for remote deposit.

AUDIT OBJECTIVE & SCOPE

The objectives of this engagement were to:

- Verify the 104 reported stale checks were reissued and properly deposited, pending reissuance or were uncollectable and pending write-off.
- Identify missing or breakdown of key controls that allowed the process to fail.

The scope of this engagement was focused on the 104 reported stale checks. Since the Real Estate team did not keep records of THC checks received during the time, we could not determine the volume of checks received over this period or if any additional stale checks existed. Our efforts to identify additional stale checks were limited to observing the Real Estate team's search for additional checks in their office.

In October 2020, the Real Estate team drafted revised THC check handling procedures to address the issue. Although we discussed with the key divisions the importance of key

controls related to the receipt and deposit of checks, we did not audit the revised October 2020 process because our work was limited to the status of the 104 stale checks. The new October 2020 process will be reviewed within the next fiscal year.

The audit was performed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

AUDIT RATING & SUMMARY OF FINDINGS

In our opinion, the effectiveness of the key controls applicable to the Scope are **Unsatisfactory**.

Summary of Findings

Finding #	Page	Description of Finding	Risk Rating**
F1	6	Real Estate team did not report the stale checks to the appropriate levels of Management	High
F2	8	Inadequate controls over the THC check process allowed 104 checks to go stale	High

Each of the above Findings are detailed in the following pages, including our Recommendations and Management Action Plans.

Based on the broader issues that were found during this engagement, we will include an additional review of the THC cash management process in the next fiscal year audit plan. Additionally, based on discussions with the Executive Office and other divisions, we will be reviewing LACERA's organizational cash management policy and divisional processes next fiscal year.

We would like to thank the Investments Office for the cooperation with this audit.

REVIEWED AND APPROVED



Richard Bendall
Chief Audit Executive

Date: June 15, 2021

** See Appendix 2 for Finding's Risk Rating

REPORT DISTRIBUTION

2021 Audit Committee	Santos H. Kreimann, CEO	J.J. Popowich, AEO
2021 Plante Moran Audit Team	Jonathon Grabel, CIO	Steven Rice, Chief Legal Counsel
Robert Griffin, Audit Committee Consultant	Internal Audit Group	

FINDING #1

Real Estate team did not report the stale checks to the appropriate levels of Management	Risk Rating**
	High

OBSERVATION

The initial report that Internal Audit received from Plante Moran (PM) in September 2020 was that eight checks related to THCs were not deposited timely. At the time, PM was unaware of the extent of the stale checks but believed it was a current issue with the depositing of the checks. However, as we began our review, the number of stale checks grew from eight to 21 to 104, with original issue dates as far back as 2013.

Although supervisors of the Real Estate team were made aware of the 104 stale checks in June 2018, it was not elevated to the Investments Office, Legal Office, the Executive Office, or Internal Audit and for the purpose of determining the need for a LACERA Incident Response Team (LIRT) meeting. Instead, the Real Estate team's management instructed staff to resolve the matter by obtaining replacement checks and developing a process under which unreplaceable checks could be written off.

RISK

The lack of accountability, transparency, and appropriate action to report on and correct known errors when discovered gives rise to the appearance of disregard or malfeasance.

RECOMMENDATION

Investments Office Management should communicate to staff the need to take appropriate action to correct known issues or errors and report them transparently to the appropriate levels of LACERA management and the Board when necessary.

MANAGEMENT'S ACTION PLAN

Investment Office Management agrees to both the finding as well as the recommendation. Management takes Internal Audit's results seriously and recognizes that the findings may, in part, result from a legacy of a more siloed approach for the operations of the real estate asset class within the Investment Office. We further recognize that LACERA's real estate structure is different and requires multi-divisional effort to operationally support it. Most LACERA investment assets are held through a global custody structure with State Street or individual commingled funds, which are subject to their own operational framework. In contrast, the majority of real estate investments are held in LACERA-owned Title Holding Companies ("THC"). These entities require a separate LACERA banking relationship with Bank of America, deposit accounts at other banks established by asset managers, dedicated legal support, and a service model that is split between LACERA staff across multiple divisions and third-party asset managers.

** See Appendix 2 for Finding's Risk Rating

In a collaborative effort amongst Administrative Services, Legal, FASD, and Investments, a more defined process for handling all non-member checks received by LACERA was developed and implemented in 2019 to allow for more transparency and oversight of the check handling process. In this process, the Document Processing Center within Administrative Services is responsible for the electronic deposit of incoming non-member checks while the other divisions involved review and approve such checks for deposit.

Investment Office Management has eliminated the siloed approach to portfolio construction. There is increased collaboration across functional teams with a focus on identifying and promoting best practices. There is also a heightened awareness of operational due diligence. Not only has the Investment Office Management communicated the need for transparency and accountability as a fiduciary imperative, but the team has embraced this mindset.

RESPONSIBLE PARTY FOR MANAGEMENT'S ACTION PLAN

Jonathan Grabel, Chief Investment Officer

TARGET COMPLETION DATE

Completed

FINDING #2

Inadequate controls over the THC check process allowed 104 checks to go stale	Risk Rating**
	High

OBSERVATION

Internal Audit reviewed the 104 stale checks, that were issued from 2013 through 2018, relating to LACERA’s Real Estate THCs. A portion of these checks were initially received in the Legal Office and then transferred to the Investment Office to be deposited, and most related to inactive THCs. The checks ranged from less than \$10 to over \$36,000 (the average amount was \$800) and totaled \$268,532.

Real Estate management failed to provide staff with adequate guidance, formalized procedures, or expectations for depositing the checks, resulting in delayed deposits and a potential of loss of funds. Internal Audit’s review of the 104 checks identified the following breakdowns and issues:

- **No formal written procedures or documented controls for check deposits.** During the time that these checks were received, a formalized process and appropriate management oversight did not exist. In addition, most of the checks were made payable to inactive THCs, causing further confusion on the appropriate bank accounts for the deposits. Without appropriate guidance, staff responsible for depositing the checks were left to their own methods and timing for bank deposits.
- **Inconsistent and incomplete logging and tracking of checks.** Real Estate staff did not maintain a log of all checks received. The listing of the 104 checks was prepared in October 2020 at the request of Internal Audit; previously, the Real Estate team had not recorded the receipt and deposit of checks.
- **Inadequate controls to safeguard the checks.** Per our discussions with those involved with the checks, and later through our own observations, we found that checks were not stored in a safe and secure manner. Staff stored the checks in desk drawers and cabinets.
- **No guidance on the process to have checks reissued.** After the checks became stale, staff were instructed to get the checks reissued but management did not provide guidance and oversight in doing so. This led to additional delays in obtaining new checks as staff tried to figure out the appropriate sources to obtain reissued checks.
- **Lack of appropriate segregation of duties.** One staff person was responsible for receiving and depositing the checks, requesting vendor payments in the form of checks, and receiving the bank statements. This same person was also charged with requesting the reissuance of the stale checks. Additionally, only one individual was given the responsibility of the checks. In their absence, there was no staff assigned as back-up, resulting in further delays in processing checks and making bank deposits.

** See Appendix 2 for Finding’s Risk Rating

In October 2020, management over the Real Estate team provided Internal Audit a draft of THC cash management procedures. We noted that the procedures were incomplete and did not include adequate guidelines, controls, and procedures for the handling of checks. As of this report date, the procedures have not been completed and formalized. However, at the beginning of this audit, the Real Estate team changed their process for handling checks to include additional staff, logging and monitoring of checks, and additional management oversight. Furthermore, checks relating to inactive THCs with closed bank accounts, that are received in the Investment or Legal Offices are now sent to Administrative Services to be deposited.

RISK

Without a well-defined process and strong internal controls around cash management and specifically as related to the receipt, recording and deposit of checks, the organization risks loss due to lack of accountability, errors, negligence, or theft.

RECOMMENDATION

The Investment Office should:

1. Formalize and document procedures for receiving, tracking, and depositing checks, including appropriate levels of supervision and segregation of duties.
2. Address the remaining stale checks by:
 - a. logging and recordings the status of each check until new checks are received and deposited or written off as a loss of funds,
 - b. performing a monthly review by Real Estate team management of the Stale Check Summary Log and the status of efforts made to obtain reissued checks and the determination of checks that are uncollectable for write-off, and
 - c. dispositioning uncollectable checks with the Executive Office to determine appropriate reporting.

MANAGEMENT'S ACTION PLAN

The Investment Office agrees to both the finding and recommendation.

1. The Investment Office has changed many of its check receiving and sending procedures, ensuring segregation of duties and accountability. Investments is also working with LACERA divisions to improve the process and document procedures and internal controls so that checks are deposited in a more timely manner. A check's typical life cycle within LACERA starts with receipt by the mailroom who then (i) forwards it either to Investments or Legal or (ii) retains it for Administrative Services and logs it into a master check log. Checks in this log are reviewed and dispositioned by Administrative Services, Investments, Legal, and FASD. In the next 30 days, the Investment Office will lead an inter-divisional meeting to evaluate existing check deposit procedures and together identify areas of further enhancement.

2. The real estate team continues to work diligently to resolve all 104 of these checks. Many of them have already been deposited.
 - a. As of 6/10/21, 46 checks totaling \$180,498 have been deposited, 58 checks totaling \$88,034 are still in progress, and none have been deemed unrecoverable.
 - b. Members of the real estate team and its management meet weekly to review the status of pending and reissued checks. Checks in progress that are being reissued by state or local governments can take up to 24 months.
 - c. Staff will provide quarterly updates to Investment Office Management, Executive Office, and Internal Audit division.

While the audit highlights the particular process point of handling checks, there are broader initiatives underway to reduce operational risks in real estate workflows. Over the past few years, staff has identified and has made steady progress towards eliminating as many operational risks as possible. A brief timeline of events that surround efforts to improve real estate operations follows.

The BOI authorized a search for real estate administrative services in September 2018. At that time, the justification for the search was that the real estate investment program requires a substantial amount of operational-related work to administer, and that each THC requires a significant amount of maintenance to protect the integrity of the entity and to handle the individual fund movements associated with each THC.

A multi-divisional LACERA team started on that search which included staff members from the Investment Office (real estate and portfolio analytics), Legal, and FASD. The search team created an investment process workflow, which incorporated a comprehensive review of real estate team, Legal, and FASD responsibilities related to real estate operations. The workflow and its findings were shared with the Board at the July 2019 offsite meeting identifying four broad categories of potential operational improvements with several sub-tasks that could be accomplished to facilitate enhanced investment real estate operations. In addition, the memo recommended, and the Board approved, launching two searches: One for an alternative asset administration service provider and the other for a total Fund performance service provider, both of which have been completed.

In early 2020, the real estate team, in conjunction with Meketa, finalized a quarterly performance reconciliation procedure. Additionally, in May 2020, the Board hired Altus Group as LACERA's independent appraisal management provider. Altus currently oversees a more frequent process for appraising and reporting real estate asset values to ensure LACERA's portfolio valuation reflects current market conditions.

In August 2020, the Board approved a Consultant RFP that led to hiring of Stepstone Group ("Stepstone") as the new real estate consultant. They made an initial presentation to the Real Assets Committee in June 2021 about portfolio structure and expect to further develop recommendations on LACERA's real estate program.

LACERA has also completed the onboarding of State Street/Solovis to create a total Fund performance platform, to act as LACERA's book of record for independent real estate accounting administration, and to administer cash movements for the THCs. Previously, the real estate book of record function, and performance reporting was handled by the real estate investment consultant and cash outflows were performed manually by LACERA Investment Office and FASD. Staff anticipates delivering enhanced performance reporting to the BOI for its June 30, 2021, quarterly performance package.

As part of the broader examination of services required for the THCs, staff is reviewing best practices with separate account managers and StepStone, to improve operational practices. The entire scope of banking, legal, payment processing, external audit, and other services that are currently led by LACERA staff on behalf of the THCs is under review. The goal is to determine which tasks are appropriate to move to LACERA's third party asset managers who already have personnel with administration, accounting, and legal specialties to take on some or all of these responsibilities.

Additional efforts underway include addressing the broader question about the outsized role of THCs in the overall structure of real estate. In an upcoming structure review, with the assistance of Stepstone, alternative structures for investing in real estate will be considered.

Management's response has outlined recent enhancements made by the Investment Office to both mitigate the risks from LACERA's separate account THC program as well as improve real estate operations. We remain accountable and will continue to work with our partners across LACERA divisions to enhance the program's effectiveness, transparency, and eliminate the stale check issues. Curing stale checks is a priority. Addressing the macro real estate operational challenges aligns with the Investment Office's focus on maximizing risk-adjusted returns. We will provide updates on the real estate program structure as well as this matter in upcoming months.

RESPONSIBLE PARTY FOR MANAGEMENT'S ACTION PLAN

Jonathan Grabel, Chief Investment Officer

TARGET COMPLETION DATE

Recommendation #1 – September 30, 2021

Recommendation #2 – June 30, 2023 (*Reissuing checks can take up to two years. The Investment Office will provide a quarterly update to Internal Audit as to the status of the checks*).

APPENDIX 1 AUDIT RATING SCALE

Internal Audit issues three standard audit report evaluations as defined below:

Satisfactory

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

Opportunities for Improvement

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

Unsatisfactory

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks and the impact may be substantial in size or nature or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.

APPENDIX 2 FINDIN'S RISK RATING SCALE

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance, or reputational impact that the issue identified could have on LACERA.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<p>Large financial impact to LACERA or members</p> <p>Actions not aligned with fiduciary responsibilities</p>	<p>Missing or inadequate key internal controls</p> <p>Not adequate to identify fraud, noncompliance, or misappropriation</p>	<p>Noncompliance with applicable Federal or state laws or LACERA's policies</p>	<p>High probability for external audit issues and/or negative public perception</p>	<p>Important critical business process identified by Exec Office</p> <p>Requires immediate attention</p>
Medium	<p>Moderate financial risk to LACERA or members</p> <p>Actions could be better aligned with fiduciary responsibilities</p>	<p>Partial key internal controls</p> <p>Not adequate to identify noncompliance or misappropriation in timely manner</p>	<p>Inconsistent compliance with applicable Federal or state laws or LACERA's policies</p>	<p>Potential for external audit issues and/or negative public perception</p>	<p>Relatively important</p> <p>May or may not require immediate attention</p>
Low	<p>Low financial impact to LACERA or members</p>	<p>Internal controls in place but not consistently efficient/effective</p> <p>Implementing / enhancing controls could prevent future problems</p>	<p>General compliance with applicable Federal or state laws or LACERA's policies, but some minor discrepancies exist</p>	<p>Low probability for external audit issues and/or negative public perception</p>	<p>Lower significance</p> <p>Does not require immediate attention</p>



INTERNAL AUDIT DIVISION

**TITLE HOLDING COMPANY (THC)
STALE CHECK REVIEW**

Version with Audit Committee Comments & Internal Audit Responses

June 15, 2021

REVIEW PERFORMED BY:

Richard P. Bendall
Leisha E. Collins
Christina Logan
Nathan K. Amick

AUDIT REPORT

Audit Name:	Title Holding Company (THC) Stale Check Review
Project Number:	2021 47
Responsible Division:	Investments
Audit Rating*:	Unsatisfactory
Prior Audit Rating*:	N/A
Prior Report Date:	N/A

BACKGROUND

During LACERA's annual financial audit for fiscal year-ended June 30, 2020, it was reported in September 2020, to our external auditor, Plante Moran, by a non-Investment Office LACERA employee that some Title Holding Companies (THC) checks were not deposited in a timely manner. The employee reported that few checks of significant amounts sat in Administrative Services' safe for approximately six months and eight checks of small amounts went stale while in the Investments Office Real Estate team's (Real Estate team) suite.

AC Member Question: Had this also been reported into the Employee Fraud Hotline? If not, did you use this incident to remind all staff through an agency-wide email of the hotline

IA Response: This incident was not reported to the LACERA Ethics and Fraud Hotline. As indicated in the management response below for Reco #2, Investment Office Executive management has communicated to staff the fiduciary imperative of transparency and accountability within their office. Internal Audit also plans to conduct an organization wide review of check handling in next fiscal year to address risks and controls regarding checks. In October 2020, the Human Resources Director did send out an organizational communication in the LACERA Pulse Newsletter reminding staff of the Ethics Hotline and the importance of reporting issues of concern even though we are working in a remote environment.

Plante Moran met with Financial & Accounting Service Division (FASD) and the Administrative Services Division (Administrative Services) in September 2020, to understand the issue that had occurred. Plante Moran learned that six THC checks totaling \$409,248 were sent to Administrative Services for deposit but were held in the safe for approximately six months past the February 2019 check date. When this issue was discovered by staff in September 2019, the checks were then immediately deposited and a LACERA Incident Report (LIRT) meeting was called to discuss the incident. Subsequently, FASD, Administrative Services, Legal, and Investments worked together to develop a formalize non-member check depositing process. After discussions and reviewing the process, PM was satisfied with the new controls and procedures established for the checks sent to Administrative Services for deposit.

AC Member Question: Please turn on your passive voice indicators in Word. Please write in the active voice. It is very important in internal audit procedures to understand the responsible party or the person doing the action. We have no idea here who sent the THC checks and when

IA Response: Noted

AC Member Question: So if these checks cleared, staff deposited them within six months of the date on the check, correct?

IA Response: No the checks were deposited after six months of the check date, but the bank honored the deposit.

AC Member Question: Internal Audit is not part of the LIRT? Why not?

IA Response: Yes, the CAE is on the LIRT.

AC Member Question: If internal divisions met to formalize “non-member check depositing processes” and PM was satisfied with those processes, then there was no need to PM to further investigate the real estate checks. PM could not have been satisfied entirely with the processes, because real estate checks are non-member checks.

IA Response: This related to the checks sent to Administrative Services for deposit, but did not address the issue associated with the handling of the THC checks by the Real Estate Team. The next paragraph in this report, addresses Plante Moran’s reporting of that concerns to us which is the focus of this review.

In September 2020, Plante Moran informed Internal Audit of the check incidents and explained they were now focused on the eight stale checks that were not deposited by the Real Estate team. Internal Audit then met with the Real Estate team and other key divisions involved with cash management of these checks, to gain an understanding of the extent of the problem and the potential lack of controls that had contributed to the issue. Based on these discussions, we constructed the following timeline of events:

In June 2018, staff on the Real Estate team informed their supervisor that 104 checks totaling \$268,532, had not been deposited timely and had gone stale. These checks were issued between calendar years 2013 through 2018 but were not deposited for a variety of reasons and stored in a desk drawer of the Real Estate Team. The issue was not elevated within the Investments Office nor to the Legal Office but was only discussed amongst a few individuals within the Real Estate team.

AC Member Question: Was the drawer locked?

IA Response: It is unknown if the drawer was locked.

AC Member Question: Passive voice again. Responsible staff did not elevate

IA Response: Noted

- In January 2019, the Real Estate team attempted to deposit eight of the 104 stale checks. The eight checks were from the California Franchise Tax Board (CA FTB), totaling \$5,788. Because the checks had gone stale, they could not be deposited, so Financial & Accounting Services Division (FASD) notified the Real Estate team, Legal, and Administrative Services that LACERA's bank had not accepted the deposit. The Real Estate team responded they would have the checks reissued.
AC Member Question: This isn't correct wording. A recipient can deposit the check after the six months, it is the discretion of the bank to clear it or honor it.
IA Response: Correct, we should have reported that the bank did not honor the checks when they were presented for deposit since the check date was past six months.
- In April 2019, the Real Estate team requested assistance from the Legal Office to have the eight CA FTB checks reissued.
- In June 2020, the Real Estate team notified the Legal Office of an additional 21 of the 104 stale checks would need to be reissued. These were CA FTB checks, totaling \$15,325.

In October 2020, after Internal Audit informed Plante Moran of the 104 stale checks, Plante Moran included this as an internal control suggestion in its October 2020 Comments to Management Report which was provided to the Chief Executive Officer (CEO). In December 2020, management brought PM's Comments to Management Report and their related responses to the Audit Committee.

By the conclusion of our fieldwork, Internal Audit had verified the status of 104 checks as follows:

- 46 checks, totaling \$180,498, had been received and deposited into the appropriate bank accounts.
- 41 more checks, totaling \$68,244, had been requested and were pending receipt, 37 of which are from the California Franchise Tax Board.
AC Member Question: You mean that RE staff requested a re-issuance of the check?
IA Response: Yes, the Real Estate team requested re-issuance of these 41 and the 46 checks in the bullet above.
- 17 checks, totaling \$19,790, were unable to be replaced for a variety of reasons but before writing these off, the Real Estate team is continuing in their efforts to obtain replacements.
AC Member Question: And the real estate staff responsible? There were no disciplinary measures, such as a confirmation of counseling or written warning, given at all? We're out close to \$20,000 and no one has formally advised the team "hey, that was not a good thing you did, don't ever do it again?"
IA Response: Due to the confidentiality of personnel disciplinary actions, we cannot comment on actions taken regarding staff.

OVERVIEW OF THC MANAGEMENT

The Real Estate team manages its core wholly owned real estate portfolio through THCs. Real Estate Investment Managers (RE Managers) oversee the acquisition, asset management and disposition of the properties.

The Legal Office supports the Real Estate team with the negotiation and creation of these RE Manager contracts, as well as THC formation and maintenance, THC tax exemptions filings, and overseeing the legal aspects of acquisitions, dispositions and financings for assets held within the THCs.

FASD processes wire transfers from LACERA's custodial account in connection with the purchase or sale of real estate held by the THCs. The Administrative Services division receives, and deposits these "non-member" checks for non-active THCs, to LACERA's custodial account.

THC CHECK PROCESS

Based on our review, the following is an overview of the THC Check process:

LACERA hired Bank of America through an RFP process to maintain bank accounts for individual THCs. The Real Estate team oversees this relationship and the bank accounts. There are also property level bank accounts overseen by the RE Managers and property managers. When the THCs entities are under the active oversight of the RE Manager, most of the checks and financial activity, except for funds relating to acquisition, financing, and dispositions, flows are managed by either the property managers or the external RE Managers directly. Occasionally, checks may be sent directly to LACERA (the Real Estate team or Legal Office) relating to these entities for items such as tax refunds, bankruptcy settlements, or tenants mistakenly sending a rent check to the THC instead of the property manager. In most of these cases, the Real Estate team or Legal Office sends the RE Manager the checks to deposit in the property level bank account. If the RE Manager directs LACERA to deposit the check or the RE Manager does not have access to a Bank of America account, the Real Estate team deposits it to the active THC bank account.

However, LACERA periodically receives these types of checks for inactive THCs with bank accounts that have already been closed, usually after the property has been sold. During the time that the 104 stale checks were issued, there was no established process or procedure for depositing a check related to an inactive THC with a closed bank account. Therefore, staff in the Real Estate team were unable to deposit them and they accumulated over time.

AC Member Question: Define inactive please

IA Response: The THC is considered inactive when the Articles of Incorporation are dissolved.

AC Member Question: How were you able to deposit them then?

IA Response: See paragraph below.

After November 2018, the Investment's Office obtained approval from LACERA's custodial bank to deposit checks for inactive THCs into LACERA's bank account. As a result, the Real Estate team began to deposit the 104 stale checks into the custodial account and if they were stale, requested them to be reissued. The current process for depositing checks for inactive THCs is for either the Real Estate team or Legal to forward the check to Administrative Services for remote deposit.

AUDIT OBJECTIVE & SCOPE

The objectives of this engagement were to:

- Verify the 104 reported stale checks were reissued and properly deposited, pending reissuance or were uncollectable and pending write-off.
- Identify missing or breakdown of key controls that allowed the process to fail.

The scope of this engagement was focused on the 104 reported stale checks. Since the Real Estate team did not keep records of THC checks received during the time, we could not determine the volume of checks received over this period or if any additional stale checks existed. Our efforts to identify additional stale checks were limited to observing the Real Estate team's search for additional checks in their office.

In October 2020, the Real Estate team drafted revised THC check handling procedures to address the issue. Although we discussed with the key divisions the importance of controls related to the receipt and deposit of checks, we did not audit the revised October 2020 process because our work was limited to the status of the 104 stale checks. The new October 2020 process will be reviewed within the next fiscal year.

The audit was performed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

AUDIT RATING & SUMMARY OF FINDINGS

In our opinion, the effectiveness of the key controls applicable to the Scope are **Unsatisfactory**.

Summary of Findings

Finding #	Page	Description of Finding	Risk Rating**
F1	9	Real Estate team did not report the stale checks to the appropriate levels of Management	High
F2	11	Inadequate controls over the THC check process allowed 104 checks to go stale	High

Each of the above Findings are detailed in the following pages, including our Recommendations and Management Action Plans.

AC Member Question: I was very surprised that you didn't consider expanding one of the contractual agreements you have with a commercial bank to include an automated lockbox. LACERA would instruct everyone to send payments to a post office box under the control of the bank. They pick up the checks, deposit them and send LACERA an image file. No one outside the bank gets access to the check. How many people in LACERA have access to a single check? Six to ten is my guess. Why didn't you consider lockbox?

IA Response: We understand lockbox solutions have been or are being considered. The scope of this audit was focused on the resolution of the 104 THC checks. Internal Audit plans to conduct an organization-wide Check Management Review and will also perform a follow-up audit on the THC check process in the next fiscal year.

Based on the broader issues that were found during this engagement, we will include an additional review of the THC cash management process in the next fiscal year audit plan. Additionally, based on discussions with the Executive Office and other divisions, we will be reviewing LACERA's organizational cash management policy and divisional processes next fiscal year.

AC Member Question: For upwards of five years, no one at LACERA noticed that this money was missing, which means it hadn't been expected. This type of payout is ripe for fraud. How do we know that we didn't receive additional checks and someone took those checks and washed them and deposited them into a non LACERA account to which the depositor had access? The payor thinks everything is fine, because the check cleared. LACERA is not missing the money.

IA Response: Correct, because many of these checks related to inactive THC accounts and were unexpected, combined with the fact that these checks were not logged upon their receipt by an individual independent of the responsibility for deposits, does pose a fraud risk. Also, because of these control weaknesses we were unable to identify any other checks received during this time-period that were deposited appropriately or inappropriately. However, nothing came to light during our review to indicate that any fraud had occurred.

AC Member Question: In a case like this will staff be recommending actions to address and correct the unsatisfactory audit rating?

IA Response: The unsatisfactory audit rating is based on Internal Audit's high-risk ratings of the audit findings and recommendations. Investment office Management has provided management responses and action plans to address concerns and issues included in this report as well as the unsatisfactory audit rating. Its Internal Audit's practice to perform a follow-up review of any areas that receive an unsatisfactory rating. This will be included in next fiscal year's Audit Plan.

We would like to thank the Investments Office for the cooperation with this audit.

REVIEWED AND APPROVED



Date: June 15, 2021

Richard Bendall
Chief Audit Executive

REPORT DISTRIBUTION

2021 Audit Committee	Santos H. Kreimann, CEO	J.J. Popowich, AEO
2021 Plante Moran Audit Team	Jonathon Grabel, CIO	Steven Rice, Chief Legal Counsel
Robert Griffin, Audit Committee Consultant	Internal Audit Group	

** See Appendix 2 for Finding's Risk Rating

FINDING #1

Real Estate team did not report the stale checks to the appropriate levels of Management	Risk Rating**
	High

OBSERVATION

The initial report that Internal Audit received from Plante Moran (PM) in September 2020 was that eight checks related to THCs were not deposited timely. At the time, PM was unaware of the extent of the stale checks but believed it was a current issue with the depositing of the checks. However, as we began our review, the number of stale checks grew from eight to 21 to 104, with original issue dates as far back as 2013.

Although supervisors of the Real Estate team were made aware of the 104 stale checks in June 2018, it was not elevated to the Investments Office, Legal Office, the Executive Office, or Internal Audit and for the purpose of determining the need for a LACERA Incident Response Team (LIRT) meeting. Instead, the Real Estate team's management instructed staff to resolve the matter by obtaining replacement checks and developing a process under which unreplaceable checks could be written off.

RISK

The lack of accountability, transparency, and appropriate action to report on and correct known errors when discovered gives rise to the appearance of disregard or malfeasance.

RECOMMENDATION

Investments Office Management should communicate to staff the need to take appropriate action to correct known issues or errors and report them transparently to the appropriate levels of LACERA management and the Board when necessary.

MANAGEMENT'S ACTION PLAN

Investment Office Management agrees to both the finding as well as the recommendation. Management takes Internal Audit's results seriously and recognizes that the findings may, in part, result from a legacy of a more siloed approach for the operations of the real estate asset class within the Investment Office. We further recognize that LACERA's real estate structure is different and requires multi-divisional effort to operationally support it. Most LACERA investment assets are held through a global custody structure with State Street or individual commingled funds, which are subject to their own operational framework. In contrast, the majority of real estate investments are held in LACERA-owned Title Holding Companies ("THC"). These entities require a separate LACERA banking relationship with Bank of America, deposit accounts at other banks established by asset managers, dedicated legal support, and a service model that is split between LACERA staff across multiple divisions and third-party asset managers.

** See Appendix 2 for Finding's Risk Rating

In a collaborative effort amongst Administrative Services, Legal, FASD, and Investments, a more defined process for handling all non-member checks received by LACERA was developed and implemented in 2019 to allow for more transparency and oversight of the check handling process. In this process, the Document Processing Center within Administrative Services is responsible for the electronic deposit of incoming non-member checks while the other divisions involved review and approve such checks for deposit.

Investment Office Management has eliminated the siloed approach to portfolio construction. There is increased collaboration across functional teams with a focus on identifying and promoting best practices. There is also a heightened awareness of operational due diligence. Not only has the Investment Office Management communicated the need for transparency and accountability as a fiduciary imperative, but the team has embraced this mindset.

RESPONSIBLE PARTY FOR MANAGEMENT'S ACTION PLAN

Jonathan Grabel, Chief Investment Officer

TARGET COMPLETION DATE

Completed

FINDING #2

Inadequate controls over the THC check process allowed 104 checks to go stale	Risk Rating**
	High

OBSERVATION

Internal Audit reviewed the 104 stale checks, that were issued from 2013 through 2018, relating to LACERA’s Real Estate THCs. A portion of these checks were initially received in the Legal Office and then transferred to the Investment Office to be deposited, and most related to inactive THCs. The checks ranged from less than \$10 to over \$36,000 (the average amount was \$800) and totaled \$268,532.

Real Estate management failed to provide staff with adequate guidance, formalized procedures, or expectations for depositing the checks, resulting in delayed deposits and a potential of loss of funds. Internal Audit’s review of the 104 checks identified the following breakdowns and issues:

- **No formal written procedures or documented controls for check deposits.** During the time that these checks were received, a formalized process and appropriate management oversight did not exist. In addition, most of the checks were made payable to inactive THCs, causing further confusion on the appropriate bank accounts for the deposits. Without appropriate guidance, staff responsible for depositing the checks were left to their own methods and timing for bank deposits.
- **Inconsistent and incomplete logging and tracking of checks.** Real Estate staff did not maintain a log of all checks received. The listing of the 104 checks was prepared in October 2020 at the request of Internal Audit; previously, the Real Estate team had not recorded the receipt and deposit of checks.
- **Inadequate controls to safeguard the checks.** Per our discussions with those involved with the checks, and later through our own observations, we found that checks were not stored in a safe and secure manner. Staff stored the checks in desk drawers and cabinets.
- **No guidance on the process to have checks reissued.** After the checks became stale, staff were instructed to get the checks reissued but management did not provide guidance and oversight in doing so. This led to additional delays in obtaining new checks as staff tried to figure out the appropriate sources to obtain reissued checks.
- **Lack of appropriate segregation of duties.** One staff person was responsible for receiving and depositing the checks, requesting vendor payments in the form of checks, and receiving the bank statements. This same person was also charged with requesting the reissuance of the stale checks. Additionally, only one individual was given the responsibility of the checks. In their absence, there was no staff assigned as back-up, resulting in further delays in processing checks and making bank deposits.

** See Appendix 2 for Finding’s Risk Rating

In October 2020, management over the Real Estate team provided Internal Audit a draft of THC cash management procedures. We noted that the procedures were incomplete and did not include adequate guidelines, controls, and procedures for the handling of checks. As of this report date, the procedures have not been completed and formalized. However, at the beginning of this audit, the Real Estate team changed their process for handling checks to include additional staff, logging and monitoring of checks, and additional management oversight. Furthermore, checks relating to inactive THCs with closed bank accounts, that are received in the Investment or Legal Offices are now sent to Administrative Services to be deposited.

RISK

Without a well-defined process and strong internal controls around cash management and specifically as related to the receipt, recording and deposit of checks, the organization risks loss due to lack of accountability, errors, negligence, or theft.

RECOMMENDATION

The Investment Office should:

1. Formalize and document procedures for receiving, tracking, and depositing checks, including appropriate levels of supervision and segregation of duties.
2. Address the remaining stale checks by:
 - a. logging and recordings the status of each check until new checks are received and deposited or written off as a loss of funds,
 - b. performing a monthly review by Real Estate team management of the Stale Check Summary Log and the status of efforts made to obtain reissued checks and the determination of checks that are uncollectable for write-off, and
 - c. dispositioning uncollectable checks with the Executive Office to determine appropriate reporting.

MANAGEMENT'S ACTION PLAN

The Investment Office agrees to both the finding and recommendation.

1. The Investment Office has changed many of its check receiving and sending procedures, ensuring segregation of duties and accountability. Investments is also working with LACERA divisions to improve the process and document procedures and internal controls so that checks are deposited in a more timely manner. A check's typical life cycle within LACERA starts with receipt by the mailroom who then (i) forwards it either to Investments or Legal or (ii) retains it for Administrative Services and logs it into a master check log. Checks in this log are reviewed and dispositioned by Administrative Services, Investments, Legal, and FASD. In the next 30 days, the Investment Office will lead an inter-divisional meeting to evaluate existing check deposit procedures and together identify areas of further enhancement.

2. The real estate team continues to work diligently to resolve all 104 of these checks. Many of them have already been deposited.
 - a. As of 6/10/21, 46 checks totaling \$180,498 have been deposited, 58 checks totaling \$88,034 are still in progress, and none have been deemed unrecoverable.
 - b. Members of the real estate team and its management meet weekly to review the status of pending and reissued checks. Checks in progress that are being reissued by state or local governments can take up to 24 months.
 - c. Staff will provide quarterly updates to Investment Office Management, Executive Office, and Internal Audit division.

While the audit highlights the particular process point of handling checks, there are broader initiatives underway to reduce operational risks in real estate workflows. Over the past few years, staff has identified and has made steady progress towards eliminating as many operational risks as possible. A brief timeline of events that surround efforts to improve real estate operations follows.

The BOI authorized a search for real estate administrative services in September 2018. At that time, the justification for the search was that the real estate investment program requires a substantial amount of operational-related work to administer, and that each THC requires a significant amount of maintenance to protect the integrity of the entity and to handle the individual fund movements associated with each THC.

A multi-divisional LACERA team started on that search which included staff members from the Investment Office (real estate and portfolio analytics), Legal, and FASD. The search team created an investment process workflow, which incorporated a comprehensive review of real estate team, Legal, and FASD responsibilities related to real estate operations. The workflow and its findings were shared with the Board at the July 2019 offsite meeting identifying four broad categories of potential operational improvements with several sub-tasks that could be accomplished to facilitate enhanced investment real estate operations. In addition, the memo recommended, and the Board approved, launching two searches: One for an alternative asset administration service provider and the other for a total Fund performance service provider, both of which have been completed.

In early 2020, the real estate team, in conjunction with Meketa, finalized a quarterly performance reconciliation procedure. Additionally, in May 2020, the Board hired Altus Group as LACERA's independent appraisal management provider. Altus currently oversees a more frequent process for appraising and reporting real estate asset values to ensure LACERA's portfolio valuation reflects current market conditions.

In August 2020, the Board approved a Consultant RFP that led to hiring of Stepstone Group ("Stepstone") as the new real estate consultant. They made an initial presentation to the Real Assets Committee in June 2021 about portfolio structure and expect to further develop recommendations on LACERA's real estate program.

LACERA has also completed the onboarding of State Street/Solovis to create a total Fund performance platform, to act as LACERA's book of record for independent real estate accounting administration, and to administer cash movements for the THCs. Previously, the real estate book of record function, and performance reporting was handled by the real estate investment consultant and cash outflows were performed manually by LACERA Investment Office and FASD. Staff anticipates delivering enhanced performance reporting to the BOI for its June 30, 2021, quarterly performance package.

As part of the broader examination of services required for the THCs, staff is reviewing best practices with separate account managers and StepStone, to improve operational practices. The entire scope of banking, legal, payment processing, external audit, and other services that are currently led by LACERA staff on behalf of the THCs is under review. The goal is to determine which tasks are appropriate to move to LACERA's third party asset managers who already have personnel with administration, accounting, and legal specialties to take on some or all of these responsibilities.

Additional efforts underway include addressing the broader question about the outsized role of THCs in the overall structure of real estate. In an upcoming structure review, with the assistance of Stepstone, alternative structures for investing in real estate will be considered.

Management's response has outlined recent enhancements made by the Investment Office to both mitigate the risks from LACERA's separate account THC program as well as improve real estate operations. We remain accountable and will continue to work with our partners across LACERA divisions to enhance the program's effectiveness, transparency, and eliminate the stale check issues. Curing stale checks is a priority. Addressing the macro real estate operational challenges aligns with the Investment Office's focus on maximizing risk-adjusted returns. We will provide updates on the real estate program structure as well as this matter in upcoming months.

RESPONSIBLE PARTY FOR MANAGEMENT'S ACTION PLAN

Jonathan Grabel, Chief Investment Officer

TARGET COMPLETION DATE

Recommendation #1 – September 30, 2021

Recommendation #2 – June 30, 2023 (*Reissuing checks can take up to two years. The Investment Office will provide a quarterly update to Internal Audit as to the status of the checks*).

APPENDIX 1 AUDIT RATING SCALE

Internal Audit issues three standard audit report evaluations as defined below:

Satisfactory

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

Opportunities for Improvement

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

Unsatisfactory

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks and the impact may be substantial in size or nature or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.

APPENDIX 2 FINDIN'S RISK RATING SCALE

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance, or reputational impact that the issue identified could have on LACERA.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<p>Large financial impact to LACERA or members</p> <p>Actions not aligned with fiduciary responsibilities</p>	<p>Missing or inadequate key internal controls</p> <p>Not adequate to identify fraud, noncompliance, or misappropriation</p>	<p>Noncompliance with applicable Federal or state laws or LACERA's policies</p>	<p>High probability for external audit issues and/or negative public perception</p>	<p>Important critical business process identified by Exec Office</p> <p>Requires immediate attention</p>
Medium	<p>Moderate financial risk to LACERA or members</p> <p>Actions could be better aligned with fiduciary responsibilities</p>	<p>Partial key internal controls</p> <p>Not adequate to identify noncompliance or misappropriation in timely manner</p>	<p>Inconsistent compliance with applicable Federal or state laws or LACERA's policies</p>	<p>Potential for external audit issues and/or negative public perception</p>	<p>Relatively important</p> <p>May or may not require immediate attention</p>
Low	<p>Low financial impact to LACERA or members</p>	<p>Internal controls in place but not consistently efficient/effective</p> <p>Implementing / enhancing controls could prevent future problems</p>	<p>General compliance with applicable Federal or state laws or LACERA's policies, but some minor discrepancies exist</p>	<p>Low probability for external audit issues and/or negative public perception</p>	<p>Lower significance</p> <p>Does not require immediate attention</p>



June 17, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **Plante Moran Pre-Audit Communication**

As part of the annual financial audit process for Fiscal Year-Ended June 30, 2021, Plante Moran will be presenting to the Audit Committee at the June meeting to review the timing, scope, and their approach to the upcoming audit.

RPB:cl



plante moran | Audit. Tax. Consulting.
Wealth Management.

Los Angeles County Employees Retirement Association Pre-Audit Communication

Jean Young, CPA

Amanda Cronk, CPA



Agenda

Pre-Audit Communication

- Audits to Perform
- Auditor Responsibilities
- Identification of Significant Risks
- Plante Moran's Approach to Internal Control
- Materiality Concept
- Audit Committee Member Views
- Questions



Pre-Audit Communication

Plante Moran will perform an audit and express an opinion on the following statements as of June 30, 2021:

- LACERA's annual financial statements
- Schedule of Employer Allocations and Schedule of Pension Amounts of the LACERA Cost-Sharing Multiple-Employer Defined Pension Plan
- Schedule of Changes in Fiduciary Net Position by Employer of the LACERA Agent Plan Multiple-Employer Retiree Healthcare Plan



Pre-Audit Communication

Auditor Responsibilities

Auditor responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles

In accordance with Generally Accepted Government Auditing Standards (GAO Standards), we are required to communicate all noncompliance with provisions of laws, regulations, contracts or grants that have a material effect on the financial statements that comes to our attention. GAO standards also require that we report any instances of abuse identified during the audit that could be quantitatively or qualitatively material to the financial statements.

Emphasis-of-Matter Paragraph

We expect to include an emphasis-of-matter paragraph in the auditor's report informing the users of the financial statements about the significance of and level of estimation involved in valuing the alternative investments held by the LACERA. The proposed wording of the emphasis-of-matter paragraph is provided below:

As explained in Note X, the financial statements include certain investments whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on various methods which may include information provided by investment managers, general partners, real estate advisors, and other means. The investments are valued at \$XXXX (zz percent of net assets) at June 30, 2021 and \$XXXX (zz percent of nets assets) at June 30, 2020. Our opinion is not modified with respect to this matter.



Pre-Audit Communication

Identification of Significant Risks

- Appropriate valuation of investments at June 30, 2021, particularly the alternative investments that do not have readily established market values.
- Accuracy of active participant data and payroll information submitted to the LACERA by participating employers, particularly the County.
- The actuarial assumptions and other inputs chosen by LACERA to determine the total pension liability under GASB 67, including the long-term rate of return, mortality assumptions, etc.
- Accuracy of benefit calculations and related payments, including disability claims.
- Proper controls in place to facilitate adequate segregation of duties during COVID-19 pandemic.



Pre-Audit Communication

Plante Moran's Approach to Internal Control

- Narratives/Questionnaires
- Evaluate the effectiveness of controls at LACERA
- No opinion on effectiveness of internal controls

Materiality Concept

We place greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.



Pre-Audit Communication

Views of the Audit Committee

Are there any:

- Risks that may result in material misstatements?
- Concerns or areas that warrant particular attention?
- Concerns about the LACERA's internal controls?
- Any significant communication with regulators?
- Committee actions in response to developments in accounting standards, regulations, laws, and other related matters



Questions?

Thank you for the opportunity to serve you!



Contact Information:



Jean Young, CPA

Partner

Jean.Young@plantemoran.com

517.336.7458



Michelle Watterworth, CPA

Partner

Michelle.Watterworth@plantemoran.com

248.223.3520



Amanda Cronk, CPA

Senior Manager

Amanda.Cronk@plantemoran.com

810.766.6045



June 16, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Kathryn Ton 
Senior Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **Ethics Hotline Overview**

Attached is the Ethics Hotline Presentation which includes an overview of the background and processes. We welcome the opportunity for discussion and feedback from the Committee.

RPB:kt



L/CERA

NAVEX
GLOBAL®

June 24, 2021 Audit Committee Meeting

Table of Contents

01

Background

LACERA-NAVEX Global Partnership
Report Types | Filing a Report

02

Notification Process

Receiving Reports

03

Investigation Process

Dissemination of Reports | Investigation of Allegations

04

Reporting Process

Resolution | Reporting to Audit Committee

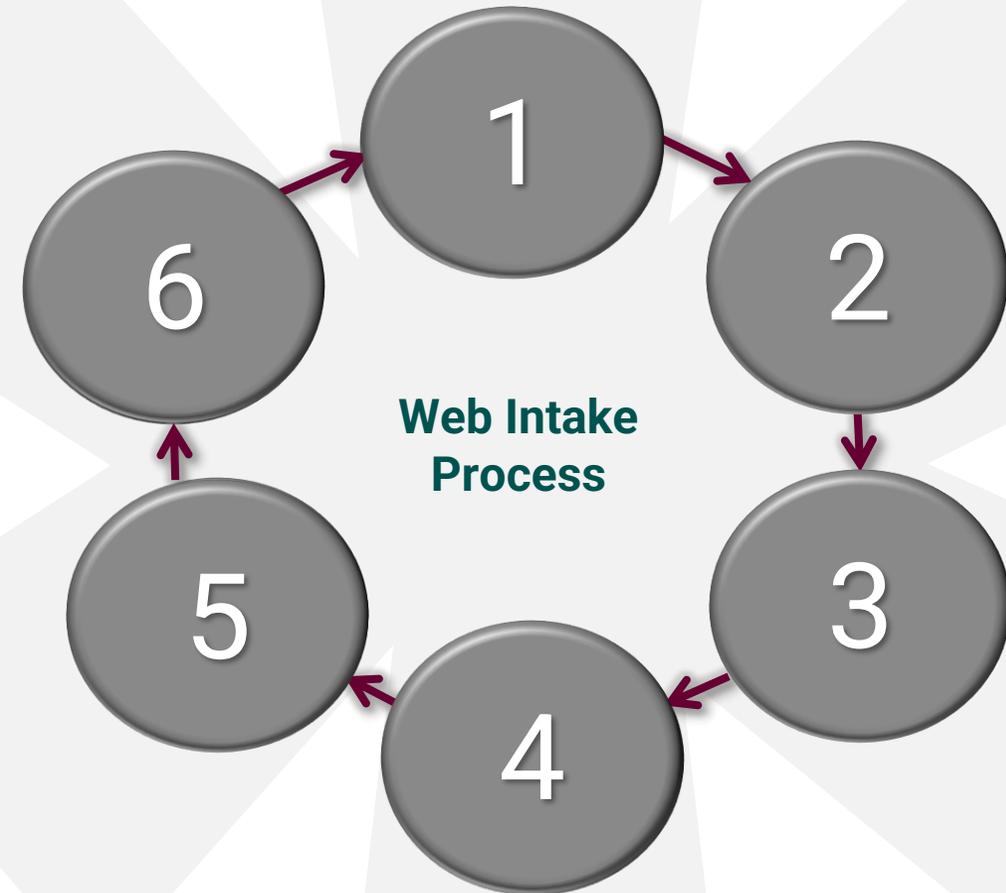




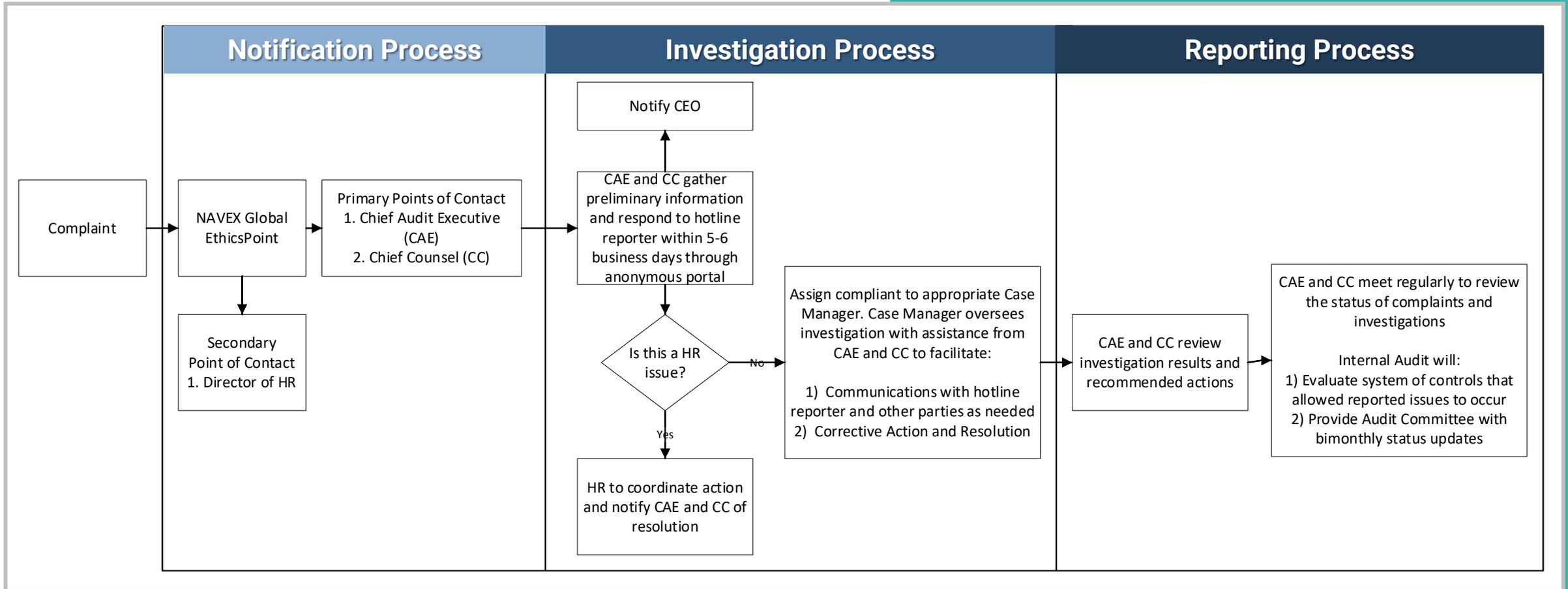
REPORT TYPES

- Accounting and Auditing Matters
- Confidentiality and Misappropriation
- Conflict of Interest
- Contractor/Vendor Relations
- Data Privacy
- Discrimination or Harassment
- Embezzlement
- Falsification of Contracts, Reports, or Records
- Hiring Irregularities
- Improper Giving or Receiving of Gifts
- Retaliation
- Sexual Harassment
- Substance Abuse
- Theft
- Threat or Inappropriate Supervisor Directive
- Time Abuse
- Violation of Policy
- Workplace Violence

Third-Party Hotline: 844-794-9416



Report Flow

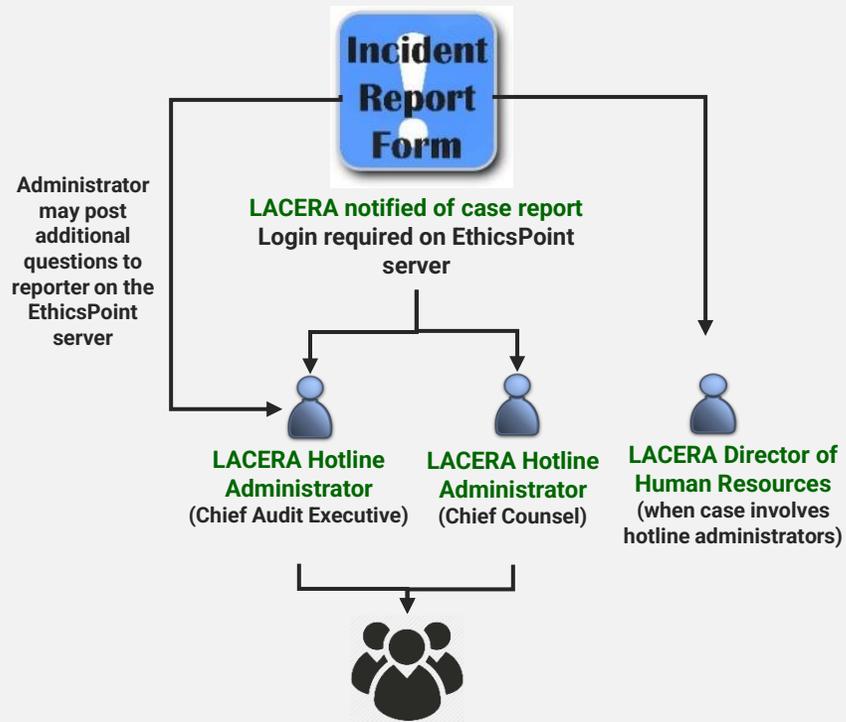


The LACERA points of contact are the hotline administrators responsible for ensuring that all reports are adequately tracked, investigated, and closed. The administrators may involve other participants as needed to assist in the investigation.

Notification Process – Receiving Reports



WHEN LACERA GETS INVOLVED



DATA SECURITY AND ANONYMITY



REPORTER PROTECTION

INITIAL RESPONSE
WITHIN 5-6
BUSINESS DAYS

4

REPORTS RECEIVED

Investigation Process – Dissemination of Reports



HOW CASES ARE HANDLED



LACERA Case Managers



Investigates case and adds notes
on EthicsPoint server



Records outcome and
closes case



CHECKS AND BALANCES

The hotline administrators will limit the number of individuals with access to reports



HUMAN RESOURCES

Many cases relate to HR matters and will be communicated to Legal and HR



ESCALATION CRITERIA

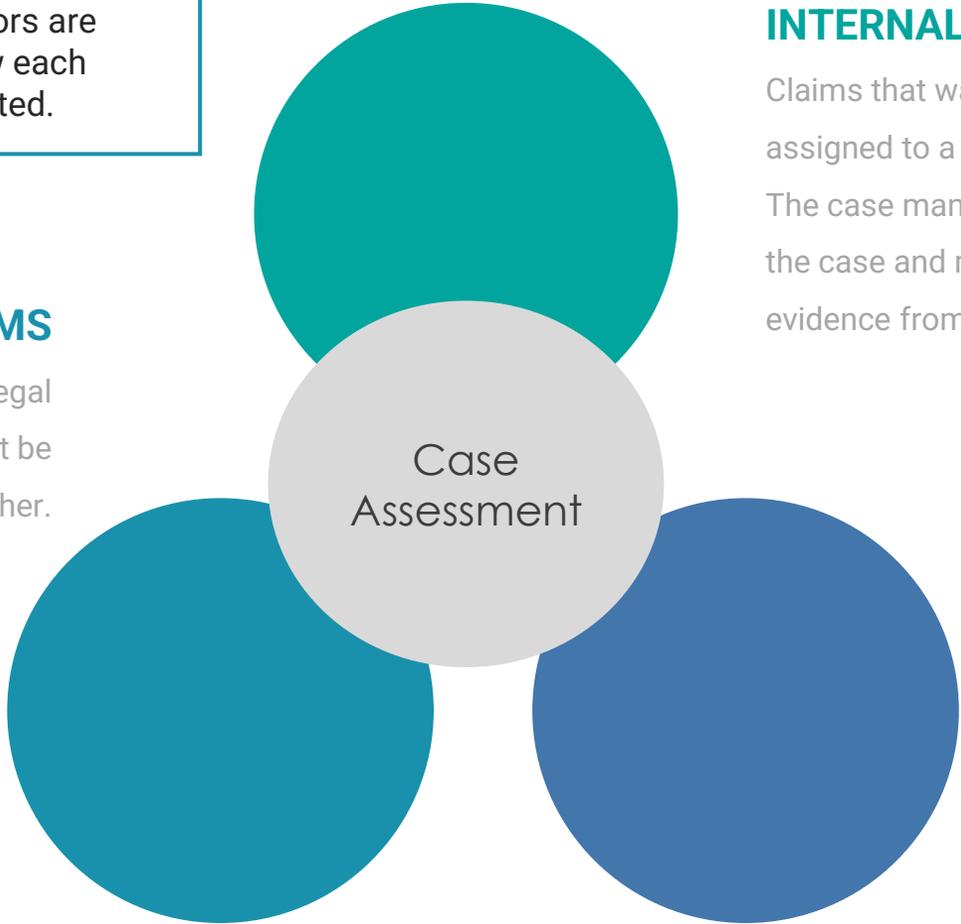
Some reports may require immediate attention if it involves a threat or harm to LACERA staff or a threat of business interruption



The LACERA hotline administrators are responsible for determining how each allegation should be investigated.

FRIVOLOUS CLAIMS

Claims that do not constitute a legal or policy violation and will not be investigated further.



INTERNAL INVESTIGATION

Claims that warrant an investigation and will be assigned to a case manager for further review. The case manager is responsible for handling the case and may ask for additional facts or evidence from the reporter.

EXTERNAL INVESTIGATION

When circumstances require an external investigation may be conducted.



HOW TO FOLLOW-UP ON A REPORT



URL
lacera.ethicspoint.com



Click on "Follow-up on a Report"



Enter assigned
Report Key & Password



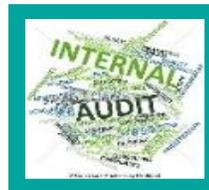
ALL COMPLAINTS TAKEN SERIOUSLY

All reports investigated will be resolved as quickly as reasonably possible.



COMMUNICATION WITH REPORTER

The case manager will notify the reporter when a case is closed through the anonymous EthicsPoint portal.



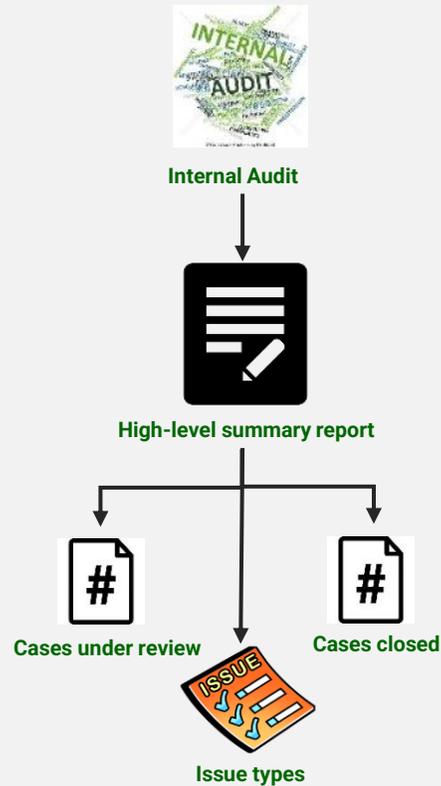
INTERNAL AUDIT ASSESSMENT

Based on issue types identified, Internal Audit will evaluate operational, compliance, and management areas that should be added to the Audit Plan.

Reporting Process – Audit Committee



REPORTING TO THE AC



REPORT TYPES

75%

3 CASES
HR MATTERS

25%

1 CASE
OTHER MATTER

» 4

CASES REPORTED

» 0

CASES UNDER REVIEW

» 4

CASES CLOSED



Thank You!



Questions?



L/CERA

NAVEX
GLOBAL®

June 24, 2021 Audit Committee Meeting

Table of Contents

01

Background

LACERA-NAVEX Global Partnership
Report Types | Filing a Report

02

Notification Process

Receiving Reports

03

Investigation Process

Dissemination of Reports | Investigation of Allegations

04

Reporting Process

Resolution | Reporting to Audit Committee

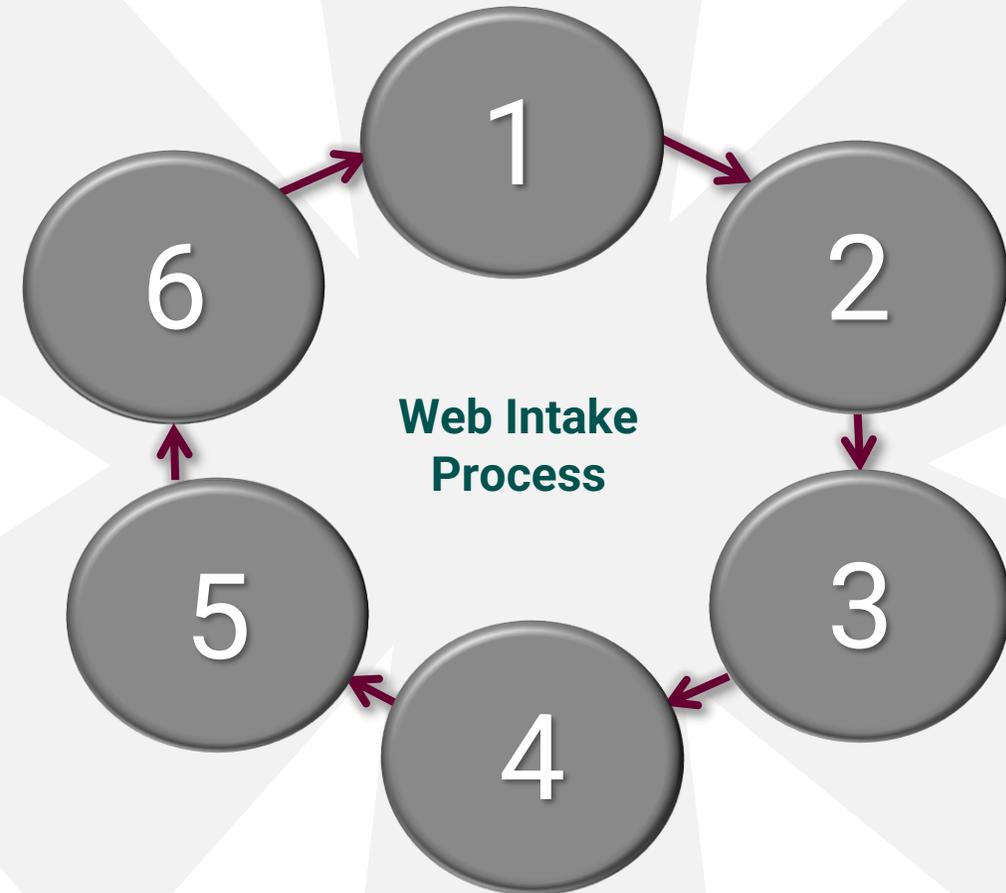




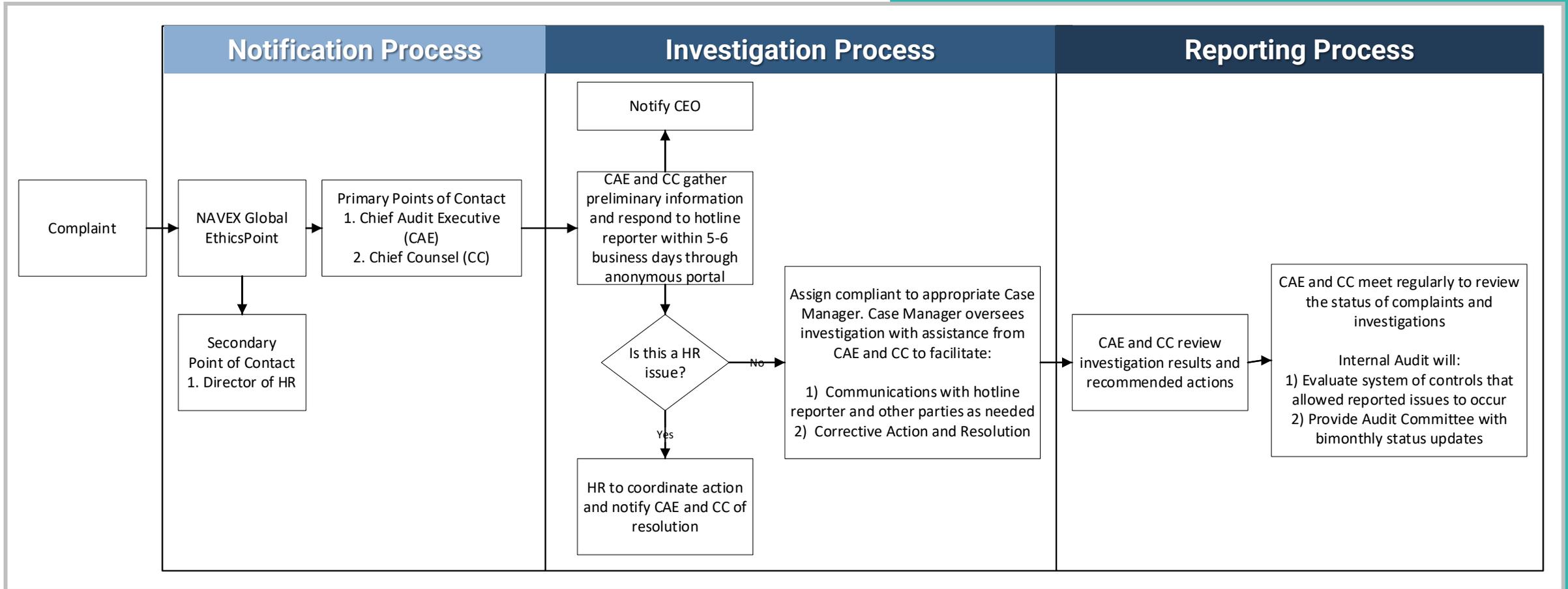
REPORT TYPES

- Accounting and Auditing Matters
- Confidentiality and Misappropriation
- Conflict of Interest
- Contractor/Vendor Relations
- Data Privacy
- Discrimination or Harassment
- Embezzlement
- Falsification of Contracts, Reports, or Records
- Hiring Irregularities
- Improper Giving or Receiving of Gifts
- Retaliation
- Sexual Harassment
- Substance Abuse
- Theft
- Threat or Inappropriate Supervisor Directive
- Time Abuse
- Violation of Policy
- Workplace Violence

Third-Party Hotline: 844-794-9416



Report Flow

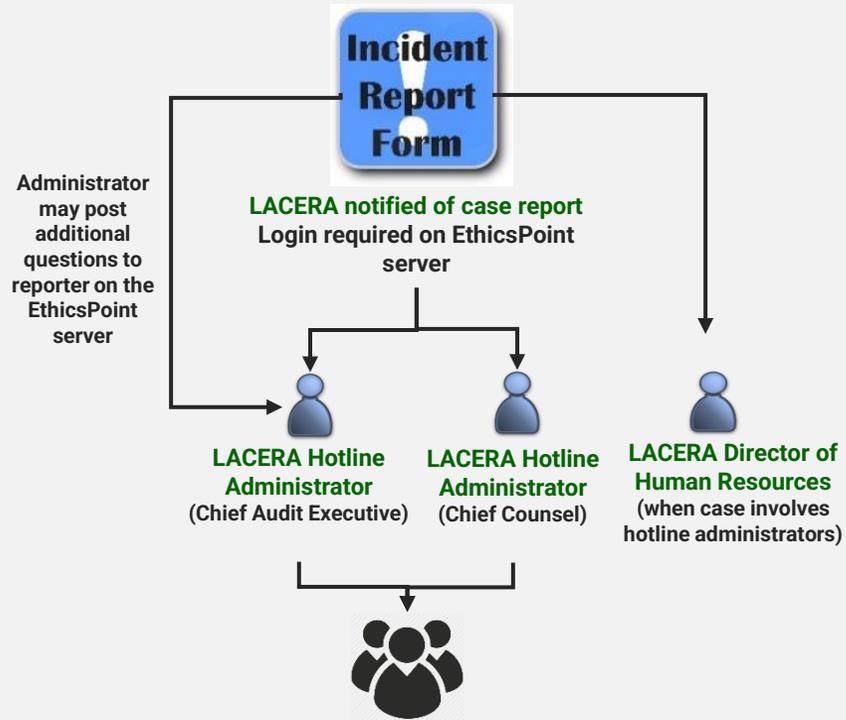


The LACERA points of contact are the hotline administrators responsible for ensuring that all reports are adequately tracked, investigated, and closed. The administrators may involve other participants as needed to assist in the investigation.

Notification Process – Receiving Reports



WHEN LACERA GETS INVOLVED



**DATA SECURITY
AND ANONYMITY**



REPORTER PROTECTION

**INITIAL RESPONSE
WITHIN 5-6
BUSINESS DAYS**

4

REPORTS RECEIVED

Investigation Process – Dissemination of Reports



HOW CASES ARE HANDLED



LACERA Case Managers



Investigates case and adds notes on EthicsPoint server



Records outcome and closes case



CHECKS AND BALANCES

The hotline administrators will limit the number of individuals with access to reports



HUMAN RESOURCES

Many cases relate to HR matters and will be communicated to Legal and HR



ESCALATION CRITERIA

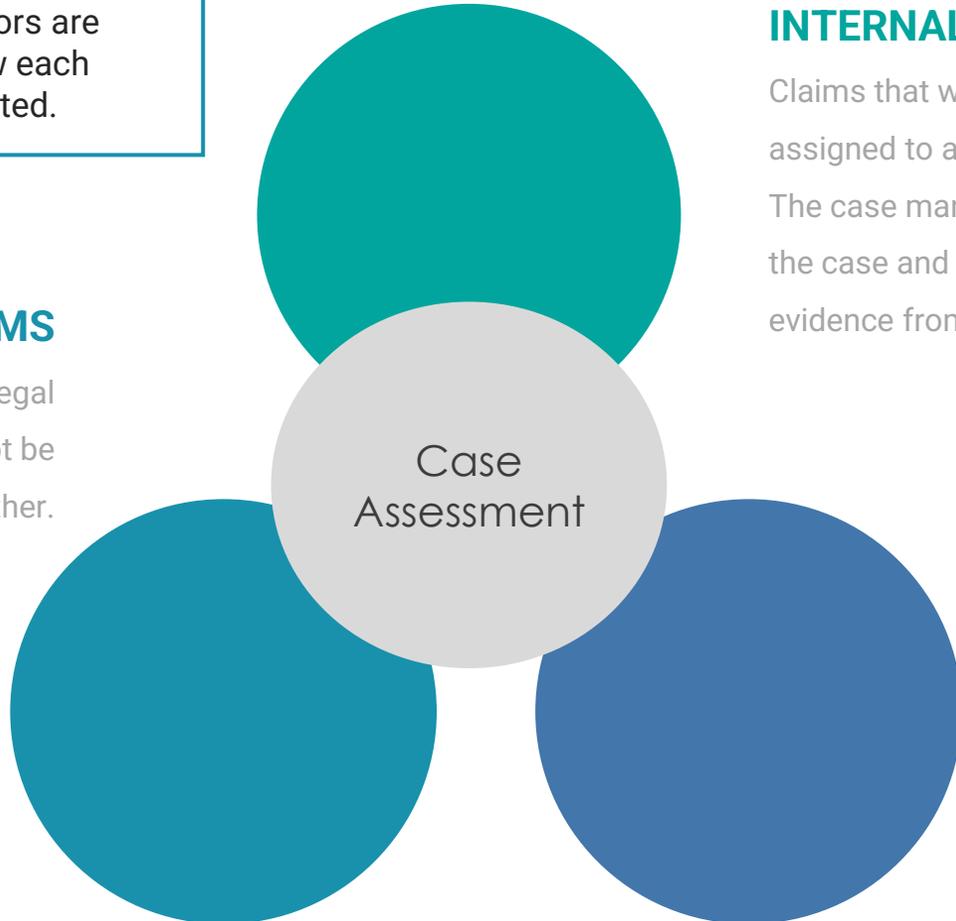
Some reports may require immediate attention if it involves a threat or harm to LACERA staff or a threat of business interruption



The LACERA hotline administrators are responsible for determining how each allegation should be investigated.

FRIVOLOUS CLAIMS

Claims that do not constitute a legal or policy violation and will not be investigated further.



INTERNAL INVESTIGATION

Claims that warrant an investigation and will be assigned to a case manager for further review. The case manager is responsible for handling the case and may ask for additional facts or evidence from the reporter.

EXTERNAL INVESTIGATION

When circumstances require an external investigation may be conducted.



HOW TO FOLLOW-UP ON A REPORT



URL
lacera.ethicspoint.com



Click on "Follow-up on a Report"



Enter assigned
Report Key & Password



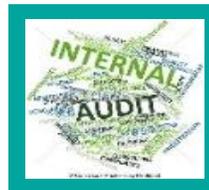
ALL COMPLAINTS TAKEN SERIOUSLY

All reports investigated will be resolved as quickly as reasonably possible.



COMMUNICATION WITH REPORTER

The case manager will notify the reporter when a case is closed through the anonymous EthicsPoint portal.



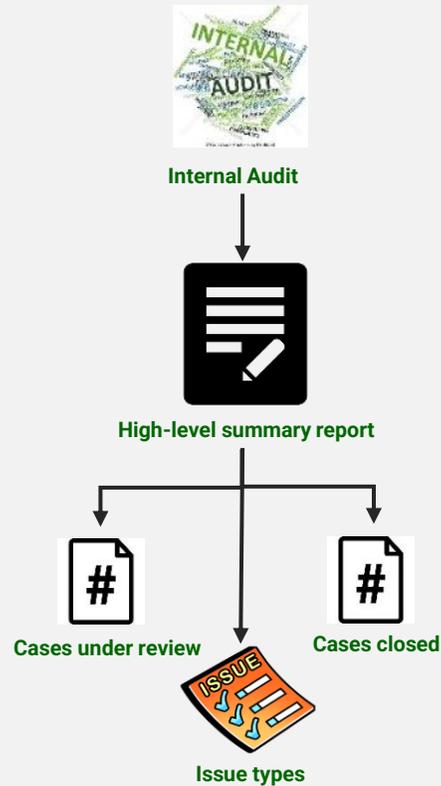
INTERNAL AUDIT ASSESSMENT

Based on issue types identified, Internal Audit will evaluate operational, compliance, and management areas that should be added to the Audit Plan.

Reporting Process – Audit Committee



REPORTING TO THE AC



REPORT TYPES

75%

3 CASES
HR MATTERS

25%

1 CASE
OTHER MATTER

» 4

CASES REPORTED

» 0

CASES UNDER REVIEW

» 4

CASES CLOSED



Thank You!



Questions?



June 1, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: 2021 Annual Audit Committee for Calendar

Internal Audit developed a calendar (Attachment A) to provide trustees on the Committee visibility to what they can expect at each meeting during the year. We included in the calendar the Audit Committee's annual and reoccurring responsibilities, as defined in the Audit Committee Charter (Attachment B), to ensure they are addressed.

After the Committee has addressed a responsibility, we will update the calendar to reflect its completion.

RPB:/cl

Attachments:

A: 2021 Annual Audit Committee Calendar
B: December 2020 Audit Committee Charter

2021 Annual Audit Committee Calendar									
Documentation	Ref to AC Charter	Frequency	Feb	April	June	Aug	Oct	Dec	
Audit Engagement Reports	VII.A.2.a.	Every	C	C	X	X	X	X	
Audit Plan Status Update	VII.A.1.d. & VII.A.2.c-d.	Every	C	C	X	X	X	X	
Summary of Hotline Investigations	VII.D.3 & VII.E.2.b.	Every	C	C	X	X	X	X	
Recommendation Follow-Up Reports	VII.A.2.b.	Quarterly	C		X	X	X		
Proposed Audit Plan and Budget	VII.A.1.c.	Annually	C						
Annual Risk Assessment	VII.A.1.a.	Annually		C					
Annual Audit Plan	VII.A.1.b.	Annually			X				
Presentation / memo by Financial Auditor detailing proposed scope of work and timing.	VII.B.2	Annually			X				
Internal Audit Charter	VII.A.3.a.	Annually			X*				
Internal Audit Annual Performance Report	VII.A.3.b.-c.	Annually				X			
CAE Performance Evaluation	VII.A.4.b.-c.	Annually				X			
Ethics & Values Review	VII.D.1-3.	Annually					X		
Organizational Governance Review	VII.E.	Annually					X		
Compliance Memo from Legal Office	VII.E.4.c.	Annually					X		
Financial Statements, Correspondence, & Presentation	VII.C.1.-4.	Annually							X
Audit Committee Annual Performance Report	VII.F.1.	Annually							X
Audit Committee Charter	VII.F.4	Every 3rd year	C						
Approve the appointment and compensation of the External Financial Auditor	VII.B.1	Every 5th year**		C					
Ensure IA has an external quality assessment performed every five years.	VII.A.3.d.	Every 5th year		C					
Provide an open avenue of communication between IA, all Professional Service Providers, Management, and the Boards.	VII.F.2	Continuous							
Approve the appointment & compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations	VII.B.2	As needed							
Review with Professional Service Providers, including the Financial Auditor, and Mgmt the results of the work performed, any findings & recommendations, Mngmt's responses, and actions taken to implement the audit recommendations.	VII.B.3	As needed							
Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.	VII.A.3.e.	As needed							
Make recommendations to both Boards regarding the appointment, discipline, and/or dismissal, of the CAE, which will be addressed by the Boards in a joint meeting.	VII.A.4.a.	As needed							
Perform other activities related to this Charter as requested by the Boards.	VII.F.3	As needed							

C = completed, X = pending

*Delayed due to pending approval of AC Charter

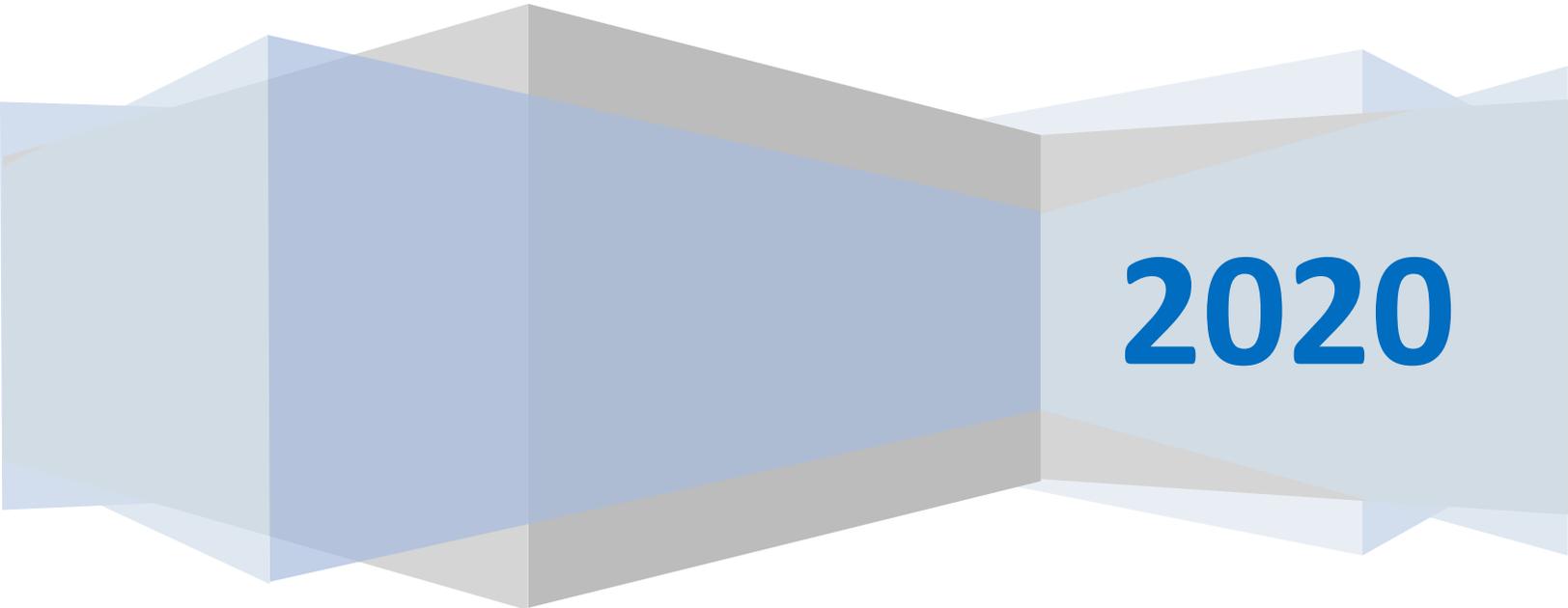
** Additional year extension approved in April 2021.

ATTACHMENT B

LACERA
Los Angeles County Employees Retirement Association

Audit Committee Charter

December 2020



2020



AUDIT COMMITTEE CHARTER

Table of Contents

- I. CHARTER 2**
- II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES 2**
- III. PRINCIPLES OF THE AUDIT COMMITTEE 2**
- IV. AUTHORITY 3**
- V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT 3**
- VI. AUDIT COMMITTEE MEETINGS 4**
- VII. RESPONSIBILITIES 5**
- VIII. APPROVAL 9**



AUDIT COMMITTEE CHARTER

I. CHARTER

This Charter establishes the authority and responsibilities of the Audit Committee, as assigned by Los Angeles County Employees Retirement Association's (LACERA) Board of Retirement and Board of Investments (Boards). The Audit Committee Charter is a living document and should be reviewed at least every three years.

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

In November 2003, LACERA's Boards established the LACERA Audit Committee.

The purpose of the Audit Committee is to assist the Boards in fulfilling their fiduciary oversight duties for the:

- A.** Internal Audit Activity
- B.** Professional Service Provider Activity
- C.** Financial Reporting Process
- D.** Values and Ethics, and
- E.** Organizational Governance

III. PRINCIPLES OF THE AUDIT COMMITTEE

The Audit Committee will conduct itself in accordance with LACERA's Code of Ethical Conduct and the following core principles from the Institute of Internal Auditors' (IIA) Code of Ethics. The Audit Committee expects the Boards, Management, and staff will also adhere to these requirements.

Integrity – The Audit Committee Members will perform their work with honesty, diligence, and responsibility. The Audit Committee expects and will encourage transparency when fulfilling its duties. Communications between Committee Members, Management, staff, and/or Professional Service Providers will be open, direct, and complete. Subject to applicable laws and organizational limitations, Internal Audit will regularly provide the Audit Committee with updates on audit and consulting projects completed and related findings and follow-up.

Independence & Objectivity - The Audit Committee will perform its responsibilities in an independent manner and in compliance with fiduciary duty without exception. Audit Committee Members will disclose any conflicts of interest (actual or perceived) to the Committee.

Confidentiality – The Audit Committee Members will be prudent in the use and protection of information acquired during the course of its duties.



Competency - Audit Committee Members will receive formal orientation training on the purpose and mandate of the Committee and LACERA's objectives. Audit Committee Members are obligated to prepare for and participate in Committee meetings.

Professional Standards - The Audit Committee will ensure all related work will be handled with the highest professional standards consistent with auditing standards of practice and industry guidelines.

IV. AUTHORITY

The Audit Committee will have unrestricted access to Management and staff, and any relevant information it considers necessary to discharge its duties. All employees are directed to cooperate with the Committee and its requests. If access to requested information is denied due to legal or confidentiality reasons, the Audit Committee and/or CAE will follow a prescribed, Board approved mechanism for resolution of the matter.

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of duties, including engaging independent counsel and/or other advisors it deems necessary.

The Audit Committee is empowered to:

1. Approve the appointment, compensation, and work of the Financial Auditor hired to audit LACERA's financial statements.
2. Approve the appointment, compensation, and work of other Professional Service Providers to perform non-financial statement audits, reviews, or investigations, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Resolve any significant disagreements regarding risks, findings, and/or payment between Management and the Financial and/or Other Service Providers.

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of seven members: three elected annually from each Board and the ex-officio member of both Boards, the LA County's Treasurer and Tax Collector. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of their term, the Board of the departing member, will elect a new Audit Committee member at the next regularly scheduled Board meeting.



The Committee shall have the authority to approve the hiring of the Audit Committee Consultant as an advisor through a Request for Proposal process. The Audit Committee Consultant will be designated as the audit technical and financial expert, to advise the Committee on audit and financial matters. The Audit Committee Consultant's contract will be for three years.

At the first Committee meeting of each calendar year, the Committee shall elect a Chairman, Vice Chair and Secretary, each to serve for a term of one year or until his or her successor is duly elected and qualified, whichever is less. In the event of a vacancy in the office of Chair, the Vice Chair shall immediately assume the office of Chair for the remainder of the term. In the event of a vacancy in the office of Vice Chair or Secretary, the Committee shall elect one of its members to fill such vacancy for the remainder of the term, at its next regular meeting.

VI. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least four times per year, with authority to convene additional meetings, as circumstances require. The time frame between Audit Committee meetings should not exceed four months.

All Committee Members are expected to attend each meeting.

All meetings of the Audit Committee shall be as noticed as joint meetings with the Board of Retirement and Board of Investments to allow for participation of all trustees in open and closed session Audit Committee discussions, provided that non-committee trustees may not make or second motions or vote and provided further that closed sessions to discuss the CAE's annual assessment and the Committee's recommendation to the Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE shall be noticed for attendance by Committee members only.

Regular meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee. The Committee will invite members of Management, Internal Auditors, Financial Auditors, all other Professional Service Providers, and/or others to attend meetings and provide pertinent information, as necessary.

Special meetings of the Committee may be called in the manner provided by Government Code Section 54956(a). The Committee will have such other powers as provided in the Brown Act.

Robert's Rules of Order, except as otherwise provided herein, shall guide the Committee in its proceedings; however, the Chair of the Committee shall have the same rights to vote and participate in discussions as any other member of the Committee without relinquishing the chair. The order of business shall be as determined by formal action of the Committee. Four members of the seven-member Audit Committee, excluding the Audit Committee Consultant, constitute a quorum.



The Secretary of the Committee shall cause to be recorded in the minutes the time and place of each meeting of the Committee, the names of the members present, all official acts of the Committee, the votes given by members except when the action is unanimous, and when requested by a member, that member's dissent or approval with his or her reasons, and shall cause the minutes to be written forthwith and presented for approval at the next regular meeting.

VII. RESPONSIBILITIES

A. Internal Audit Activity

1. Internal Audit Strategy and Annual Plan
 - a. Review and provide input on Internal Audit's annual risk assessment
 - b. Review and approve Internal Audit's Annual Audit Plan (Plan) and resource plan, make recommendations concerning audit projects.
 - c. Recommend to the Boards a budget to achieve the Plan plus a contingent budget for additional work related to audit findings or other unplanned work.
 - d. Review and monitor Internal Audit's activity relative to its Plan. Review and approve all major changes to the Plan.
2. Internal Audit Engagement & Follow-Up
 - a. Review and discuss engagement reports to take the following action(s):
 - i. accept and file report,
 - ii. instruct staff to forward report to Boards or Committees,
 - iii. make recommendations to the Boards or Committees regarding actions as may be required based on audit findings and/or,
 - iv. provide further instruction to staff.
 - b. Monitor Internal Audit's recommendations to ensure Management has adequately and timely addressed the risk(s) identified, either through implementing a new policy, procedure, or process, or accepting the associated risk.
 - c. Inquire whether any evidence of fraud has been identified during internal or external audit engagements, and evaluate what additional actions, if any, should be taken.
 - d. Inquire whether any audit or non-audit engagements have been completed but not reported to the Audit Committee; if so, inquire whether any matters of significance arose from such work.
 - e. Review and advise Management and the Boards on the results of any special investigations.



3. Standards Conformance
 - a. Approve the Internal Audit Charter.
 - b. Ensure the Internal Audit Division conforms with the IIA's International Standards for the Professional Practice of Internal Audit, particularly the independence of Internal Audit and its organizational structure.
 - c. Ensure the Internal Audit Division has a quality assurance and improvement program (QAIP), and that the results of these periodic assessments are presented to the Audit Committee.
 - d. Ensure the Internal Audit Division has an external quality assurance review every five years. Review the results of the external quality assurance review and monitor the implementation of related recommendations.

Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.

4. Chief Audit Executive (CAE)

Since the CAE reports to the Chief Executive Officer (CEO) for administrative purposes, but to the Audit Committee for functional purposes, the Audit Committee will be responsible for the following:

- a. Make recommendations to both Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE, which will be addressed by the Boards in a joint meeting. Both Boards will make the final decisions as to the appointment, discipline, dismissal, and/or removal of the CAE. The CEO has authority to administer minor discipline, which is limited to counseling memos and written warnings, with notice of such discipline to be provided to the Committee and the Boards at their next meetings. Consideration by the Boards and the Committee concerning the appointment, discipline, dismissal, and/or removal of the CAE will be made in executive session under Government Code Section 54957(b).
- b. Perform the CAE's annual assessment with qualitative input from the CAE and CEO. The Committee's discussion regarding the CAE's annual performance evaluation will be made in executive session under Government Code Section 54957(b).
- c. Administer the CAE's annual salary adjustment using the Boards' established compensation structure.

B. Professional Service Provider Activity

The Audit Committee is responsible for the oversight of all work performed by professional service providers (Service Providers) for audits, reviews, or investigations, including the audit of LACERA's financial statements.



1. Approve the appointment and compensation of the External Financial Auditor, hired to perform an independent audit of LACERA's financial statements. Oversee the work of the Financial Auditor, including review of the Financial Auditor's proposed audit scope and approach, as well as coordination with Internal Audit and Management.
2. Approve the appointment and compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Review the Professional Service Providers, including the Financial Auditor, and Management the results of the work performed, any findings and recommendations, Management's responses, and actions taken to implement the audit recommendations.

C. Financial Reporting Process

The Audit Committee is responsible for the oversight of the independent audit of LACERA's financial statement, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and understand their impact on the financial statements.
2. Review with Management and the Financial Auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements, consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
4. Review with Management and the Financial Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

D. Values and Ethics

1. Review and assess LACERA's Code of Ethical Conduct established by the Boards and Management.
2. Annually, review Management's process for communicating LACERA's Code of Ethical Conduct to Trustees, Management, and staff, and for monitoring compliance therewith.



3. Review reports received relating to conflicts of interest and ethics issues, and if appropriate, make a recommendation to the Boards.

E. Organizational Governance

To obtain reasonable assurance with respect to LACERA's governance process, the Audit Committee will review and provide advice on the governance process established and maintained, and the procedures in place to ensure they are operating as intended.

1. Risk Management

- a. Annually review LACERA's risk profile.
- b. Obtain from the CAE an annual report on Management's implementation and maintenance of an appropriate enterprise wide risk management process. Provide advice on the risk management processes established and maintained, and the procedures in place to ensure that they are operating as intended.
- c. Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Management and the Boards.

2. Fraud

- a. Oversee Management's arrangements for the prevention and detection of fraud, including ensuring adequate time is spent discussing and raising awareness about fraud and the Hotline.
- b. Review a summary of Hotline reports, and if appropriate make a recommendation to the Boards.

3. System of Internal Controls

- a. Consider the effectiveness of LACERA's internal control system, including information technology security and control, as well as all other aspects of LACERA's operations.
- b. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.
- c. Review and provide advice on control of LACERA as a whole and its individual divisions.

4. System of Compliance

- a. Annually, review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.



- b. As needed, review the observations and findings of any examinations by regulatory agencies.
- c. Obtain regular updates from Management and LACERA’s Legal Office regarding compliance matters.
- d. At least annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.

F. Other Responsibilities

- 1. Report to the Boards as needed about the Audit Committee’s activities, issues, and related recommendations.
- 2. Provide an open avenue of communication between Internal Audit, all Professional Service Providers, including the Financial Auditor, Management, and the Boards.
- 3. Perform other activities related to this Charter as requested by the Boards.
- 4. Review and assess the adequacy of the Committee’s Charter at least every three years, requesting the Boards’ approval for proposed changes.

VIII. APPROVAL

This Charter was reviewed by the Audit Committee on December 11, 2020 and approved by the Board of Investments and Board of Retirement on December 16, 2020. This Charter is thereby effective December 16, 2020 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

<i>Gina Sanchez</i>	12/17/2020
_____ Gina Sanchez <i>Chair, Audit Committee</i>	_____ Date
<i>David Green</i>	12/17/2020
_____ David Green <i>Chair, Board of Investments</i>	_____ Date
<i>Herman Santos</i>	12/17/2020
_____ Herman Santos <i>Chair, Board of Retirement</i>	_____ Date



June 17, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: Recommendation Follow-Up Report

During the audit process, Internal Audit may identify findings or make recommendations to address risks or improve a process. The responsible division manager and Assistant Executive Officer review the findings and recommendations, and then the division manager provides management responses indicating how and when planned improvements will be made. These findings, recommendations, and Management's responses are documented in our Findings Disposition Report (FDR) and included in the audit report.

The Institute of Internal Auditors' (IIA) Performance Standard 2500 requires the Chief Audit Executive (CAE) establish and maintain a follow-up process to monitor and ensure recommendations have been effectively implemented or executive management has accepted the risk of not addressing the finding.

Internal Audit tracks all recommendations through TeamMate, our audit management software, and follows up with Management to ensure recommendations are being addressed. Internal Audit is responsible for ensuring that Management's action plans have been effectively implemented, or in the case of action plans that have yet to be implemented, ensures that Management remains aware of the risks it has accepted by not taking action. On a quarterly basis, Internal Audit reports the status of all outstanding audit recommendations to the Audit Committee (Attachment A).

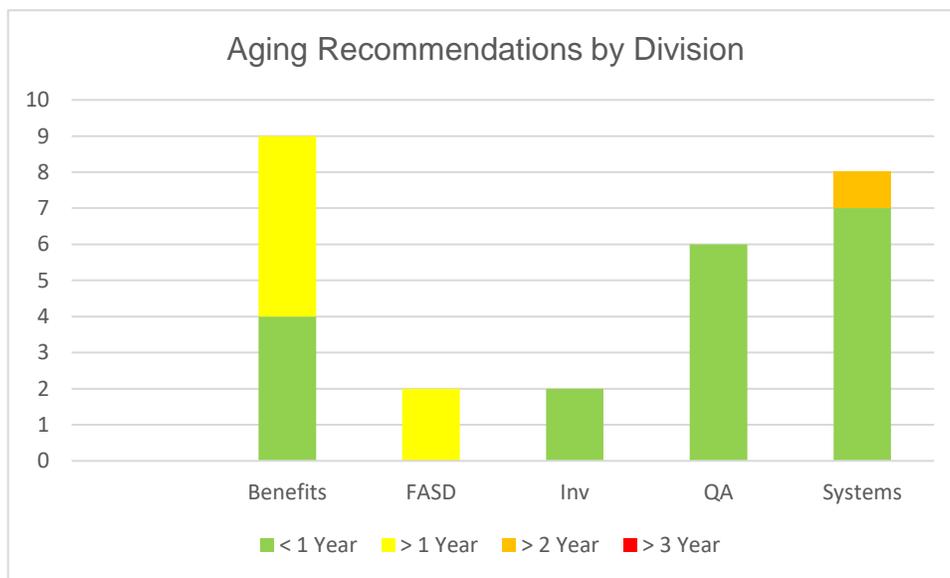
A breakdown of outstanding recommendations by Division is represented in the following matrix with activity since the February 2021 report to the Audit Committee through May 31, 2021.

	Benefits	FASD	Inv	QA	Systems	Total
Beginning	12	4	0	0	8	24
New	0	0	3	6	0	9
Accepts Risk	0	-1	0	0	0	-1
Implemented	-3	-1	-1	0	0	-5
Ending	9	2	2	6	8	27

The aging of recommendations is based on the date of the audit report through the end of the reporting period. The current aging is reflected in the following color-coded chart:

< 1 Year	> 1 Year	> 2 Year	> 3 Year	Total Open	Implemented Since Last AC Meeting
19	7	1	0	27	6

The chart below presents this same aging of current outstanding recommendations by division:



Staff from the respective divisions will be present at the June 24, 2021 Audit Committee meeting to address any questions.

ATTACHMENT A

RECOMMENDATION FOLLOW-UP REPORT AS OF MAY 31, 2021						
Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number						
Report Date						
Audit Rating						
Benefits Division						
Duplicate Special Payments 2017 40 January 19, 2017 Not Used At Time Of Audit	Not used at time of audit	Expand the Automation of Special Payment Approvals	Expand the Automation of Special Payment Approvals	Automating the approval process for special payments is feasible; however, special payments are initiated from multiple sources in Workspace. Each source will need to be analyzed and then specifications developed and tailored to each individual source. As such, the approval process would need to be implemented in a phased approach. It is estimated that determining the requirements and the level of effort can begin in the next fiscal year, July, 2017. The results of the requirement gathering will be reported to management by December 31, 2017, so that the project can be prioritized.	12/31/2017 10/31/2017 10/7/2019 6/30/2020 9/30/2020 11/30/2020 4/30/2021	IMPLEMENTED The Special Payments Approval Process update to Workspace has been completed. The change was deployed into production on 5/21/2021.
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	Benefit exception reports data lacked completeness, accuracy and usefulness	Implement a consistent process to evaluate exception reports data for completeness, accuracy, and usefulness	Management agrees with the recommendation and will establish a system for routinely reviewing and, as needed, modifying systems-generated exception reports used by the Benefits Division. The Benefits Process Management Group will work in conjunction with LACERA's Compliance Office and Systems to address this challenge within the framework of LACERA's Compliance Program and LACERA's strategic vision. Management anticipates completing an evaluation of the key exception reports by June 30, 2020. Management also anticipates performing an ongoing analysis of exception reports as part of a future project to reengineer the application that produces the exception reports. The project is currently in the planning stage and is part of LACERA's long-term strategic plan.	6/30/2020 12/31/2020 5/31/2021	BEHIND SCHEDULE 2nd Extension Request In Progress Benefits Management has begun the process of evaluating the 29 exception reports to determine if the reports are still relevant and meet a need, assigning reports to a role instead of a specific employee, and if having the exception as a work object in Workspace would be more efficient. After this review has been completed, Benefits Management will work to formalize a process for regularly reviewing the exception reports. Proposed Revised Implementation Date: 12/31/2021
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	Management should assess the associated risks and liabilities to LACERA if reports are not reviewed	Establish a System for Managing the Exception Reports	Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Management anticipates completing this recommendation by June 30, 2020. Original Implementation date: 6/30/2020.	6/30/2020 12/31/2020 5/31/2021	BEHIND SCHEDULE 2nd Extension Request In Progress Benefits Management has begun the process of evaluating the 29 exception reports to determine if the reports are still relevant and meet a need, assigning reports to a role instead of a specific employee, and if having the exception as a work object in Workspace would be more efficient. After this review has been completed, Benefits Management will work to formalize a process for regularly reviewing the exception reports. Proposed Revised Implementation Date: 12/31/2021

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number Report Date Audit Rating Benefits Exception Reports 2020 57 November 22, 2019	Not used at time of audit	Management should review the record retention process in the Report Control Center (RCC)	Enforce LACERA's Document Retention Policies in the Report Control Center (RCC)	Management agrees with the recommendation and will enforce LACERA's document retention policies in the Report Control Center (RCC). Management has instructed staff to work with the Records and Information Management (RIM) Unit to compile an inventory of all stored reports by December 31, 2019 and destroy reports no longer needed by March 31, 2020.	6/30/2020 12/31/2020 5/31/2021	BEHIND SCHEDULE Benefits Management has determined that going forward exception reports no longer need to be printed. They plan to review the current printed reports for retention or destruction. Estimated Completion Date: 7/30/2021
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	The administrative process for deleting obsolete or invalid exception reports requires improvement	Implement a formal periodic review process to evaluate exception reports data and recipients	Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Management anticipates defining the review process, policy and procedures, as well as implementing this recommendation by June 30, 2020. Current Status: As described under 1) above, reports will be vetted and updated before input into the new EMS, and will be reviewed periodically thereafter. Planned for completion by 12/31/2020.	6/30/2020 12/31/2020 5/31/2021	BEHIND SCHEDULE 2nd Extension Request In Progress Benefits Management has begun the process of evaluating the 29 exception reports to determine if the reports are still relevant and meet a need, assigning reports to a role instead of a specific employee, and if having the exception as a work object in Workspace would be more efficient. After this review has been completed, Benefits Management will work to formalize a process for regularly reviewing the exception reports. Proposed Revised Implementation Date: 12/31/2021
Benefits Exception Reports 2020 57 November 22, 2019 Not Used At Time of Audit	Not used at time of audit	Management should assess the administrative and resource costs to LACERA for expenses related to managing the exception reports process	Limit all Hard Copy Reports to Electronic Copy	Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Benefits management anticipates completing an evaluation of the hard copy exception reports and Systems management has confirmed it is ready to convert those reports to electronic copies at the direction of Benefits by June 30, 2020.	6/30/2020 12/31/2020 5/31/2021	BEHIND SCHEDULE Benefits Management is in the process of contacting Systems Management to request all reports be sent electronically. Estimated Completion Date: 7/30/2021
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Low	No Documented Policy or Procedure for Six of the Nine Work Queues	No Documented Policy or Procedure for Six of the Nine Work Queues	The Benefits management agrees with the recommendation and has continued its efforts to develop policies and procedures for the remaining queues. The existing methods are currently under review to identify further development of the processes involved with the work queues, and any new methods will be incorporated into the policies and procedures.	1/29/2022	ON TRACK Per discussions with Management in June, this recommendation is on track to be completed on time.

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Medium	No Criteria for Determining Unclaimed Accounts	No Criteria for Determining Unclaimed Accounts	The Benefits management agrees with this recommendation. They will address the resolution of this recommendation in three phases: Phase I: As an immediate remedy, Benefits will work with Systems to identify all unlocked, deceased accounts that remain for more than a year and lock the accounts. March 31, 2021 Phase II: Benefits will work with PMG to draft business rules for when these accounts should be locked. May 1, 2021 Phase III: Benefits will work with Systems to create an automated process to lock the accounts. July 29, 2021	7/29/2021	ON TRACK Per discussions with Management in June, this recommendation is on track to be completed on time.
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Medium	Service Level Expectations Do Not Effectively Manage Workloads	Service Level Expectations Do Not Effectively Manage Workloads	The Benefits management agrees with a recommendation to work with the Executive Office and Systems Division to develop a plan and timeline by July 29, 2021.	7/29/2021	ON TRACK Per discussions with Management in June, this recommendation is on track to be completed on time.
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Medium	Workspace Does Not Provide Automate Case Tracking for Pending Death Cases	Workspace Does Not Provide Automate Case Tracking for Pending Death Cases	The Benefits management agrees with a recommendation to work with the Executive Office and Systems Division to develop a plan and timeline by July 29, 2021.	7/29/2021	ON TRACK Per discussions with Management in June, this recommendation is on track to be completed on time.
CAP - SSN to SSNVS 2021 10 February 3, 2021 Opportunities for Improvement	Medium	1. Five Members Receiving Payments were Reported as Deceased by SSNVS	1. Validate Out-Of-State Recipients Quarterly	Benefits Management agrees with the recommendation and will validate the SSNVS status of benefit recipients residing in non-death reporting states on a quarterly basis beginning, 4/1/2021, and on an on-going quarterly basis.	4/1/2021	IMPLEMENTED Initial quarterly validation of benefit recipients residing in non-death reporting states was completed on 3/30/2021.
CAP - SSN to SSNVS 2021 10 February 3, 2021 Opportunities for Improvement	Medium	3. Six Members Receiving Benefit Payments Have Mismatched SSNs	3. Verify System SSN To Documents During Processing	Benefits Management agrees with the recommendation and will incorporate the recommendation into its process.	1/1/2021	IMPLEMENTED Division Manager issued memo to staff of Death Legal Unit regarding audit issue and exercising extra care when setting up survivor accounts.

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number Report Date Audit Rating						
Financial & Accounting Services Division (FASD)						
Board & Staff Education and Travel 2019 18 June 20, 2019 Not Used At Time Of Audit	Not used at time of audit	Compliance Exceptions	Provide Periodic Training	Management concurs with the recommendation. FASD will work with the Executive and Legal Offices to schedule Travel Policy training for the Boards and staff at least annually or when the Policy is revised. This recommendation is expected to be completed by June 30, 2020.	6/30/2020 9/30/2020 12/31/2020 Approved Extension Date 5/31/2021	MANAGEMENT ACCEPTS THE RISK Due to the ongoing pandemic, travel has been limited. FASD is in the process of procuring a travel software which could change how LACERA manages travels. Training will be provided after the travel software is implemented and the updated process is in the place.
Board & Staff Education and Travel 2019 18 June 20, 2019 Not Used At Time Of Audit	Not used at time of audit	FASD Does Not Have Complete Files for Each Travel Event	6a. Instructions for Travel Expenses Voucher	Management concurs with the recommendation. FASD will update the Travel Expense Voucher to include clear written instructions for completing the document.	6/30/2020 9/30/2020 12/31/2020 Approved Extension Date 5/31/2021	IMPLEMENTED FASD revised the expense voucher to make it more user friendly and created instructions.
Board & Staff Education and Travel 2019 18 June 20, 2019 Not Used At Time Of Audit	Not used at time of audit	FASD Does Not Have Complete Files for Each Travel Event	6b. Explore Travel Solutions	Management concurs with the recommendation. FASD held preliminary discussions with the Systems Division and the Executive Office to evaluate the feasibility of implementing a travel receipt capture and storage tool.	6/30/2020 9/30/2020 12/31/2020 Approved Extension Date 9/30/2021	ON TRACK Per discussions with Management in April and May, this recommendation is on track to be completed on time.
Board & Staff Education and Travel 2019 18 June 20, 2019 Not Used At Time Of Audit	Not used at time of audit	Accuracy of Quarterly Travel Reports	7b. Instructions to Travelers & Explore A Travel Solution	Management agrees with the recommendation. FASD will provide instructions for complete travel files to travelers. In addition, FASD held preliminary discussions with the Systems Division and the Executive Office to evaluate the feasibility of implementing a travel receipt capture and storage tool.	6/30/2020 9/30/2020 12/31/2020 Approved Extension Date 9/30/2021	ON TRACK Per discussions with Management in April and May, this recommendation is on track to be completed on time.

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number Report Date Audit Rating						
Investments Division						
THC Stale Check Review 2021 47 June 15, 2016 Unsatisfactory	High	Real Estate team did not report the stale checks to the appropriate	Investments Office Management should communicate to staff the need to take appropriate action to correct known issues or errors and report them transparently to the appropriate levels of LACERA management and the Board when necessary.	Investment Office Management agrees to both the finding as well as the recommendation. Management takes Internal Audit's results seriously and recognizes that the findings may, in part, result from a legacy of a more siloed approach for the operations of the real estate asset class within the Investment Office. We further recognize that LACERA's real estate structure is different and requires multi-divisional effort to operationally support it. Most LACERA investment assets are held through a global custody structure with State Street or individual commingled funds, which are subject to their own operational framework. In contrast, the majority of real estate investments are held in LACERA-owned Title Holding Companies ("THC"). These entities require a separate LACERA banking relationship with Bank of America, deposit accounts at other banks established by asset managers, dedicated legal support, and a service model that is split between LACERA staff across multiple divisions and third-party asset managers. Investment Office Management has eliminated the siloed approach to portfolio construction. There is increased collaboration across functional teams with a focus on identifying and promoting best practices. There is also a heightened awareness of operational due diligence. Not only has the Investment Office Management communicated the need for transparency and accountability as a fiduciary imperative, but the team has embraced this mindset.	Completed	IMPLEMENTED During various meetings between October 2020 through May 2021 that Internal Audit has attended, the Chief Investments Officer has reiterated to Investments staff the need for transparency and accountability.
THC Stale Check Review 2021 47 June 15, 2016 Unsatisfactory	High	Inadequate controls over the THC check process allowed 104 checks to go stale	The Investment Office should: 1. Formalize and document procedures for receiving, tracking, and depositing checks, including appropriate levels of supervision and segregation of duties.	The Investment Office agrees to both the finding and recommendation. 1. The Investment Office has changed many of its check receiving and sending procedures, ensuring segregation of duties and accountability. Investments is also working with LACERA divisions to improve the process and document procedures and internal controls so that checks are deposited in a more timely manner. A check's typical life cycle within LACERA starts with receipt by the mailroom who then (i) forwards it either to Investments or Legal or (ii) retains it for Administrative Services and logs it into a master check log. Checks in this log are reviewed and dispositioned by Administrative Services, Investments, Legal, and FASD. In the next 30 days, the Investment Office will lead an inter-divisional meeting to evaluate existing check deposit procedures and together identify areas of further enhancement.	9/30/2021	ON TRACK

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
THC Stale Check Review 2021 47 June 15, 2016 Unsatisfactory	High	Inadequate controls over the THC check process allowed 104 checks to go stale	The Investment Office should: 2. Address the remaining stale checks by: a. logging and recordings the status of each check until new checks are received and deposited or written off as a loss of funds, b. performing a monthly review by Real Estate team management of the Stale Check Summary Log and the status of efforts made to obtain reissued checks and the determination of checks that are uncollectable for write-off, and c. dispositioning uncollectable checks with the Executive Office to determine appropriate reporting.	The Investment Office agrees to both the finding and recommendation. 2. The real estate team continues to work diligently to resolve all 104 of these checks. Many of them have already been deposited. a. As of 6/10/21, 46 checks totaling \$180,498 have been deposited, 58 checks totaling \$88,034 are still in progress, and none have been deemed unrecoverable. b. Members of the real estate team and its management meet weekly to review the status of pending and reissued checks. Checks in progress that are being reissued by state or local governments can take up to 24 months. c. Staff will provide quarterly updates to Investment Office Management, Executive Office, and Internal Audit division.	6/30/2023	ON TRACK Reissuing checks can take up to two years.

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number						
Report Date						
Audit Rating						
Quality Assurance (QA) Division						
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #1 - The QA Division's independence is weakened when reporting to the same AEO over the operational areas in which they perform quality assurance audits.	Develop a plan and timeline for a) relocating training and metrics out of the QA Division to an operational division, and b) changing the reporting structure such that the QA Division	QA Management agrees with the recommendation. QA Management agrees that greater separation between the operations of the MOG and the QA Division will enhance the inherent objectivity and independence of the QA Division. QA Management will work with the Executive Office to develop a transition plan, including a timeline, to achieve greater separation while promoting and maintaining the synergy and efficiency of both the MOG and QA. To do this, we anticipate that the plan will coincide with a plan to move the Process Management Group (PMG) out of the Benefits Division, and must include the infusion of adequate staffing and tools into the QA Division and MOG operations so that the coordination and capacity of the two groups does not suffer. Such an increase requires analysis and metrics, which are currently being developed, as well as the support of LACERA's Board of Retirement. We anticipate that this plan, which will include a process for gathering support for metrics, can be drafted by October 31, 2021.	10/31/2021	ON TRACK Per discussions with Management in May, this recommendation is on track to be completed on time.
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #2: The current inline audit process commingles operational supervision with the QA Division's audit work and compromises the accuracy of results.	Separate the inline quality auditing & ensure independent classic audit transactional findings and accuracy information are reported regularly	QA Management agrees that a clear separation must exist between the audit work performed by Quality Auditors and the MOG Divisions.	6/30/2021	ON TRACK Per discussions with Management in May, this recommendation is on track to be completed on time.
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	High	Finding #3 - QA management does not modify its quality assurance audit approaches based on changing risks.	Develop an annual risk assessment and a risk-based process for developing their QA audit plans	The risk-based procedures are in development and will be completed and applied to the first Benefits process, which is the Retirement process, by June 30, 2021. The procedures will be applied to every Benefits process that QA staff audits at least annually. This approach will involve an annual risk assessment involving both the MOG Division and QA Division, which will provide a formal recommendation to QA Division Management and the Executive Office for their approval.	6/30/2021	ON TRACK Per discussions with Management in May, this recommendation is on track to be completed on time.

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number Report Date Audit Rating Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	High	Finding #4: Transactional findings issued by Quality Auditors from the classic (post-completion) quality assurance audits are not addressed in a timely manner.	Enhance reporting and follow-up on transactional findings based on their Classic Quality Assurance Audits	QA Management agrees with the recommendations. In this regard, QA has implemented the following measures: QA has established a new protocol for the communication and resolution of QA Audit findings, which may be essential to the audited transaction (i.e., an Audit Action Item) or peripheral to the transaction (i.e., a QA Referral). This protocol defines the manner of communication, as well as the parties included in the communications, the roles of those responsible for resolving and monitoring these findings, and the timeframes for each communication step. QA, the audited MOG teams, and the Executive Office meet multiple times a month to review the aging of outstanding Audit Action Items for purposes of resolving them. By June 30, 2021, QA will have implemented a monthly reporting function for reporting both Audit Action Items and QA Referrals to Division Management and the Executive Office. QA will also have a plan to report on the status of outstanding Audit Action Items and QA Referrals on a semi-annually basis to the Operations Oversight Committee.	6/30/2021	ON TRACK Per discussions with Management in May, this recommendation is on track to be completed on time.
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #5 - QA management does not have a process for following up and ensuring the implementation of process improvement opportunities reported to the Benefits Division	Enhance the reporting and follow-up on process or procedural findings	By June 30, 2021, QA will draft a formal reporting and follow-up system for its procedural recommendations to the MOG Division Management related to their operations. To enhance the reliability of this system, it will include periodic status updates to the Division Manager and Executive Office, as well as LACERA's Operations Oversight Committee.	6/30/2021	ON TRACK Per discussions with Management in May, this recommendation is on track to be completed on time.
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #6: QA management does not have an annual quality assurance audit plan and does not have metrics and KPIs for managing their staff's work.	Develop an annual Quality Assurance Audit Plan and Key Performance (KPIs)	QA Management agrees with this recommendation. QA will immediately use existing metrics tools and implement its own KPIs, which will be monitored and reported monthly to Management at the Division and Executive levels and semi-annually to the Operations Oversight Committee. This will be implemented by June 30, 2021.	6/30/2021	ON TRACK Per discussions with Management in May, this recommendation is on track to be completed on time.

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number						
Report Date						
Audit Rating						
Systems Division						
Member Applications Change Control 2018 49 Oct 30, 2018 Not Used At Time of Audit	Not used at time of audit	Monitor or detect changes to application code deployed to the production system	Monitor or detect changes to application code deployed to the production system	Initial Management Response: We plan to develop a system generated Deployment Monitoring Report that will identify any instances when code is deployed into production. Management plans to complete an analysis and evaluation to determine if feasible based on current project priorities and resources. This evaluation is planned for completion by the end of June 2019, and if feasible will be planned for implementation by the end of December 2019.	12/31/2020	BEHIND SCHEDULE Systems has implemented a manual process to ensure that application code changes have supporting documentation and are included in the Change Management Process. Going forward, Systems will be implementing Microsoft DevOps which will automate this verification step. In addition, Systems is implementing ServiceNow, which will standardize the management of changes to all production hardware, software, and infrastructure.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	High	Finalize a complete mobile device inventory	Recommendation # 3a 3b - Create a Current Mobile Device Master Listing	Management agrees with the recommendations and plans to complete implementation by December 31, 2020. The Systems Division plans to continue maintaining the mobile device master listing outside of Great Plains to ensure appropriate recording of device information such as inactive, vacant, and test statuses. However, Systems will work with Administrative Services to ensure changes to the master listing are timely updated in Great Plains by Administrative Services.	12/31/2020 5/31/2021	BEHIND SCHEDULE Per meeting with Systems on 6/7/21: Listing sent to Admin to compare to GP. Most recent reconciliation done for 5/31. MDM Listing sent to Admin to compare to GP. Summary to send listing to IA 6/21.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	Medium	Register all LACERA issued mobile devices to the mobile device management (MDM) tools	Recommendation # 4 - Register all LACERA issued mobile devices to the mobile device management (MDM) tools	Management agrees with the recommendation and plans to complete implementation by October 31, 2020. Systems Division management will work with the Executive Office to define the appropriate organizational MDM registration policy for all devices including spare or test devices.	10/31/2020 3/30/2021	BEHIND SCHEDULE Per meeting with Systems on 6/7/21: Pending finalizing implementation date.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	Medium	Define organizational baseline mobile device management (MDM) usage and security configurations	Recommendation # 5a 5b - Define organizational baseline mobile device management (MDM) usage and security configurations	Management agrees with these recommendations and plans to complete implementation by October 31, 2020. The Systems Division evaluates security considerations in all implementation decisions and will work with the Executive Office to ensure appropriate operations objectives are met during this process.	10/31/2020 5/31/2021	BEHIND SCHEDULE Per meeting with Systems on 6/7/21: Pending finalizing procedures. Will need to extend implementation date.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	High	Define a mobile device equipment standard that documents the business purpose by classification of recipients and a separate procedure for test devices	Recommendation # 6a 6b - Define the Mobile Device Issuance Standards for Staff, Trustees, and Test Mobile Devices	Management agrees with the recommendations and plans to complete implementation by October 31, 2020. The Systems Division will work with the Executive Office to define the mobile device issuance standards for staff, trustees, and test mobile devices.	10/31/2020 5/31/2021	BEHIND SCHEDULE Per meeting with Systems on 6/7/21: Pending finalizing procedures. Will need to extend implementation date.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	High	Improve administration over mobile device acknowledgement and usage forms	Recommendation # 7 - Improve Administration Over Mobile Device Acknowledgement and Usage Forms	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	10/31/2020 5/31/2021	BEHIND SCHEDULE Per meeting with Systems on 6/7/21: Re-Acknowledgement Form to be issued in July/August 2021

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number Report Date Audit Rating Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	High	Strengthen mobile device deactivation, reassignment and disposal procedures	9. Systems Division management should develop a formal procedure approved by the Executive Office over the deactivation, reassignment, disposal and/or sale of mobile devices taken out of service. Additionally, this procedure should include the following: a. A timeframe and methodology for the disposal of devices. b. Formal documentation to validate that old, obsolete devices are appropriately reset to factory settings and wiped with a copy provided to the end user and Administrative Services. c. An accurate inventory of out of service devices is maintained.	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	10/31/2020 5/31/2021	BEHIND SCHEDULE Per meeting with Systems on 6/7/21: Pending finalizing procedures. Will need to extend implementation date.
Mobile Device Audit 2020 56 June 4, 2020 Unsatisfactory	Medium	Strengthen administrative controls over restricting universal serial bus (USB) enabled workstations	10. Systems Division management strengthen the process for managing workstations that have USB access enabled. The process should include: a. A periodic review of USB enabled workstations to ensure such access is still appropriate. b. A periodic reconciliation of the deny USB access listing against Administrative Services Fixed Asset Register. c. Encryption required for USB devices connected to LACERA workstations.	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	10/31/2020 4/1/2021	BEHIND SCHEDULE Per meeting with Systems on 6/7/21: Kick-off meeting with Microsoft on 6/9/21 to address this reco as well as other processes and controls. Will then have a better estimate on timeline for addressing this recommendation.



June 10, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up - KPMG's External Quality Assessment (EQA) on Internal Audit's Recommendation Follow-Up Process**

At the February 2021 Audit Committee meeting, KPMG presented its report on the External Quality Assessment (EQA) of Internal Audit's Recommendation Follow-Up process (Attachment A). The report included five observations and 14 related recommendations to improve Internal Audit's recommendation follow-up process.

As of June 2021, Internal Audit has addressed and implemented eight of the 14 recommendations. We plan to address the remaining six recommendations during the next six months as we become more familiar with TeamMate+ (TM+), the new audit software we implemented in May 2021.

We will continue to provide the Committee with quarterly updates of our progress until all recommendations have been addressed.

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS:

Observation #1

Prior to July 2020, recommendations have been closed by Internal Audit (IA) without sufficient evidence or without sufficient retention of appropriate evidence, and risk of exposure could remain.

Recommendations

a. Enhance new procedure to include:

- Minimum testing requirements to be performed for IA to validate management's remediation. This should include guidelines for when a follow-up audit may be performed. Testing of operating effectiveness should be performed for all high-risk findings at a minimum.

Status: Completed

We have enhanced our new procedures to define the minimum testing required to validate that management has addressed the initial finding and when a follow-up audit may be initiated.

- Detail of the type of evidence to be maintained, and either the length of time that records must be retained or a reference to LACERA's document retention policy. We recommend that sufficient evidence is maintained such that a third party could reperform the validation testwork.

Status: Completed

We have enhanced our new procedures to include that all documents must be retained in TM+ Internal Audit's audit management software so that a third party could follow the timeline and reperform validation testing.

b. Evaluate implementing the TeamMate feature to enable management to directly upload evidence.

Status: In Progress

Revised Date: January 2022

Internal Audit completed TM+ training in April 2021 and is transitioning all work from TM AM to TM+. Once we are more familiar with TM+, we will evaluate enabling management to directly upload evidence.

- c. Assess high risk findings which have been previously closed and determine if areas have been re-audited since the date of closure. If not re-audited, evaluate to validate status is appropriate.

Status: In Progress

Revised Date: February 2022

As part of our mid-year risk assessment that we will perform in January - February 2022, we will assess previously closed findings to determine if these areas have since been re-audited or if follow-up audits are warranted in the upcoming fiscal years.

Observation #2

A perception that IA lacks independence may lead to the risk of reduced impact and respect for the reports and recommendations released by the Division.

Recommendation

- a. Roll-out a communication program that is presented to key stakeholders on an organization-wide basis to explain how IA maintains independence and explain IA's responsibilities and processes and management's role in those processes.

Status: In Progress

Revised Date: October 2021

We will make a presentation at an upcoming Audit Committee, Management, and Brown Bag meeting on IA's role, responsibilities, and how we maintain independence.

- b. Standardize and enhance recommendation follow-up procedures (as discussed in finding #1).

Status: Completed

We have enhanced our new procedures as recommended in 1a.

- c. Monitor and report Key Performance Indicators at the Audit Committee which track audits and findings by business unit and history of aged items by audit area.

Status: In Progress

Revised Date: October 2021

As part of our upgraded audit management software, we will be able to provide the Audit Committee with IA's key performance indicators on a quarterly basis.

- d. Add new team members to department as the opportunity arises. New team members can also address gaps in team skill set (e.g. current gap in IT).

Status: In Progress

Revised Date: December 2021

We will add new staff as the need arises. In the meantime, Internal Audit will ensure that staff receive at least 10 hours of training in an IT audit area. For projects without sufficient IT knowledge, we will continue to use external firms with expertise in IT audit.

Observation #3

IA does not include progress on completion of remediation status or evaluate potential to exceed due dates and leave risk exposure un-remediated.

Recommendation

- a. Enhance the current procedures to be more directive about when status updates are required (e.g. each quarter if remediation is due in excess of six months, and monthly if less than six months); this can be based on risk level or other factors.

Status: Completed

We have enhanced our new procedures to define that status updates must be made each month that a recommendation is open. We have provided training to the Management team and are having monthly Internal Audit meetings with managers to discuss open recommendations.

- b. Enhance Audit Committee reporting to include a category of recommendations by their due date.

Status: Completed

The report we provide to the Audit Committee already includes color coding to indicate recommendations by their due date. For June 2021 reports, we added a brief description of the current status (On Track, At Risk, Behind Schedule, Extension Approved, Acceptance of Risk, Implemented).

- c. Evaluate TeamMate's workflow functionality, to allow for notices to be emailed to recommendation owners and IA (not just IA), and allow for updates to be entered into the system by management, and reviewed by IA.

Status: In Progress

Revised Date: January 2022

We are still learning and evaluating the new software to determine how to best implement system-generated emails and having management update the system directly.

Observation #4

IA does not have a process for extension of recommendation follow-up due dates.

Recommendation

- a. IA should define and implement a process that details the required approvals and circumstances in which extension is permitted. We recommend that due date extensions require the same approvals as the initial report issuance, up to and including the Audit Committee. There should also be limited circumstances in which extensions are permitted to maintain accountability from management to meet their commitments.

Status: Completed

We have enhanced our new procedures to define that status updates must be made each month that a recommendation is open. We have provided training to the Management team and are having monthly Internal Audit meetings with managers to discuss open recommendations.

Observation #5

A centralized tracking tool is not adequately used to manage IA recommendations and corresponding actions.

Recommendation

- a. Ensure that personnel utilizing TM have been appropriately trained on the approved process for standardized data entry into the system.

Status: Completed

Internal Audit engaged a TM+ consultant to provide a weeklong end-user training course. Additionally, in July 2020, we formalized our recommendation follow-up procedures to provide guidance on how and when recommendations should be

closed out. After we received KPMG's recommendations, the procedures were updated in March 2021 to provide additional guidance.

- b. Evaluate the new version of TM that will be implemented, to ensure any configuration is designed to meet the new needs of the process and include data cleansing and migration to allow for one system of record for reporting purposes going forwards.

Status: Completed

All recommendations that were previously housed in our prior audit software, TM AM were migrated into TM+ which we will use as our system of record for reporting purposes. The recommendations from our previous TeamMate desktop will continue to be housed there.

- c. Establish clear system of record documentation to comply with LACERA's documentation policy. IA record retention is 10 years.

Status: Completed

In May 2021, we completed a review of Internal Audit's record retention period and determined that a 10-year retention period was adequate and aligned with LACERA's documentation retention policy. We have added record retention review to occur after each Audit Committee meeting to ensure files retained are final and signed-off and are within the record retention period.

Attachment A: KPMG's EQA of Internal Audit's Recommendation Follow-Up Process

RPB/cl



Los Angeles County Employee Retirement Association (LACERA)

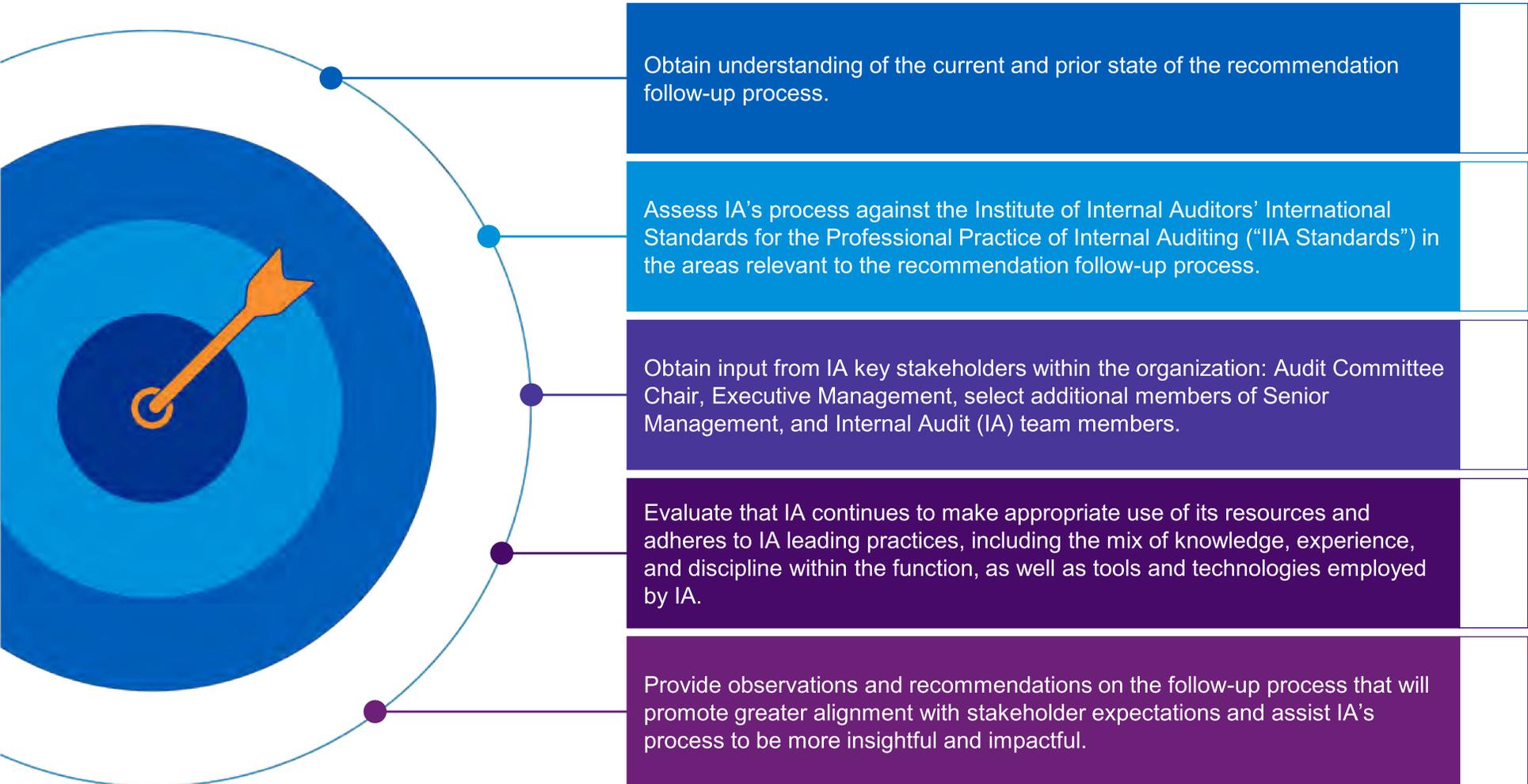
**External Quality Assessment (EQA) of Internal
Audit's Recommendation Follow-up Process**

December 31, 2020



Objectives

KPMG's assessment of LACERA's Internal Audit Recommendation Follow-up process focused on the following:



Background and Scope

Background

LACERA's recommendation follow-up process has gone through two evolutions during the period of 2014 – 2020. Prior to July 2020, LACERA's Internal Audit (IA) program did not have documented or consistently implemented procedures regarding how to appropriately manage and follow-up on recommendations issued to management as a result of findings identified during internal audits.

There were contributing factors to the inconsistency in process and aged audit findings during the period under audit, 2014 – 2020. The Chief Audit Executive (CAE) was on medical leave from December 2017 – October 2018. In addition, throughout the period, key stakeholders interviewed noted that LACERA's organizational culture posed a compliance obstacle to management acting on remediation items, particularly where the remediation required collaboration and support of the IT organization.

In March 2019, the Internal Audit function enhanced Audit Committee reporting regarding outstanding audit findings to include a color coding system to better identify recommendation status, management responses and separate reporting for each recommendation. Per inquiry with the CAE, the enhancements to the reporting were adopted by Internal Audit to highlight the problem surrounding the aged audit findings. The additional detail provided in these reports better equipped the Audit Committee and senior management to hold management accountable for their agreed remediation actions.

In November 2019, we understand that the Internal Audit function initiated a Quality Assurance Improvement Program (QAIP), which identified potential enhancements to the recommendation follow-up process and began to re-design and document the process. This led to a retroactive review of the remediation of audit findings from 2017 – 2019 (which was completed in 2020, during our review), establishment of a formalized recommendation follow-up process in July 2020, and more detailed review by the CAE of remediation on a finding basis, which was previously conducted at a higher level.

During the period of October 2018 – July 2020, while IA was undergoing efforts to enhance the recommendation follow-up process, the process was not formally documented to facilitate compliance and consistency. This led to minimum observable improvement from the pre-2018 process, with the exception of the enhanced Audit Committee reporting and reported reduction in longstanding open remediation items. No standard process or detailed oversight was in place; the recommendation follow-up process was open to auditor discretion.

In July 2020, the enhanced recommendation follow-up process was formalized, providing high level guidance from finding identification through finding remediation, establishing standards such as: the appropriate timeline for management to remediate a finding for each respective risk level, auditor's responsibility to follow-up and manage the recommendation's status throughout remediation, and high-level requirements to close a recommendation. These changes were first reflected in the June 2020 recommendation follow-up report to the Audit Committee. As part of our scope, we have reviewed the new procedures and identified opportunities for further enhancements which are detailed in this report. We were also able to review the remediation validation process by IA under the new process for 3 findings closed since July 2020, and noted no exceptions.

Background and Scope (continued)

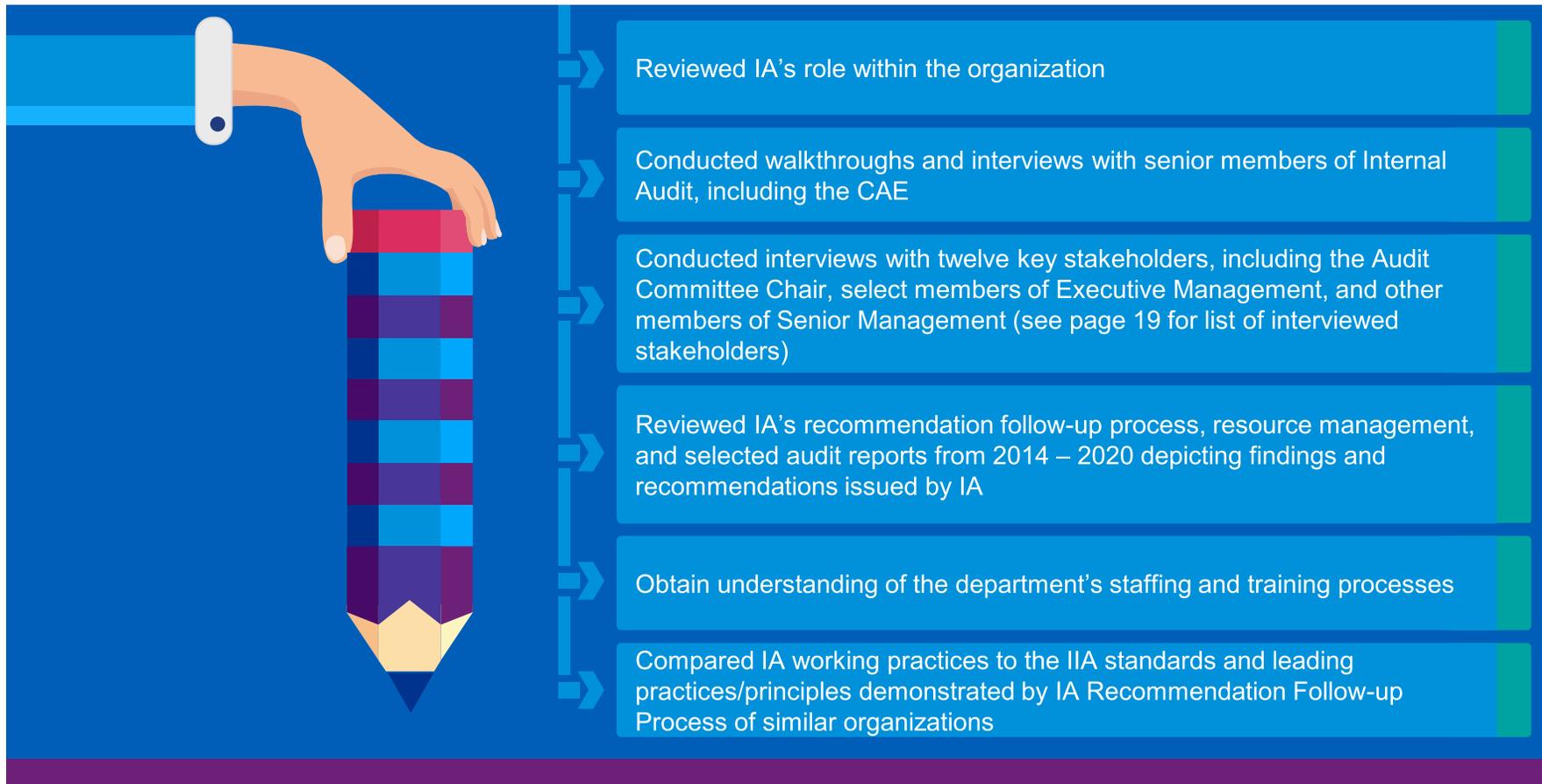
○ Scope

The scope was to perform an assessment of the recommendation follow-up process for the period of 2014 – 2020 against the Institute of Internal Auditors' (IIA) Standards and leading practices, including the completeness and accuracy of Internal Audit's tracking and reporting of open audit findings.

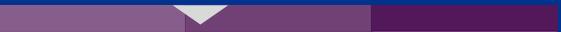
The recommendation follow-up process is defined as the procedures performed after the recommendation has been agreed to by management and reported to the Audit Committee. The process includes regular follow-ups with process owners, validation testing of the remediation after completion of management's agreed actions, and status reporting to the Audit Committee.

Approach

KPMG's approach considered the three aspects of IA's Recommendation Follow-up Processes – position, people, and process. KPMG's approach included the following steps:



Executive summary

LACERA's Internal Audit Recommendation Follow-up Process function partially conforms as of July 2020 with the IIA Standards promulgated by the Institute of Internal Auditors. <small>(see page 7 for definition of ratings)</small>		
 Position	 Process	 People
<p>The current Executive Management and the Audit Committee Chair have placed renewed emphasis on the importance of the remediation of IA findings, which has led to increased accountability for management to address issues raised by the IA team on a timely basis. However, Internal Audit (IA) is not well established as a consistently strong agent of change¹. While IA is not solely responsible for ensuring management's actions are appropriately completed, IA could increase its value and impact to the organization by continuing to work with management and ensuring they're held accountable to their agreed management actions. Increasing accountability for management includes, monitoring and reporting on status throughout the remediation life-cycle, and a formalized process to approve requested due-date extensions, including executive sign-off.</p>	<p>Internal Audit's recommendation follow-up process was not effective prior to July 2020, with no formalized process and an inconsistent approach to IA's validation testing and recording of evidence to support validation (see page 3 for a description of IA's improvement activities ongoing from 2017 – 2020). Prior to 2020, there were a significant number of aged audit findings which were past their due date, with a lack of adequately detailed reporting of status to the Audit Committee.</p> <p>IA's new process, established in July 2020, provides a framework for recommendation follow-up which should be consistently followed, with some areas of opportunity for enhancement highlighted in this report.</p>	<p>Internal Audit is generally viewed as competent across the organization but has a perception of lacking independence². The perception challenge was noted through our stakeholder interviews; however, no evidence of a lack of independence was noted through our detailed testing. Management should develop a plan to address independence perceptions via transparent communication and enhanced processes, including documentation retention to allow for increased transparency, and key performance metrics which are tracked and reported to the Audit Committee.</p> <p>Third parties are utilized to support IA when specialized skills are considered necessary. IA should continue to focus on ensuring that the in-house team has the necessary skill set to conduct remediation follow-up or to re-hire the consultant to do so.</p>
<p>Developing Mature Leading</p>  <p>Position</p>	<p>Developing Mature Leading</p>  <p>Process</p>	<p>Developing Mature Leading</p>  <p>People</p>

¹Agents of Change: Internal Auditors who promote and enable change to happen within the Recommendation Follow-up Process. Assumes responsibility for promoting the value of the transformation that is being undertaken by LACERA; guiding and/or supporting others through the transformation to mitigate the identified risk, while maintaining appropriate independence; and ensuring that the new processes, procedures, structures, etc., are implemented in ways that deliver the expected value that the organizational change was to produce.

²The Internal audit team must be independent in fact and appearance, and internal auditors must be objective in performing their work. Work should be performed in an independent and unbiased approach, and evidenced in this manner to support the independence objective.

Conformance with IIA Standards

Rating	Number	Standard
□	1100	Independence and Objectivity
□	1110	Organizational Independence
□	1111	Direct Interaction with the Board
□	1120	Individual Objectivity
□	1130	Impairment to Independence or Objectivity
□	2500	Monitoring Progress
Key	Rating	
□	Generally conforms	
□	Partially conforms	
□	Does not conform	
N/A	Standard was not applicable to Corporate Audit or instance did not arise.	

In the lexicon of the *IIA Standards*, “generally conforms” means that internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *IIA Standards*. “Partially conforms” means deficiencies in practice are noted that are judged to deviate from the *IIA Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. “Does not conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Conclusion – LACERA IA’s Recommendation Follow-up process partially conforms (middle possible rating) with the *IIA Standards* promulgated by the Institute of Internal Auditors. The rating takes into consideration and heavily weights the new process that was implemented in July 2020. Due to limited sampling available since the implementation, we are unable to determine if documented updates to the program would result in a generally conforms rating.

IIA Standard definitions

The following definitions are from the IIA's International Standards for the Professional Practice of Internal Auditing (Standards – effective January 2017).

— 1100 – Independence and Objectivity

- The internal audit activity⁽²⁾ must be independent, and internal auditors must be objective in performing their work.
 - *Independence is the freedom from conditions that threaten the ability of the internal audit activity⁽²⁾ to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity⁽²⁾, the chief audit executive has direct and unrestricted access to senior management and the board⁽¹⁾.*
 - *Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

— 1110 – Organizational Independence

- The chief audit executive must report to a level within the organization that allows the internal audit activity⁽²⁾ to fulfill its responsibilities. The chief audit executive must confirm to the board⁽¹⁾, at least annually, the organizational independence of the internal audit activity.⁽²⁾
 - *Organizational independence is effectively achieved when the chief audit executive reports functionally to the board⁽¹⁾.*

— 1111 – Direct Interaction with the Board⁽¹⁾

- The chief audit executive must communicate and interact directly with the board⁽¹⁾

— 1120 – Individual Objectivity

- Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest
 - *Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity⁽²⁾, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.*

IIA Standard definitions (continued)

— 1130 – Impairment to Independence or Objectivity

- If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
 - *Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.*

— 2500 – Monitoring Progress

- The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
- 1) The referenced role of the Board is usually carried out by the Audit Committee, an operating committee of the Board charged with oversight of risk management and the company's system of internal controls and compliance with laws and regulations.
 - 2) The internal audit activity assessed for the purposes of this review is the recommendation follow-up process.

Strengths and opportunities



Key strengths



Position

- **Management Support** – In 2020, Executive Management support for IA's recommendation follow-up process has increased within the organization. Management is visibly supporting IA in holding management accountable for agreed upon remediation actions in Audit Committee meetings which is an appropriate and necessary role which can be maintained while still allowing IA to remain independent. This improvement was noted within Audit Committee meetings and report format and has led to an increased number of recommendations being addressed. We recommend that the level of support and focus from the Executive Management and the Audit Committee for IA's reports and findings continue, as this is key to IA being able to drive change. While management actions which go past their due date are sometimes unavoidable, these should be rare and supported by valid business reasons.



Key opportunities

- **Not a Consistently Strong Agent of Change** – IA is currently not consistently viewed, by interviewed stakeholders, as having the ability to address, execute, and drive change. IA should continue to focus on consistency in recommendation format and details, along with increasing accountability for management. This includes monitoring and reporting on status throughout the remediation life-cycle, and a formalized process to approve requested due-date extensions including executive sign-off.

It is important to note that IA can only function within the overall culture of an organization, and that prior to 2020, management has not prioritized acting on their agreed remediation actions, nor been held accountable. Based on interviews with key stakeholders, management's remediation efforts appear to have been particularly challenging where remediation has depended upon collaboration with the IT function, which is also noted to have significantly improved in 2020. Our review did not include an assessment of overall organizational culture. Nor did it include a review of LACERA's governing body or operational management's role in risk management (the first and second lines within the IIA's Three Lines Model). There is an opportunity for LACERA to further assess each of these areas.

Strengths and opportunities (continued)



Key strengths



People

- **Perception of competence** – Throughout the organization, key stakeholders perceive IA to be generally competent in their responsibilities, with the level of competence perceived to have been on an upward trend in recent years.
- **IA as a consultative partner** – When management is in need of assistance, IA successfully acts as a consultative partner rather than part of management, performing management activities. IA is careful not to overstep when management is formulating responses to findings. Independence appears to be adhered to in this regard.



Key opportunities

- **Perception of lack of independence** – Most stakeholders interviewed have a perception that IA is not consistently independent. However, we did not identify evidence of a lack of independence during the detailed review of follow-up procedures we performed.

The perception of a lack of independence creates a concern of favoritism whilst conducting audits and areas that potentially receive less audits or scrutiny during an audit. The concerns raised do appear to be mostly connected to prior relationships with a past member of the Executive Office and the Head of IT; however, the overall perception remains as of the date of our review.

IA has a well tenured team, which has advantages of extensive business knowledge, but brings the disadvantage of the risk of potential independence conflicts due to past and present relationships, both in fact and appearance. Opportunities to mitigate are strengthening communication, transparency and IA accountability as well as adding new team members when possible and appropriate.

Strengths and opportunities (continued)



Key strengths



Process

- **New process** – Since IA's creation of an official recommendation follow-up process in July 2020, recommendations have been consistently undergoing the established process throughout their life cycle. The recommendations created using the new policy have resulted in greater success regarding the implementation life-cycle. Due to the date of establishment, there is a limited population of recommendations which have followed this process for our review to assess its overall sustainability.
- **Report format** – Since March 2019, IA has been modifying and enhancing the Audit Committee report to the Audit Committee so that recommendations are more descriptive, and include risk level, time outstanding (by year), and current status. The report assists in ensuring that recommendations that have been long outstanding (and are high risk) are visible to the Audit Committee. Key updates occurred in March 2019 and June 2020.
- **Recommendations formed appropriately** – IA successfully formed most recommendations to adhere to the criteria of specific, measurable, achievable, and timely per the recommendation follow-up process during the seven years reviewed.



Key opportunities

- **Improve timeliness of remediation follow-up** – Prior to 2020, recommendations have remained open for extended periods of time beyond the established due date, without appropriate, or in some cases, any follow-up. Recommendation follow-up has appeared to be rushed and only performed at reporting deadlines for the Audit Committee. This process has improved since the implementation of the new recommendation follow-up process in July 2020, we recommend that IA continue to consistently follow this new process.
- **Improve consistency in data** – Of the recommendations tested within this review, a significant number had data inconsistencies between recommendation follow-up logs, the reported status to the Audit Committee, and TeamMate. These included inconsistencies in: remediation date, status, closed/implemented date, etc. IA should ensure that all team members are appropriately trained on TeamMate and the data rules used for recording to promote standardization of data within the follow-up process.
- **Improve evidence retention for closure support** – IA failed to upload, maintain, and collect sufficient evidence to support the closure of recommendations. There were several instances in which evidence provided was inappropriate (email from recommendation owner) or non-existent. Opportunities to enhance the July 2020 process have been highlighted in our observations to drive consistency and rigor in the validation of remediation activities and maintenance of appropriate audit evidence.
- **Enhance use of tool (TeamMate)** – IA's leverage of TeamMate is not to a sufficient level to improve and enhance IA processes. There are also multiple versions of Teammate in use, which do not reconcile. Workflow and reporting functionality are not utilized.
- **Define process for due date extensions** – IA should define process for approved extensions to the recommendation remediation due date. This should include required approvals and circumstances of acceptable use cases.



Observations



Observations, Recommendations, and Management Response

Observation	Recommendation	Management action plan
<p>1. Prior to July 2020, recommendations have been closed by IA without sufficient evidence or without sufficient retention of appropriate evidence, and risk exposure could remain:</p> <p>Until July 2020, IA did not have a formalized process that defined the recommendation follow-up procedures. Each auditor could follow personal approaches to the process, with no standardization or oversight, which has resulted in inadequate validation activities and evidence maintained. Of the 72 closed samples we reviewed from 2014 - 2020, we found that 41 were closed either without sufficient evidence, or without the sufficient retention of appropriate evidence. (33 were pre 2018, 8 in 2018 – June 2020).</p> <p>As we were unable to review the supporting evidence, we cannot conclude if the recommendations were appropriately closed.</p> <p>In July 2020, a procedure was enacted to establish a standardized process. However there is still opportunity for enhancement, specifically around the requirements for validation testing and required evidence to be maintained. We reviewed the evidence and IA validation of the three recommendations closed since the new procedures was put in place in July, with no exceptions being noted.</p>	<p>Risk Rating: High</p> <p>Recommendation:</p> <ul style="list-style-type: none"> a) Enhance new procedure to include: <ul style="list-style-type: none"> i. minimum testing requirements to be performed for IA to validate management’s remediation. This should include guidelines for when a follow-up audit may be performed. Testing of operating effectiveness should be performed for all high risk findings at a minimum. ii. detail on the type of evidence to be maintained, and either the length of time that records must be retained or a reference to LACERA’s document retention policy. We recommend that sufficient evidence is maintained such that a third party could reperform the validation testwork. b) Evaluate implementing the TeamMate feature to enable management to directly upload evidence. c) Assess high risk findings which have been previously closed, and determine if areas has been re-audited since the date of closure. If not re-audited, evaluate to validate status is appropriate. 	<p>Executive Office Response:</p> <p>The Executive Office will discuss these observations and recommendations with the Chief Audit Executive and the Audit Committee, in its oversight and evaluation role, and implement changes as agreed with the Committee, while maintaining appropriate separation of audit and operational responsibilities.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and will incorporate changes to our documented recommendation follow-up procedures to make sure these are all addressed along with any further direction by the Audit Committee.</p> <p>Due Date: March 31, 2021</p>

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>2. A perception that IA lacks independence may lead to the risk of reduced impact and respect for the reports and recommendations released by the Division:</p> <p>IA is required to be independent in both fact and appearance. We did not identify any factual evidence of a lack of independence through our detailed review of follow-up procedures. However, most stakeholders interviewed indicated a concern over IA's independence, raising a question over the perception or appearance of IA's independence within the organization.</p> <p>The concerns raised do appear to be mostly connected to prior relationships with a past member of the Executive Office and the Head of IT; however, the overall perception remains as of the date of our review. Some areas, such as IT, are perceived to have not been audited as heavily or as frequently as others, with more leniency and negotiation around audit findings raised, and lack of follow-up performed.</p> <p>While IA is required to be independent, it must operate within the overall organizational culture, which has not been in-scope for our review. However, some interviewees commented on concerns about the impact of organizational culture and governance on IA's past efficacy. We suggest that consideration be given to an evaluation of LACERA's overall governance structure.</p> <p>The existing IA team members are well-tenured, which can contribute to the challenge of maintaining independence when IA is an in-house department, due to the formation of relationships, and perception thereof.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should:</p> <ul style="list-style-type: none"> a) Roll-out a communication program that is presented to key stakeholders on an organization-wide basis to explain how IA maintains independence and explain IA's responsibilities and processes and management's role in those processes. b) Standardize and enhance recommendation follow-up procedures (as discussed in finding #1). c) Monitor and report Key Performance Indicators at the Audit Committee which track audits and findings by business unit, and history of aged items by audit area. d) Add new team members to department as the opportunity arises. New team members can also address gaps in team skill set (e.g. current gap in IT) 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated in reference. In addition, on an organization-wide basis, the Executive Office will take steps with division managers and all staff to promote IA and its critical function and independent role in the organization, encourage cooperation with IA in its audits and prompt response to address IA recommendations, and use of IA as a consulting resource when appropriate. The Executive Office will support additional IA staffing resources as needed.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and welcomes them to help address any perceptions that Internal Audit lacks independence. We have always maintained a strong mindset of independence and worked hard to avoid even the appearance of a lack of independence but recognize the need to better demonstrate our independence and ensure that we remain independent in fact and avoid or mitigate any perception of insufficient independence.</p> <p>Significant efforts have been made to implement recommendations b, c and d, but we will continue in those efforts.</p> <p>Due Date: April 31, 2021</p>

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>3. IA does not include progress on completion of remediation status or evaluate potential to exceed due dates and leave risk exposure unremediated:</p> <p>IA does not include current progress of remediation of open findings within its reports to the Audit Committee, or include possible extended risk exposure for delayed recommendations. Escalation of “at risk” recommendations by IA allows Executive Management to take appropriate action to prioritize remediation or to accept the risk of a longer remediation timeline.</p> <p>Management needs to participate and provide appropriate and accurate information to Internal Audit for this process to be successful.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should:</p> <ul style="list-style-type: none"> a) Enhance the current procedures to be more directive about when status updates are required (e.g. each quarter if remediation is due in excess of six months, and monthly if less than six months); this can be based on risk level or other factors. b) Enhance Audit Committee reporting to include a category of recommendations that are at risk of not being remediated by their due date. c) Evaluate TeamMate’s workflow functionality, to allow for notices to be emailed to recommendation owners and IA (not just IA), and allow for updates to be entered into the system by management, and reviewed by IA. 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated by reference.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and will incorporate them into our documented process and the role out of our new TeamMate Plus automated audit workpaper software.</p> <p>Due Date: March 31, 2021</p>

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>4. IA does not have a process for extension of recommendation follow-up due dates:</p> <p>It was noted during review of the 112 recommendations from the selected audits that findings are not consistently remediated in a timely manner. Requests from management to extend remediation due dates have been a frequent occurrence, and there has not been a defined approach to request approval of this extension.</p> <p>Without appropriate transparency and approvals for due date extensions, the risk identified in the original audit remains unmitigated without conscious acceptance of the risk impact of the due date delay.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should define and implement a process that details the required approvals and circumstances in which extension is permitted. We recommend that due date extensions require the same approvals as the initial report issuance, up to and including the Audit Committee. There should also be limited circumstances in which extensions are permitted to maintain accountability from management to meet their commitments.</p>	<p>Executive Office Response: Response to observation #1 incorporated by reference.</p> <p>Internal Audit Response: Internal Audit Management agrees with the recommendation and has incorporated it into our documented recommendation follow-up procedures.</p> <p>Due Date: Complete per IA Management.</p>

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>5. A centralized tracking tool is not adequately used to manage IA recommendations and corresponding corrective actions:</p> <p>IA does not adequately utilize TeamMate, which is the Internal Audit team’s current Internal Audit management tool. There is inconsistent data entry, and lack of usage of TeamMate’s workflow capabilities for tracking the remediation status of open findings. Both of these lead to the inability to use reporting from the tool, resulting in increased efforts to gather reporting, and risk of data inaccuracies. IA has a project in place to implement TeamMate+ to improve tool utilization.</p> <p>In addition, IA has two versions of the Teammate tool that are both used to track and maintain audit and recommendation follow-up documents. The systems are not linked and therefore need to be manually maintained. Currently, the systems are not in sync and do not reconcile to the reported recommendation audit log within the Audit Committee reports.</p>	<p>Risk Rating: Medium</p> <p>Recommendation:</p> <ul style="list-style-type: none"> a) Ensure that personnel utilizing Teammate have been appropriately trained on the approved process for standardized data entry into the system. b) Evaluate the new version of Teammate that will be implemented, to ensure any configuration is designed to meet the new needs of the process, and include data cleansing and migration to allow for one system of record for reporting purposes going forwards. c) Establish clear system of record documentation to comply with LACERA’s documentation policy. IA record retention is 10 years. 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated by reference. The Executive Office will take administrative steps to ensure that IA has necessary technology and training support. The Executive Office will also ensure that there is administrative support for appropriate document retention.</p> <p>Internal Audit Response:</p> <p>IA Management agrees with the recommendations. We have been in the process since July 2020 of evaluating and planning to acquire a significant upgrade to our automated audit software package, from TeamMate AM to TeamMate Plus. We have received Executive Office approval and expect to acquire and implement the new software beginning in January 2021. The implementation will include assistance from the vendor with the migration of data from the prior version as well as training for all Internal Audit staff.</p> <p>Due Date: March 31, 2021</p>



Appendices

Appendix: Parties contributing to the EQA

Thank you for the opportunity to serve LACERA and the Internal Audit team. We appreciate the following individuals' support of the project and willingness to spend time providing feedback, documentation and examples:

Internal Audit personnel

- Richard Bendall (CAE)
- Leisha Collins (Principal Auditor)
- Christina Logan (Senior Internal Auditor)

Audit Committee/Board of Investments

- Gina Sanchez (Audit Committee Chair)

Company Management

- Santos Kreimann (CEO)
- Steven Rice (Chief Counsel)
- Bernardo Buenaflor (Benefits Division Manager)
- Jonathan Grabel (CIO)
- Ted Granger (Interim CFO)
- Dr. Arlene Owens (Interim CQA)
- Kathy Delino (Interim Information Systems Manager)

- Bonnie Nolley (Executive Board Assistant)
- Kimberly Hines (Administrative Services Manager)
- JJ Popowich (Assistant Executive Officer)
- Beulah Auten (retired CFO)

As provided in Section 1300 of the IIA Standards, this deliverable is prepared for the use of the CAE in support of the quality assurance program for IA. The quality assurance program should include periodic internal and external assessments as well as IA's ongoing monitoring to assist the CAE in his/her assessment of IA's conformity with the IIA Standards. This deliverable is intended solely for the information and use of management, LACERA's Audit Committee, and governing Board of Retirement and Board of Investments, and is not intended to be and should not be used by anyone other than these specified parties.

Observation ratings

Observation ratings (like audit ratings) are an important aspect of the independence of internal audit. Issues are generally rated at the end of fieldwork, after the audit team has had an opportunity to review the totality of findings from interim communications and associated management responses.

Our issue rating scale is as follows:

High Risk	The control gap or exceptions noted could have significant financial or operational consequences to the Company.
Medium Risk	The control gap or exceptions noted expose the Company to increased risk, but would not have significant financial or operational consequences to the Company.
Low Risk	Other items that are isolated and/or minor. Observations to improve financial and/or operational efficiency.

Conformance with IIA Standards

Rating	Number	Standard
N/A	1000	Purpose, Authority, and Responsibility
N/A	1010	Recognizing Mandatory Guidance in the Internal Audit Charter
■	1100	Independence and Objectivity
●	1110	Organizational Independence
●	1111	Direct Interaction with the Board
N/A	1112	CAE Roles Beyond Internal Auditing
■	1120	Individual Objectivity
■	1130	Impairment to Independence or Objectivity
N/A	1200	Proficiency and Due Professional Care
N/A	1210	Proficiency
N/A	1220	Due Professional Care
N/A	1230	Continuing Professional Development
N/A	1300	Quality Assurance and Improvement Program
N/A	1310	Requirements of the Quality Assurance & Improvement Program
N/A	1311	Internal Assessments
N/A	1312	External Assessments
N/A	1320	Reporting on the Quality Assurance and Improvement Program
N/A	1321	Use of "Conforms with the [Standards]"
N/A	1322	Disclosure of Nonconformance
N/A	2000	Managing the Internal Audit Activity
N/A	2010	Planning
N/A	2020	Communication and Approval
N/A	2030	Resource Management
N/A	2040	Policies and Procedures
N/A	2050	Coordination and Reliance
N/A	2060	Reporting to Senior Management and the Board
N/A	2070	External Service Provider and Organizational Responsibility for IA
N/A	2100	Nature of Work
N/A	2110	Governance

Rating	Number	Standard
N/A	2120	Risk Management
N/A	2130	Control
N/A	2200	Engagement Planning
N/A	2201	Planning Considerations
N/A	2210	Engagement Objectives
N/A	2220	Engagement Scope
N/A	2230	Engagement Resource Allocation
N/A	2240	Engagement Work Program
N/A	2300	Performing the Engagement
N/A	2310	Identifying Information
N/A	2320	Analysis and Evaluation
N/A	2330	Documenting Information
N/A	2340	Engagement Supervision
N/A	2400	Communicating Results
N/A	2410	Criteria for Communicating
N/A	2420	Quality of Communications
N/A	2421	Errors and Omissions
N/A	2430	Use of "Conducted in Conformance with the [Standards]"
N/A	2431	Engagement Disclosure of Nonconformance
N/A	2440	Disseminating Results
N/A	2450	Overall Opinions
■	2500	Monitoring Progress
N/A	2600	Communicating the Acceptance of Risks
Key	Rating	
●	Generally conforms	
■	Partially conforms	
❖	Does not conform	
N/A	Standard was not applicable to Corporate Audit or instance did not arise.	

Conclusion – LACERA IA's Recommendation Follow-up process partially conforms (middle possible rating) with the IIA Standards promulgated by the Institute of Internal Auditors. The rating takes into consideration and heavily weights the new process that was implemented in July 2020. Due to limited sampling available since the implementation, we are unable to determine if documented updates to the program would result in a generally conforms rating.



Lack of consistency in data examples

Date of Audit	Finding	Recommendation	Evidence	Audit Report Close Date	TeamMate Close Date
6/25/15	Information Management	Investments Office Management consider implementing a Customer Relationship Management (CRM) System to manage and maintain information related to LACERA's private equity partnerships. This system can potentially be used to manage information for other asset class managers also.	No evidence of implementation or IA's validation testing included in Teammate	This recommendation disappears from Audit Report. Last reported as "Pending" in 2018-07-18 agenda	4/30/2019
7/10/15	Retiree Health Care Contract with AON (And associated 3rd party vendors) - Contract with RGS	RHC should consider the results of their work in the recommendation above as well as refer to LACERA's Purchasing Policy to determine whether to establish a contract with RGS (including all necessary language for the protection of LACERA members data) or whether to initiate an RFP for healthcare printing and mailing associated with Aon; or alternatively to amend the contract with Aon to require them to contract with one of their preferred and vetted third party vendors for RHC's printing and mailing needs.	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported as "Pending" in 2016-07-20 agenda	7/6/2016
7/10/15	Expired Contract	The Communications Division should obtain a new contract with ZDI. The new contract should be on LACERA's form having had prior review by LACERA's Legal Office	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported as "Pending" in 2015-12-03 agenda	12/17/2015
11/24/15	Need for Documented Procedures	Benefits Management should develop a documented process as well as standardized desk procedures and/or checklists for staff that process Returned Automatic Deposit Receipt (ADR) holds.	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported in 2018-03-21 Report	Not Recorded
10/30/18	Testing Documentation	Systems Division management needs to instruct programming staff to attach all testing related documentation into the lifecycle application utility. This would facilitate post implementation review and provide greater assurance that changes to production have been tested and are functioning as intended.	No evidence of implementation or IA's validation testing included in Teammate	Not found in recommendation follow up log to Audit Committee	9/18/2020



Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. NDP136419-1A

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.



June 10, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

Gabriel Tafoya 
Senior Internal Auditor

FOR: June 24, 2021, Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up for Sensitive Information Technology Areas**

BACKGROUND

As of August 2020, Internal Audit began to report to the Audit Committee a summary of recommendations being monitored related to system and network security audits and assessments. There are currently six sensitive information technology (IT) engagements, detailed on Table1, that Internal Audit has been monitoring.

CONSOLIDATION

During our monthly reviews with the Systems Division and Information Security Office (ISO), we noted that several recommendations overlapped or were repetitive. To manage these outstanding recommendations more efficiently, in January 2021, Internal Audit, Systems Division, and the Information Security Office worked together to consolidate overlapping and/or repetitive recommendations into a singular recommendation.

SUMMARY OF OPEN RECOMMENDATIONS

Table 1: Recommendations Status – By Audit Engagement

Engagement Name	Report Date	Total Recos	Addressed During Prior Periods	Implemented Feb - May 2021	In Progress June 2021
PM SOC Readiness Assessment February 2020					
High		—		—	—
Medium		10	5	1	4
Low		—		—	—
Clear Skies Penetration Test and VeraCode Report March 2020					
High		1	1	—	—
Medium		25	2	—	23
Low		17	—	—	17
Tevora 2019 Penetration Test June 2019					
High		—	—	—	—
Medium		—	—	—	—
Low		5	3	—	2
Tevora 2018 Security Risk Assessment July 2018					
High		—	—	—	—
Medium		3	3	—	—
Low		6	2	—	4
Alston & Bird Privacy Audit (attorney-client privileged) October 2016					
No Risk Levels		7	6	1	—
Consolidated Recos January 2021					
High		2	—	2	—
Medium		2	—	1	1
Low		—	—	—	—
Totals		78	22	5	51

For recommendations which are listed as **In Progress**, Systems Management provided a summary of work to be performed and a timeline. Key milestones related to multiple recommendations are:

- Systems management has begun to address many of the Tevora and Clear Skies Penetration Tests recommendations through a re-design of LACERA.com and the development life cycle for the member portal. They expect to address most of the remaining medium and low-level recommendations by the end of July 2021.

Recommendations which are listed as **Implemented During Period**, during the current period, Systems Management provided supporting documentation to substantiate their position, which Internal Audit reviewed and approved. Key recommendations implemented during this period include:

- The completion of a disaster recovery test of the operational applications used at LACERA in January 2021.
- Obtaining written acknowledgement of LACERA’s End-User Information Security Manual.
- Staff completing an information security awareness training.
- The implementation of a new security incident event management tool to provide better real-time analysis of security alerts, support threat identification, and aid in incident response.

Recommendations which are listed as **Completed During Prior Periods**, were implemented during a prior period.

RECOMMENDATIONS CATEGORIZED

IT General Controls (ITGC) are the basic controls that can be applied to IT systems such as applications, operating systems, databases, and supporting IT infrastructure. The general objective for ITGC is to ensure the integrity of the data and processes that systems support. To provide additional insight into these sensitive recommendations, we categorized the recommendations from sensitive IT engagements into the following ITGC areas:

ITGC	Description of control
Data Backup and Recovery	Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.
Environmental	Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
Information Security	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
Logical Access	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
Physical Security	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.

Recommendation Follow-Up for Sensitive Information Technology Areas

June 10, 2021

Page 4 of 4

System Development & Change Management	Controls provide reasonable assurance that changes to or development of applications is authorized, tested, and approved. Controls also, provide reasonable assurance that segregation of duties exist.
System Monitoring & Maintenance	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.

Table 2: Recommendations Status – By IT General Control Areas (description on page 4)

	Total Recos	Completed During Prior Periods	Implemented During Period	In Progress June 2021
Data Back Up & Recovery	1	—	1	—
Environmental	—	—	—	—
Information Security	17	1	2	14
Logical Access	41	17	1	23
Physical Security	—	—	—	—
System Development & Change Management	2	—	—	2
System Monitoring & Maintenance	17	4	1	12
Total # Recos by Implementation Status	78	22	5	51

Staff will be available to address questions at the June 2021 Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

RPB:cl:gt



June 15, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

George Lunde 
Senior Internal Auditor

Gabriel Tafoya 
Senior Internal Auditor

Nathan K. Amick 
Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **Continuous Auditing Program (CAP)**

BACKGROUND

Internal Audit performs its **Continuous Auditing Program** (CAP) throughout the year. We have defined CAP as continuous audit testing for fraud and compliance incorporating data analytics as the primary auditing tool.

- **Fraud Testing** – Provides timely insight into fraud indicators
- **Compliance Testing** – Ensures compliance through testing transactional data against established internal control rules and transactional profiles (e.g., *960-Hour Limit Test*)

Our primary data analytics tool **Audit Command Language** (ACL) allows us to examine large data sets to uncover exceptions, anomalies, hidden patterns, unknown correlations, and to assist with the audit process. ACL gives us the ability to review every transaction, not just sampling, which enables a more efficient analysis on a greater scale.

The intention of CAP is to give Internal Audit and LACERA Management greater visibility into processes, activities, and transactions, while adding value by means of improved compliance, risk management, and the ability to achieve business goals.

CAP Schedule Fiscal Year 2020-2021

To determine the CAP projects for the fiscal year, Internal Audit first assesses LACERA's databases for the type of data held. Next, we brainstorm as many tests as possible for compliance and fraud scenarios. Internal Audit then assess the risk levels related to the possible tests.

Should any of our CAP testing identify a systematic breakdown of controls, the project would be elevated, and a full audit would be performed. In such a case, the Audit Committee would be notified.

Audit Projects	Division	Service Type	Status
Annual Census Data Testing	Exec	Compliance	Completed 05/20/2021
PEPRA-960 Hours	Exec	Compliance	Completed 06/15/2021
Workspace Terminated User	Systems	Compliance	Completed 06/15/2021
Terminated Staff Key Cards	Systems	Compliance	In Progress
Duplicate Vendor Payments	FASD	Fraud	In Progress
Duplicate Member Payments	FASD	Fraud	Begin Q4
Emp & Vendor Same Address	FASD	Fraud	Completed 11/02/2020
High Risk Over 90 Payees	Benefits	Fraud	In Progress
New Payees	Benefits	Fraud	Completed 01/13/2021
Foreign Payees	Benefits	Fraud	In Progress
Multiple Payments to Payee	Benefits	Fraud	Begin Q4
70.5 Required Distributions	Benefits	Compliance	In Progress
Legal Split	Benefits	Fraud	In Progress
Minor Survivor	Benefits	Compliance	Completed 04/13/2021
SSA To SSN	Benefits	Fraud	Completed 02/01/2021
Pay Code Testing	QA	Compliance	Completed 05/28/2021

See the next page for a detailed list of the above recently completed project name, purpose, methodology, coverage period, test results, and the frequency at which the tests are performed.

Continuous Audit Program (CAP) Testing Summary

FRAUD TESTING

DIVISION	PROJECT NAME	PURPOSE	COVERAGE PERIOD	TEST FREQUENCY	METHODOLOGY	RESULTS
Benefits Division	New Payees	Validate the eligibility of all new payees added to LACERA retirement payroll.	01/01/2021 to 05/31/2021	Monthly	Traced all new payees, per the monthly payroll, to valid historical member data from LACERA and the plan sponsor.	No exceptions were noted.

COMPLIANCE TESTING

DIVISION	PROJECT NAME	PURPOSE	COVERAGE PERIOD	TEST FREQUENCY	METHODOLOGY	RESULTS
Executive Office	Rehired Retirees	Test to ensure all county wide Rehired Retirees meet the IRS, CERL, and PEPRA compliance requirements	07/01/19 To 06/30/2020	Annually	Used payroll data to assess compliance with the following requirements: <ul style="list-style-type: none"> • 960 hours • Break-in-Service 	Minor exception noted. A report was issued to the Audit Committee on 06/15/2021
Systems Division	Workspace Terminated Users	To identify employees that have left LACERA that still have access to the Workspace application	01/01/2020 to 03/31/2021	Annually	Matched the terminated employee listing file to the Workspace application user listing file, to identify discrepancies.	No exceptions were noted.
Benefits Division	Minor Survivor Payees	Validate the eligibility of all current Minor Survivor Payees	As of 02/28/2021	Annually	Verified that all current Minor Survivor Payees have the valid and required documents on file supporting their eligibility.	No exceptions were noted.

COMPLIANCE TESTING

DIVISION	PROJECT NAME	PURPOSE	COVERAGE PERIOD	TEST FREQUENCY	METHODOLOGY	RESULTS
Executive Office	Census Data Testing	Validate LACERA census data received from the plan sponsor.	07/01/2019 To 06/30/2020	Annually	Obtained the earnings files and selected a population from each file and tested for completeness and accuracy.	No exceptions were noted.
Executive Office	Pay Codes Testing	To determine if all pensionable pay codes used by plan sponsor are LACERA BOR approved.	01/01/221 To 03/31/2021	Quarterly	Matched the LACERA pay codes master listing against the Los Angeles County Auditor-Controller's pay code file to identify discrepancies.	No exceptions were noted.

**FOR INFORMATION ONLY**

June 16, 2021

TO: 2021 Audit Committee
Alan J. Bernstein
Vivian H. Gray
Shawn R. Kehoe
Joseph Kelly
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha Collins 
Principal Internal Auditor

FOR: June 24, 2021 Audit Committee Meeting

SUBJECT: **FYE 2021 Audit Plan Status Report**

BACKGROUND

According to the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing (Standards), the Chief Audit Executive, must establish risk-based plans to determine the priorities of the internal audit activity and ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization. To remain in compliance with the Standards, as well as the Audit Committee Charter, Internal Audit developed the FYE 2021 Audit Plan (Audit Plan) which was approved by the Committee in July 2020.

Staff have made significant progress in completing the Audit Plan. The Audit Plan currently consists of 47 projects in the areas of assurance, consulting, advisory and other Internal Audit activities. As of May 31, 2021, there are 36 projects that have been completed or in various stages of completion. Refer to Attachment A for the Audit Plan Status Report. A brief description of each project is included in Attachment B.

Staff have made significant progress in completing the Audit Plan. The following highlights audit activities since the last Committee meeting.

Audits and Ongoing Projects

Deliberate efforts to enhance and refine, the audit process, our audit workpapers and the audit reporting process have required a significant amount of staff resources. When these processes are fully developed and our metrics further refined, we expect to have a much more efficient and consistent audit process.

Internal Audit has also deployed a significant amount of resources for ongoing and unplanned projects. The following table reflects staff resources applied towards audits and some of these projects since the April 2021 meeting:

Audit/Project	Description	Status
Accounts Payable Audit	Audit of accounts payables, payment vouchers, and ACH transactions for accuracy.	Drafting Audit Report. Est. completion 6/30/21
Rehired Retiree	Audit of LA County's rehired retirees to ensure compliance with PEPRA	Audit Report Issued 6/16/21
Form 700 Audit	Audit of Form 700s process at LACERA for compliance and effectiveness.	Preliminary audit work In Progress; Audit postponed due to staff resources.
THC Stale Check Review	Incident follow-up review which includes verification of check deposits and review of internal controls of related processes.	Audit Report Issued 6/15/21
SOC-1 Engagement	Due to the complexity of this audit engagement, Internal Audit oversees data requests, works with key stakeholders to ensure delivery of data, coordinates the meetings and interviews, and other logistics to ensure the project goes smoothly.	In Progress
Oversight of the External Financial Audit	In May 2021 Plante Moran completed their interim testing, which involved coordinating meetings, gathering support and other administrative tasks.	In Progress
Continuous Auditing Program (CAP)	CAP is continuous audit testing for fraud and compliance incorporating data analytics as the primary auditing tool. Eight CAP testing have been completed thus far and six are in various stages of completion and two have yet to be started.	Continuous Testing In Progress
Teammate Systems Upgrade	Internal Audit is transitioning to Teammate (TM) Plus, an upgraded version of current TM systems used for audit workpapers and reporting. This is an extensive project requiring staff resources for the migration of legacy audit projects, configuration of the new system, and has encompassed 20 or more hours of training for each staff member.	Completed
Reco Follow-Up	Internal Audit enhanced procedures and incorporated standardized forms for management to complete when requesting extensions to implement recommendations which also require Executive office approval. Although this enhanced process has resulted in more detailed and complete review of implemented recommendations, it has also led to more staff time in validating the status of recommendations.	In Progress

FYE 2021 Audit Plan Status Report

June 16, 2021

Page 3 of 6

Audit/Project	Description	Status
Audit Committee Charter	The Audit Committee Charter was updated at the April Audit Committee Meeting, which also resulted in further efforts by staff to address questions that arose at the BOR meeting regarding to the alignment of the Charter with LACERA's Procurement Policy. Staff are continuing in efforts to obtain approval from the Boards for the April revisions to the Charter.	In Progress
Risk Assessment	As part of the annual risk assessment and audit planning, Internal Audit issued a risk survey to all division managers (manager). The CAE and Principals (IA Management) also conducted meetings with each manager to discuss significant changes in their divisions, as well as risks, and controls impacting their critical business functions. Discussions were also held with the Executive Office. IA Management then prepared an organization-wide risk assessment which was used for development of the audit plan.	Completed
Quality Assurance Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA performance through periodic and ongoing internal self-assessments, focused discussions on quality and improvement, client surveys, and communication of results to key stakeholders. Improvements resulting from the QAIP include enhancements to our audit report structure, the establishment of risk rankings for findings, and preliminary risk assessment to develop audit scope	Ongoing
Administration of Ethics Hotline & Investigations	Adminstrating, investigating, and overseeing various hotline cases. Also, IA coordinates meetings with key divisions involved in the investigation of incidents, tracks and records resolution of cases.	Ongoing

Staff will provide the Committee with a final FYE 2021 Audit Plan Status Report at the August 2021 meeting. This Final report will provide a comprehensive summary of work completed as of June 30, 2021.

I would like to thank the team for all their hard work and the Audit Committee for your continued support of Internal Audit.

Attachments
RPB:lec

ATTACHMENT A

AUDIT PLAN FYE 2021

The following table provides a description of each audit area included in the FYE 2021 Audit Plan.

Audit Projects	Project Type	YTD 5/31/21	Est. Hours	Hours Remaining	Status
EXECUTIVE / LEGAL / ORGANIZATION					
1 Audit Committee Composition	Advisory	58	150	92	Completed
2 LA County Audit – Recommendation Oversight	Consulting	47	100	53	In Progress
3 Form 700 Compliance Audit	Assurance	52	200	148	Postponed to FY 2022
4 Fiduciary Review Planning	Advisory	82	250	168	In Progress
5 Business Continuity / Disaster Recovery	Assurance	44	300	256	Ongoing
6 Ethical Cultural Assessment	Consulting	5	300	295	Postponed to FY 2022
7 SOC 1 Type 2 Engagement (External)	Assurance	291	400	109	In Progress
8 Governance, Risk, Ethics, Fraud, Compliance	Consulting	35	500	465	Ongoing
9 Ethics Hotline & Investigations	Consulting	185	200	15	Ongoing
ADMINISTRATION					
10 IT End-User Manual	Advisory	90	150	60	Completed
11 Penetration Tests (External)	Assurance	0	150	150	Postponed to FY 2022
12 Contract Compliance / Third Party Data Security	Assurance	16	300	284	In Progress
13 Security Incident Management Review (External)	Assurance	0	100	100	Postponed to FY 2022
14 Privilege Access Review	Assurance	0	100	100	Postponed to FY 2022
15 Updated Inventory Process	Consulting	23	150	127	Postponed to FY 2022
16 Employee Salary Bonuses	Assurance	2	200	198	Postponed to FY 2022
17 Continuous Auditing Program - Administration	Assurance	205	400	195	In Progress
INVESTMENTS & FASD					
18 Accounts Payables	Assurance	157	150	(7)	In Progress
19 Corporate Credit Cards	Assurance	433	300	(133)	Report issued 10/5/20
20 Investments Due Diligence	Assurance	6	400	394	In Progress
21 Oversight of Actuarial Services (External)	Advisory	139	150	11	Ongoing
22 Oversight of Financial Audit (External)	Advisory	455	450	(5)	Ongoing
23 Oversight of THC RE Financial Audits	Advisory	140	150	10	Ongoing
24 Real Estate Manager Reviews	Assurance	340	200	(140)	Completed
25 Custodial Bank Services	Advisory	14	100	86	Completed
26 Updated Wire Transfer Process	Advisory	0	150	150	Completed
OPERATIONS					
27 Death Legal Process Audit	Assurance	175	200	25	Report issued 2/2/21
28 LA County Rehired Retirees	Assurance	385	200	(185)	Report Issued 6/15/21
29 Member Benefits Calculation Audit / Database	Assurance	0	300	300	Postponed to FY 2022
30 Quality Assurance Operations Review	Consulting	644	450	(194)	Report issued 4/9/21
31 Foreign Payee Audit	Assurance	7	150	143	In Progress
32 Governance, Risk, and Controls - Benefits	Consulting	7	400	393	Postponed to FY 2022
33 Governance, Risk, and Controls - RHC	Consulting	0	250	250	Postponed to FY 2022
34 Account Settlement Collections (ASC)	Advisory	0	150	150	Postponed to FY 2022
35 Continuous Audit Program - Operations	Assurance	743	500	(243)	In Progress
IA ADMINISTRATION PROJECTS					
36 Audit Pool – RFP	Assurance	480	400	(80)	Completed
37 TeamMate Optimization	Admin	778	500	(278)	Completed
38 Annual Risk Assessment & Audit Plan	Assurance	247	300	53	Completed
39 External Quality Assessment Review	Admin	40	100	60	In Progress
40 Audit Committee Support	Admin	870	300	(570)	Ongoing
41 Professional Development	Admin	330	250	(80)	Ongoing
42 Quality Assurance & Improvement Program	Admin	264	300	36	Ongoing
43 Recommendation Follow-Up	Assurance	903	250	(653)	Ongoing
UNPLANNED PROJECTS					
44 KPMG Reco Follow-up	Admin	210	0	(210)	Report Issued 12/31/20
45 Real Estate THC Deposit Review	Assurance	401	0	(401)	Report Issued 6/15/21
46 THC Stale Operations Consulting	Advisory	11	0	(11)	In Progress
47 SSNVS Audit	Assurance	258	0	(258)	Report issued 2/2/21
TOTALS		9572	11000	1428	
Completed		In Progress			

ATTACHMENT B

	Audit Projects	Description of Project
EXECUTIVE / LEGAL / ORGANIZATION		
1	Audit Committee Composition	Review AC best practices and industry trends. Suggest and facilitate changes.
2	LAC Audit – Recommendation Oversight	Internal Audit provided oversight of the LA County audit and currently tracks and reports to the Exec Office the status of recommendations.
3	Form 700 Compliance Audit	Audit of Form 700s to assess Board and Staff compliance.
4	Fiduciary Review Planning (Year 1 of 2)	Planning of the review. The purpose of review is to assess the effectiveness of LACERA governance and operations.
5	Business Continuity / DRP	Audit of BC plans to ensure they are complete, reviewed and approved, and staff has been trained on them. Participation in DR testing.
6	Ethical Cultural Assessment	External vendor will assess LACERA's ethical culture. Benefits include the early prevention and detection of problems, improved management of workforce and processes, and enhanced communication.
7	Systems & Organization Change -1 (SOC 1) - Type 2	Plante Moran (PM) will perform a SOC audit over the controls related to OPEB data. Due to the complexity of this project and coordination among several divisions, IA has taken on the role of project manager.
8	Governance, Risk, Ethics, Fraud, Compliance	Working with Exec. Management to assess and guide LACERA's development of formalized governance, risks, ethics, fraud, and compliance programs.
9	Ethics Hotline & Investigations	Monitor and administer the Ethics Hotline. Provide AC summary of incidents.
ADMINISTRATION		
10	IT End-User Manual	Facilitate group meetings/discussion in the development of the IT End-User Manual.
11	Penetration Tests	The objective of the engagement is to evaluate the information security of the network from an external perspective to determine any risks posed from an uncredentialed attacker.
12	Contract Compliance / Third Party Data Security	Follow-up on CMS audit from FY 2019-2020, perform compliance testing of a broad sample of contracts, including a review of third-party data security.
13	Security Incident Event Management Review (External)	Review SIEM processes to ensure good practices exist for analyzing log-event data used to monitor threats and facilitate timely incident response.
14	Privilege Access Review / Segregation of Duties	Review the creation, monitoring, and maintenance of privileged access credentials for compliance with best practice guidelines.
15	Updated Inventory Process	Review the updated inventory control process for completeness and efficiency.
16	Employee Salary Bonuses	Audit of employee bonuses since management recently revised its process based on recommendations from the LA County's audit.
17	Continuous Auditing Program (CAP) - Administration	CAP consists of testing transactions and information systems, provides continuous assurance in key areas of compliance, and includes fraud detection audits.
INVESTMENTS & FASD		
18	Accounts Payables	Audit of accounts payables, payment vouchers, and ACH transactions for accuracy.
19	Corporate Credit Cards	Audit credit card usage to verify compliance with LACERA's Corporate Credit Card Policy.
20	Investments Due Diligence	Review due diligence practices relating to all asset classes for efficiency and effectiveness.
21	Oversight of Actuarial Services	Internal Audit manages the relationship with the Actuarial Consultant and Auditor for services relating to actuarial projects.

	Audit Projects	Description of Project
INVESTMENTS & FASD		
22	Oversight of Financial Audit	Internal Audit manages the relationship with LACERA's external financial auditors for the annual financial statement audit.
23	Oversight of THC RE Financial Audits	Internal Audit manages the relationship with the real estate external auditors who perform the real estate THC financial audits.
24	Real Estate Manager Reviews	External audit firms conduct real estate manager contract compliance and operational reviews on an as-needed basis.
25	Custodial Bank Services	Participating on a consulting basis with the Investments Office and FASD in operational improvements of custodial bank services.
26	Updated Wire Transfer Process	Participating on a consulting basis with the Investments Office and FASD in operational updates and improvements to the wire transfer process.
OPERATIONS		
27	Death Legal Process Audit	Benefits: Review Benefits, Member Services, and Legal divisions' processes for tracking and processing member death and legal split cases.
28	LA County Rehired Retirees	Benefits: Audit of LA County's rehired retirees to ensure compliance with PEPRA.
29	Member Benefits Calculation Audit / Database	Benefits: Audit member benefit calculations (on a risk basis) for accuracy and completeness.
30	Quality Assurance Operations Review	Review QA operations for auditing benefit transactions and reporting audit results.
31	Foreign Payee Audit	Benefits: Periodic audit that confirms the living status of retirees living abroad.
32	Governance, Risk, and Controls Benefits Division	Benefits: Working with division to gain a deeper understanding of its governance, risks, and controls.
33	Governance, Risk, and Controls RHC	RHC: Working with division to gain a deeper understanding of its governance, risks, and controls.
34	Account Settlement Collections	The review will serve as a follow-up of management's progress in addressing areas of concern and deficiencies from the FY 2019 review and IA will consult with Benefits on their development of new policies and procedures.
35	Continuous Auditing Program (CAP) - Operations	Continuous Automated Program (CAP) is automated testing of LACERA's transactions and information systems. CAP provides continuous assurance in key areas of compliance and includes fraud detection audits.
IA ADMINISTRATION PROJECTS		
36	Audit Pool – RFP	RFP for audit firms to assist with specialized audit work.
37	TeamMate Optimization	Working and training to re-configure TeamMate for improved efficiency and effectiveness.
38	Annual Risk Assessment & Audit Plan	Updating Audit Universe, Risk Assessments, and develop Audit Plan.
39	External Quality Assessment Review	Working with an external independent reviewer for the required Quality Assessment Review.
40	Audit Committee Support	Preparation of Audit Committee materials and attendance at meetings.
41	Professional Development	Annual self-assessment, developing self-development program, and allocating for 30 hours of annual training per staff.
42	Quality Assurance & Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA performance through periodic and ongoing internal self-assessments, client surveys, and communication of results to key stakeholders.
43	Recommendation Follow-Up	Quarterly review of outstanding recommendations.
UNPLANNED PROJECTS		
44	KPMG Reco Follow-up	Audit Committee engagement to review IA Recommendation Follow-Up Process.
45	Real Estate THC Deposit Review	Incident follow-up to review internal controls.
46	THC Operations Review	Review of real estate bank operations and advise key divisions on controls, and procedures to improve processes.
47	SSNVS Verification Systems Audit	The scope of this audit was expanded from a CAP Test to a full audit. The objective was to identify deceased benefit payee accounts receiving benefit payments and validate operational processes are functioning in an adequate manner to prevent benefit payments to deceased member accounts.