

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 SPECIAL 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, FEBRUARY 17, 2022

This meeting will be conducted by the Audit Committee by teleconference under California Government Code Section 54953(e).

Any person may view the meeting online at
<http://lacera.com/leadership/board-meetings>

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

2022 AUDIT COMMITTEE MEMBERS

Alan J. Bernstein
Patrick L. Jones
Joseph Kelly
Keith Knox
Wayne Moore
Gina V. Sanchez
Herman B. Santos

AUDIT COMMITTEE CONSULTANT

Robert H. Griffin

I. CALL TO ORDER

II. ELECTIONS OF OFFICERS (Election of Chair, Vice Chair, and Secretary)

III. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Regular Audit Committee Meeting of December 2, 2021

IV. 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.)

V. CONSENT ITEMS

- A. Recommendation as submitted by Steven P. Rice, Chief Council: That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, and if so, direct staff to comply with the agenda and public comment requirements of the statute.
(Memo dated January 27, 2022)

VI. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: The Audit Committee review and approve the proposed 2022 Audit Committee meeting dates. (Memo dated February 1, 2022)
- B. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Kristina Sun, Senior Internal Auditor: The Audit Committee approve staff's selection of Weaver & Tidwell, LLP to perform an organizational governance review. (Memo dated February 4, 2022)
- C. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor and Christina Logan, Principal Internal Auditor: The Audit Committee approve the Proposed Internal Audit Fiscal Year 2022 - 2023 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.
(Memo dated February 4, 2022)

VI. NON-CONSENT ITEMS (Continued)

- D. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor and Christina Logan, Principal Internal Auditor: The Audit Committee review and approve the Fiscal Year 2022 Amended Internal Audit Plan. (Memo dated February 9, 2022)

VII. REPORTS

- A. 2022 Audit Committee Orientation
Richard P. Bendall, Chief Auditor Executive
Christina Logan, Principal Internal Auditor
(Presentation) (Memo dated February 1, 2022)
- B. Management's Compliance Report
Santos H. Kreimann, Chief Executive Officer
Luis A. Lugo, Deputy Chief Executive Officer
(Memo dated January 31, 2022)
- C. Recommendation Follow-Up Report
Richard P. Bendall, Chief Auditor Executive
Kristina Sun, Senior Internal Auditor
(Memo dated February 4, 2022)
- D. Recommendation Follow-Up Sensitive Information Technology Areas
Richard P. Bendall, Chief Auditor Executive
Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Memo dated February 4, 2022)
- E. Recommendation Follow-Up KPMG's External Quality Assessment
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
(Memo dated February 1, 2022)
- F. Status of Other External Audits Not Conducted at the Discretion of Internal Audit
Richard P. Bendall, Chief Audit Executive
(Verbal Presentation)

VII. REPORTS (Continue)

G. Internal Audit Staffing Activity Report
Richard P. Bendall, Chief Audit Executive
(Verbal Presentation)

H. Continuous Auditing Program (CAP)
Richard P. Bendall, Chief Audit Executive
Nathan K. Amick, Senior Internal Auditor
(For Information Only) (Memo dated February 1, 2022)

I. Ethics Hotline Status Report
Richard P. Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated January 31, 2022)

VIII. CONSULTANT COMMENTS

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

IX. ITEMS FOR STAFF REVIEW

X. GOOD OF THE ORDER
(For Information Purposes Only)

XI. 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., THURSDAY, DECEMBER 2, 2021

This meeting was conducted by teleconference pursuant to the Governor's Executive Order N-29-20.

PRESENT: Joseph Kelly, Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Roland A. Okum
Gina V. Sanchez

ABSENT: Shawn R. Kehoe

MEMBERS AT LARGE

Patrick L. Jones
Herman Santos (Joined the meeting at 9:07 a.m.)

STAFF, ADVISORS, PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer
Luis A. Lugo, Deputy Chief Executive Officer
Laura Guglielmo, Assistant Executive Officer

STAFF, ADVISORS, PARTICIPANTS (Continued)

JJ Popowich, Assistant Executive Officer

Steven P. Rice, Chief Counsel

Richard Bendall, Chief Audit Executive

Leisha Collins, Principal Internal Auditor

Christina Logan, Principal Internal Auditor

Kathryn Ton, Senior Internal Auditor

Kristina Sun, Senior Internal Auditor

George Lunde, Senior Internal Auditor

Nathan Amick, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Ted Granger, Interim Chief Financial Officer

Carlos Barrios, Benefits Division Manager

Bernie Buenaflor, Quality Assurance Division Manager

Jean Young, CPA Partner, Plante & Moran

Amanda Cronk, CPA Senior Manager, Plante & Moran

Robert H. Griffin, Audit Committee Consultant

I. CALL TO ORDER

The meeting was called to order virtually at 9:00 a.m. by Chair Kelly.

II. APPROVAL OF THE MINUTES

A. Approval of the Minutes of the Regular Audit Committee Meeting of

June 24, 2021 and the Regular Audit Committee Meeting of October 21, 2021

II. APPROVAL OF THE MINUTES (Continued)

Ms. Sanchez made a motion, Mr. Bernstein seconded, to approve the minutes of the Regular Audit Committee meeting of June 24, 2021 and the Regular Audit Committee meeting of October 21, 2021. The motion passed (roll call) with Messrs. Bernstein, Knox, Kelly, Ms. Gray, and Ms. Sanchez voting yes.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. CONSENT ITEMS

- A. Recommendation as submitted by Steven P. Rice, Chief Counsel: That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, and if so, direct staff to comply with the agenda and public comment requirements of the statute.
(Memo dated November 15, 2021)

Mr. Rice was present to answer questions from the Committee.

Ms. Gray made a motion, Mr. Kelly seconded, to approve staff's recommendation and to add this to the Consent agenda in future meetings. The motion passed (roll call) with Messrs. Bernstein, Kelly, Knox, Okum, Ms. Gray, and Ms. Sanchez voting yes.

V. NON-CONSENT ITEMS (Trustee Santos joined the meeting at 9:07 a.m.)

A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, and Gabriel Tafoya, Senior Internal Auditor: That the Committee, in accordance with your current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the Review of Chief Executive Officer's Credit Card Expenditures Audit 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.
(Memo dated November 17, 2021)

Messrs. Bendall and Tafoya were present and answered questions from the Committee.

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

B. Recommendation as submitted by Joseph Kelly, Audit Committee Chair and Richard P. Bendall, Chief Audit Executive: The Audit Committee provide suggested revisions and/or approve the issuance of the Audit Committee Annual Report to the Boards and direct staff to issue the report to the boards at their respective January 2022 meetings. (Memo dated November 18, 2021)

Mr. Bendall was present and answered questions from the Committee.

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

V. NON-CONSENT ITEMS (Continued)

- C. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Audit Committee approve the engagement of IIA Quality Services, LLC to perform an External Quality Assessment of the Internal Audit Division (Memo dated November 12, 2021)

Mr. Bendall was present and answered questions from the Committee.

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

VI. REPORTS

A. Plante Moran's Audit Results

- Presentation of the Results of the Financial Audit by Michelle Watterworth, Partner, Jean Young, Partner, and Amanda Cronk, Senior Manager
- LACERA's 2021 Audited Financial Statements and Required Communications to those Charged with Governance for FYE June 30, 2021
- GASB 68 Disclosure Report, Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for FYE June 30, 2020
- GASB 75 Disclosure Report, Statement of Changes in Fiduciary Net Position by Employer for FYE June 30, 2020 (Memo dated November 8, 2021)

Jean Young and Amanda Cronk from Plante Moran presented a brief presentation and answered questions from the Committee. This item was received and filed.

- B. Management's Response to Plante Moran's Comments to Management
Santos H. Kreimann, Chief Executive Officer
Richard P. Bendall, Chief Auditor Executive
(Memo dated November 12, 2021)

Mr. Bendall was present and answered questions from the Committee. This item

December 2, 2021

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was received and filed.

VI. REPORTS (Continued)

- C. FYE 2022 Audit Plan Status Report
Richard P. Bendall, Chief Audit Executive
Leisha E. Collins, Principal Internal Auditor
(Memo dated November 12, 2021)

Ms. Collins presented a brief presentation and answered questions from the Committee. This item was received and filed.

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

Mr. Bendall provided a verbal update and answered questions from the Committee. This item was received and filed.

- E. Internal Audit Staffing Activity Report
Richard P. Bendall, Chief Audit Executive
(Verbal Presentation)

Mr. Bendall provided a verbal update and answered questions from the Committee. This item was received and filed.

- F. Ethics Hotline Status Report
Richard P. Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated November 12, 2021)

This item was received and filed.

- ## VII. CONSULTANT COMMENTS
- Robert H. Griffin, Audit Committee Consultant
(Verbal Presentation)

Mr. Griffin provided comments to the Committee.

December 2, 2021

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VIII. REPORT ON STAFF ACTION ITEMS

There were no items to report.

IX. GOOD OF THE ORDER

The Committee thanked staff for their work.

X. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 9:50 a.m.

January 27, 2022

TO: Each Trustee,
Audit Committee

FROM: Steven P. Rice, *SPR*
Chief Counsel

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: Approval of Teleconference Meetings Under AB 361 and Government Code
Section 54953(e)

RECOMMENDATION

That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, and if so, direct staff to comply with the agenda and public comment requirements of the statute.

LEGAL AUTHORITY

Under Section VI of its Charter, the Audit Committee controls its own meeting schedule and specifically "has such other powers as provided in the Brown Act." This authority includes the ability to manage the scheduling and manner of Committee meetings and to evaluate and act on legal options for the conduct of such meetings, such as whether to invoke teleconferencing of meetings under the terms and conditions provided in AB 361 and Government Code Section 54953(e) of the Brown Act to protect the health and safety of Trustees, staff, and the public.

DISCUSSION

A. Summary of New Law.

On September 16, 2021, the Governor signed AB 361 which enacted new Government Code Section 54953(e) of the Brown Act to put in place, effective immediately and through December 31, 2023, new teleconferencing rules that may be invoked by local legislative bodies, such as the Audit Committee, upon making certain findings and following certain agenda and public comment requirements.

Specifically, Section 54953(e)(3) provides that the Committee may hold a teleconference meeting without the need to comply with the more stringent procedural requirements of

Section 54953(b)(3) if a state of emergency under Section 8625 of the California Emergency Services Act remains active or state or local officials have imposed or recommended social distancing rules, provided that the Committee, within 30 days of the first teleconference meeting and every 30 days thereafter (or at its next meeting), makes the following findings by majority vote:

- (A) The Committee has considered the circumstances of the state of emergency;
- (B) Any of the following circumstances exist:
 - (i) The state of emergency continues to directly impact the ability of the Trustees to meet safely in person;
 - (ii) State or local officials continue to impose or recommend measures to promote social distancing.

If the Committee makes the required findings, the Committee may hold teleconference meetings for the next 30 days without the need to comply with the regular rules of Section 54953(b)(3) provided that: agendas are prepared and posted under the Brown Act; members of the public are allowed to access the meeting via a call-in option or an internet-based service option; and the agenda provides an opportunity for public comment in real time and provides notice of the means of accessing the meeting for public comment.

B. Information Supporting the Required Findings and Process if the Audit Committee Determines to Invoke Section 54953(e).

The Governor's State of Emergency for the COVID-19 pandemic as declared in the Proclamation of a State of Emergency dated March 4, 2020 remains active. The Proclamation was issued under the authority of Section 8625 of the California Emergency Services Act. It is unclear when the State of Emergency will end, although the Governor recently extended certain COVID-19 emergency provisions to March 31, 2022. See Order No. N-21-21, issued November 10, 2021.

The Los Angeles County Department of Public Health maintains guidance to "Keep your distance. Use two arms lengths as your guide (about 6 feet) for social distancing with people outside your household when you are not sure that they are vaccinated." <http://publichealth.lacounty.gov/acd/ncorona2019/reducingrisk/>. The County Public Health Department also maintains guidance that employers should, "Implement policies and practices that support physical distancing: Whenever possible, take steps to reduce crowding indoors and enable employees and customers to physically distance from each other. Generally, at least 6 feet of distance (2 arm lengths) is recommended, although this is not a guarantee of safety, especially in enclosed or poorly ventilated spaces." <http://publichealth.lacounty.gov/acd/ncorona2019/bestpractices/>

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The Centers for Disease Control and Prevention (CDC) has recently updated its guidance, but the CDC still advises the public to “Stay 6 feet away from others” and that, “Indoors in public: “If you are not up to date on COVID-19 vaccines, stay at least 6 feet away from other people, especially if you are at higher risk of getting very sick with COVID-19.” <https://www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/prevention.html#stay6ft%20>.

The pandemic continues to present a significant health risk, as the virus presents itself in different variants. LACERA has not yet returned to the office. Management is preparing return to office vaccination and testing protocols to ensure the safety of LACERA employees, members, and others, including Trustees.

Under these circumstances, the Audit Committee may reasonably conclude and find that teleconferencing under Section 54953(e) is appropriate for the Committee meetings, if any, during the next 30 days because (1) the state of emergency continues to directly impact the ability of the Trustees to meet safely in person, and (2) the County and other authorities continue to recommend measures to promote social distancing, as required by the statute.

If the Committee makes these findings and directs teleconferencing under Section 54953(e), procedures exist and will be implemented to ensure compliance with the agenda and public comment requirements of the statute, as stated above.

CONCLUSION

Based on the above information, staff recommends that, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor’s COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, and if so, direct staff to comply with the agenda and public comment requirements of the statute.

c: Santos H. Kreimann Christina Logan
Luis Lugo
Jonathan Grabel
Richard Bendall
JJ Popowich
Laura Guglielmo
Carly Ntoya
Leisha Collins



February 1, 2022

TO: 2022 Audit Committee
Alan J. Bernstein
Patrick L. Jones
Joseph Kelly
Keith Knox
Wayne Moore
Gina V. Sanchez
Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **Proposed 2022 Committee Meeting Dates**

RECOMMENDATION

The Audit Committee review and approve the proposed 2022 Audit Committee meeting dates.

AUDIT COMMITTEE DATES:

The current Audit Committee Charter (Attachment A) states that the Audit Committee will conduct “regular meetings at least four times per year, with the authority to convene additional meetings, as circumstances require. The time frame between Audit Committee meetings should not exceed four months.”

Last year, the Audit Committee met six times, however, although the meetings were productive, we found the time requirement and staff workload in preparing for six meetings took resources away from audit projects. We reviewed the Committee’s roles, responsibilities, and activities and feel they can be addressed within four meetings. Additional meetings can be added, if necessary.

Internal Audit reviewed the Board Calendar (Attachment B) to ensure the proposed meeting dates do not currently conflict with any other board scheduled events. We are proposing the Audit Committee meet approximately once a quarter on the following days at 9am.

Day	Date
Thursday	February 17, 2022
Thursday	May 19, 2022
Thursday	August 18, 2022
Thursday	December 1, 2022

AUDIT COMMITTEE CALENDAR

On page 3 of this memo, we have attached the Annual Audit Committee Calendar, which is based on the proposed four meetings. Internal Audit developed this calendar to provide trustees on the Committee visibility to what they can expect at each meeting during the year. We have included in the calendar the Committee's annual and reoccurring responsibilities, as defined in the Audit Committee Charter to ensure they are addressed.

RPB:cl

Attachments

A: April 2021 Audit Committee Charter

B: Board Calendar

Proposed 2022 Committee Meeting Dates

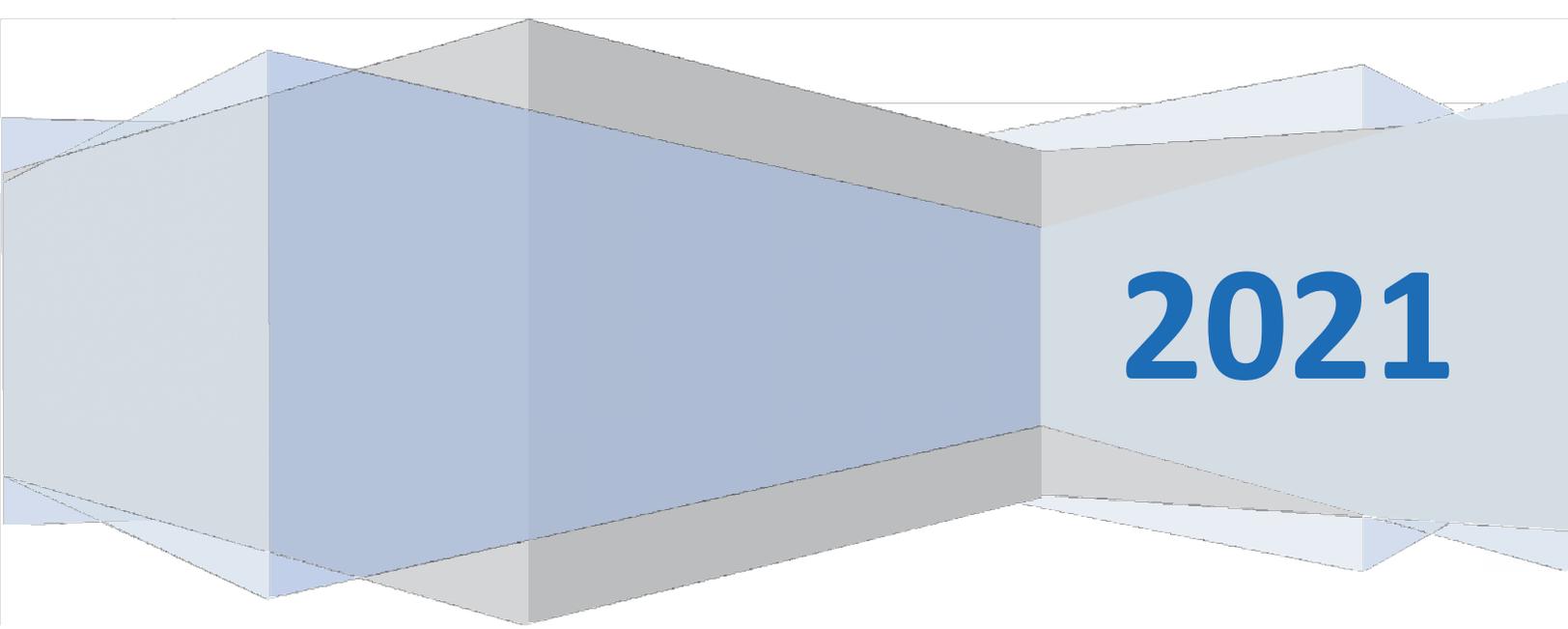
February 1, 2022

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2022 Annual Audit Committee Calendar						
Documentation	Ref to AC Charter	Frequency	February	May	August	December
Audit Engagement Reports	VII.A.2.a.	Every	X	X	X	X
Audit Plan Status Update	VII.A.1.b-c. & VII.A.2.c-d.	Every	X	X	X	X
Summary of Hotline Investigations	VII.D.3 & VII.E.2.b.	Every	X	X	X	X
Recommendation Follow-Up Reports	VII.A.2.b.	Quarterly	X	X	X	X
Proposed Audit Plan and Budget	VII.A.1.c.	Annually	X			
Annual Risk Assessment & Audit Plan	VII.A.1.a. & 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.G.1.	Annually				X
Audit Committee Charter	VII.G.4.	Every 3rd year	Last reviewed and approved in July 2021			
Approve the appointment and compensation of the External Financial Auditor	VII.B.1.	Every 5th year**	Approved extension for fiscal year ending June 30, 2022 in April 2021			
Ensure IA has an external quality assessment performed every five years.	VII.A.3.d.	Every 5th year	In progress as of December 2021			
Provide an open avenue of communication between IA, all Professional Service Providers, Management, and the Boards.	VII.G.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.d.	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.G.3.	As needed				

Audit Committee Charter

April 2021



2021



AUDIT COMMITTEE CHARTER

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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
- F. Audit Committee and Internal Audit Budget

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.

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 Los Angeles County Treasurer. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of his or her 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 Chair, 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 and also published on the LACERA website, lacera.com. 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, 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. 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 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.
4. Resolve any significant disagreements regarding risks, findings and/or compensation between management and Professional Service Providers

C. Financial Reporting Process

The Audit Committee is responsible for oversight of the independent audit of LACERA's financial statements, 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. Audit Committee and Internal Audit Budget

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.

G. 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 April 23, 2021, and approved by the Board of Retirement on July 7, 2021, and the Board of Investments on July 14, 2021. This Charter is thereby effective July 14, 2021 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

*Joseph Kelly**July 19, 2021*

Joseph Kelly
Chair, Audit Committee

Date

*Keith Knox**July 19, 2021*

Keith Knox
Chair, Board of Investments

Date

*Alan Bernstein**July 19, 2021*

Alan Bernstein
Chair, Board of Retirement

Date

February 2022						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2 BOR	3	4	5
		IFEBP Health Benefits Conference - Clearwater Beach, FL				
6	7	8	9 BOI	10	11	12
13	14 Valentine's Day	15	16	17 Audit Committee	18	19
20	21 Presidents' Day	22	23	24	25	26
		PPI Winter Roundtable - Westlake Village, CA				
27	28					

May 2022

Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5 BOR	6	7
Milken Global Conference – Los Angeles, CA						
8 Mother's Day	9	10	11 BOI	12	13	14
		SACRS Spring Conference – Rancho Mirage, CA				
15	16	17	18	19	20	21
				Audit Committee	NCPERS TEDS/PATS/ NAFS - Washington, DC	
22	23	24	25	26	27	28
NCPERS Annual Conference - Washington, DC						
NCPERS TEDS/PATS/ NAFS - Washington, DC	IFEBP Washington Legislative Update - Washington, DC					
29	30 Memorial Day	31				

August 2022

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3 BOR	4	5	6
7	8	9	10 BOI	11	12	13
14	15	16	17	18 Audit Committee	19	20
21	22	23	24	25	26	27
NCPERS Funding Forum - Los Angeles, CA						
28	29	30	31			

December 2022

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1 Audit Committee	2	3
4	5	6	7 BOR	8	9	10
11	12	13	14 BOI	15	16	17
			NACD Master Class – Scottsdale, AZ			
18	19	20	21	22	23	24 Christmas Eve Holiday
25 Christmas Day	26 Christmas Day Holiday	27	28	29	30	31 New Year's Eve



Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.

**For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101**

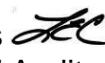


February 4, 2022

TO: 2022 Audit Committee
Alan J. Bernstein
Patrick L. Jones
Joseph Kelly
Keith Knox
Wayne Moore
Gina V. Sanchez
Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Principal Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **Internal Audit Proposed Fiscal Year 2022 - 2023 Budget Request**

RECOMMENDATION

The Audit Committee approve the Proposed Internal Audit Fiscal Year 2022 - 2023 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

BACKGROUND

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, *Standard 2020 (Attachment A)*, the Chief Audit Executive should "communicate internal audit plans and resource requirements to senior management and the board for review and approval." In alignment with Standard 2020, the Audit Committee Charter (Attachment B) states "the Committee is to review and approve Internal Audit's Annual Audit Plan and resource plan, to make recommendations concerning audit projects.

To remain in compliance with the above Standards Audit Committee Charter, the Chief Audit Executive (CAE) prepared the attached Proposed Internal Audit Fiscal Year (FY) 2022-2023 Budget Request (Budget) (Attachment C) for Committee review and approval. Upon Committee approval the Internal Audit Budget will be included in LACERA 's Administrative Budget for Board approval.

Draft FY 2022-2023 Audit Plan

The Audit Plan is based on our expectation of available staffing for the upcoming fiscal year and is used as a basis for the Budget. Due to the timing of the organization’s budget cycle which begins early March, and Internal Audit’s timeline for completing the Risk Assessment and Audit Planning process, which is completed in May, staff is providing a draft FY 2022-2023 Audit Plan (Attachment D). The draft Audit Plan outlines Internal Audit’s work planned for the upcoming fiscal year based on projects that reoccur annually, and projects identified during our mid-year risk assessment discussions with Management.

Staff will provide the final Audit Plan to the Committee for approval at the May 2022 meeting. We do not anticipate that any changes we make to finalize the Audit Plan will affect Internal Audit’s Budget. However, should that be necessary, we would prepare a budget adjustment request to accompany the Audit Plan for the Audit Committee’s approval at the May meeting and then provide that to the Executive Office to be included in the organization’s mid-year budget adjustments.

BUDGET HIGHLIGHTS

For Fiscal Year 2022-2023, we based our budget request on our draft Audit Plan and anticipated staffing needs. We are requesting one additional Senior Internal Auditor position. We plan to use this position to hire an auditor with strong information technology experience. Any further increase to our Salaries and Employee Benefits (S&EB) budget request for Fiscal Year 2022-2023 over the current year is attributable to cost-of-living adjustments.

Our Services and Supplies (S&S) budget request for Fiscal Year 2022-2023 remains materially unchanged from the current year’s budget. The most significant portion of the S&S budget is for external audit services, \$650,000. Internal Audit continues to leverage the use of external resources to better meet the needs for audit work within the organization as defined by our risk based Audit Plan. Of the external audit budget portion, \$150,000 is for the external financial audit. \$500,000 is to perform external operational audits including IT audits, investment audits, and other consulting engagements. This is the same amount that was included in our budget in the current Fiscal Year. While we do not anticipate spending it all this year, we are requesting the Committee approve the same amount for Fiscal Year 2022-2023 to provide us flexibility in the scope and number of projects we engage our pool and any other outside firms to perform.

CONCLUSION

The Audit Committee approve the Proposed Internal Audit Fiscal Year 2022-2023 Budget Request, and upon approval, direct staff to include it in LACERA’s Administrative Budget for Board approval.

Attachments:

- A. IIA Standard 2020
- B. Audit Committee Charter
- C. FY 2023 Proposed Internal Budget
- D. FY 2023 Draft Audit Plan



International Professional
Practices Framework

Implementation Guide 2020

Standard 2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

Revised *Standards*, Effective 1 January 2017

Getting Started

Before communicating to senior management and the board regarding the internal audit plan, the internal audit activity's resource requirements, and the impact of resource limitations, the chief audit executive (CAE) determines the resources needed to implement the plan, based on the risk-based priorities identified during the planning process (Standard 2010). Resources may include people (e.g., labor hours and skills), technology (e.g., audit tools and techniques), timing/schedule (availability of resources), and funding. A portion of resources is usually reserved to address changes to the audit plan that may arise, such as unanticipated risks that could affect the organization and requests for consulting engagements from senior management and/or the board. For example, the need for a new internal audit project may arise when new risks are introduced due to organizational divestitures or mergers, political uncertainty, or changes in regulatory requirements.

It is helpful if the CAE, the board, and senior management agree in advance on the criteria that would characterize a significant enough change to warrant discussion and on the protocol for communicating such changes. It may be helpful to record these criteria in the internal audit charter or other document.

Considerations for Implementation

The CAE usually itemizes the audits that comprise the internal audit plan and then assesses the types and quantity of resources that would be needed to accomplish each audit project. Estimates are generally based on past experience with a particular project or comparisons to a similar project. The CAE can compare the resources needed to accomplish the plan's priorities with those available to the internal audit activity to determine whether any gaps exist. This comparison can be used as a basis for determining the impact of resource limitations.

The CAE typically meets with individual senior executives to solicit their input regarding the proposed internal audit plan before it is formally presented to the board for approval. During the meetings, the CAE can address any concerns that senior executives may express, incorporate their feedback (as appropriate), and obtain their support. The process may involve gathering additional information about the timing of proposed audit engagements and the availability of resources. It might introduce changes that affect the scope of work. The insight the CAE acquires from these discussions helps determine whether any adjustments should be made to the internal audit plan before it is presented to the board for approval.

The CAE's presentation of the internal audit plan to the board usually occurs during a meeting, which may include senior management. The proposed internal audit plan may include:

- A list of proposed audit engagements (and specification regarding whether the engagements are assurance or consulting in nature).
- Rationale for selecting each proposed engagement (e.g., risk rating, time since last audit, change in management, etc.).
- Objectives and scope of each proposed engagement.
- A list of initiatives or projects that result from the internal audit strategy but may not

be directly related to an audit engagement.

Resource limitations affect the priorities in the internal audit plan. For example, if resources are not sufficient to complete every proposed engagement in the plan, some engagements may be deferred, and some risks may go unaddressed. During the board presentation, the CAE discusses the proposed internal audit plan and the risk assessment on which it is based, indicating the risks that will be addressed, as well as any risks that cannot be addressed due to resource constraints. Board members can discuss this information and make recommendations before ultimately approving the internal audit plan.

The internal audit plan is developed with enough flexibility so that the CAE can adjust it as necessary in response to changes in the organization's business, risks, operations, programs, systems, and controls. However, the CAE must review *significant* changes to the audit plan, related rationale, and potential impact with the board and senior management to obtain their approval. Regularly scheduled quarterly or semiannual board meetings provide opportunities to review and adjust the internal audit plan.

Considerations for Demonstrating Conformance

The CAE may demonstrate conformance with Standard 2020 by keeping records of the distribution of the internal audit plan. Conformance may also be evidenced through a copy of board meeting materials that includes the internal audit plan as proposed for review and approval. Individual discussions with senior management could be documented through memos, emails, or notes made during the internal audit activity's risk assessment process. Typically, board meeting minutes contain records of the board's discussion and approval of the internal audit plan, any interim changes, and/or the impact of any resource limitations.



About The IIA

The Institute of Internal Auditors (The IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 180,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit www.globaliia.org or www.theiia.org.

About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (non-mandatory) guidance for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

For other authoritative guidance materials provided by The IIA, please visit our website at www.globaliia.org/standards-guidance or www.theiia.org/guidance.

Disclaimer

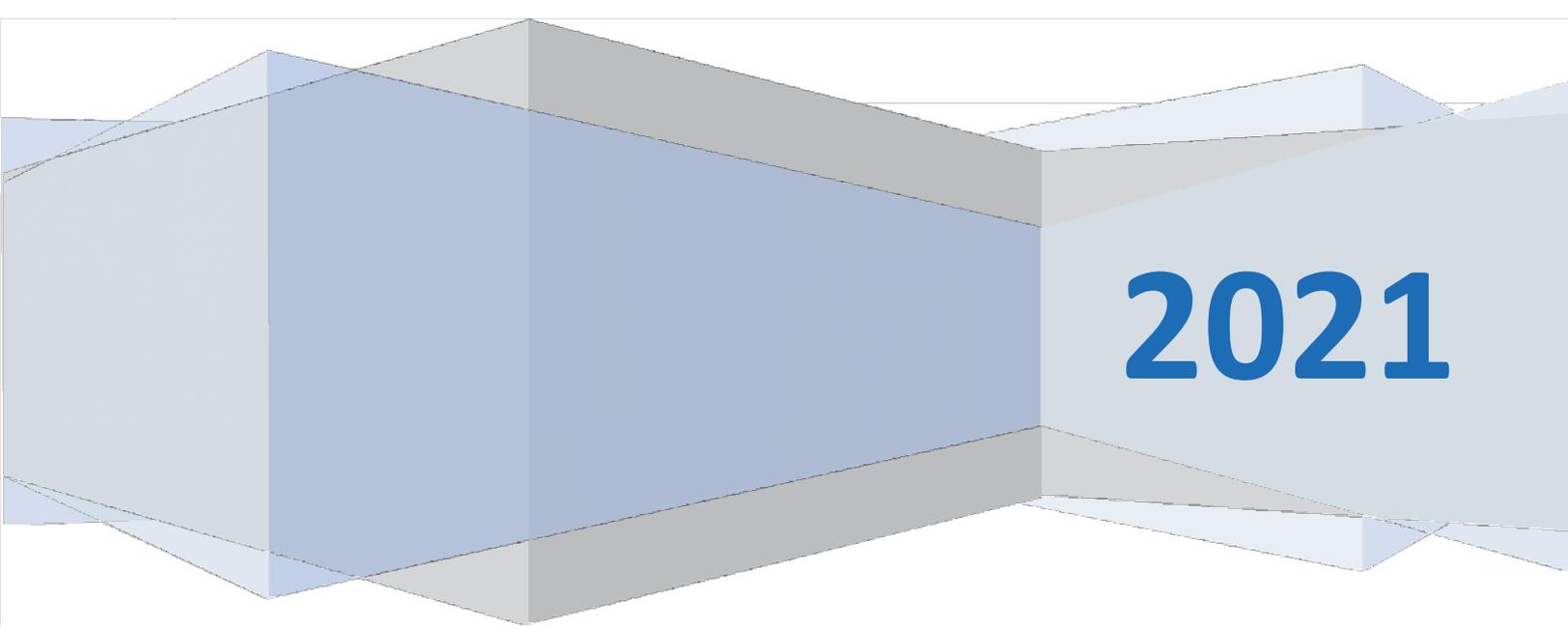
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Audit Committee Charter

April 2021



2021



AUDIT COMMITTEE CHARTER

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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
- F. Audit Committee and Internal Audit Budget

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.

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 Los Angeles County Treasurer. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of his or her 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 Chair, 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.

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

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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 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.
4. Resolve any significant disagreements regarding risks, findings and/or compensation between management and Professional Service Providers

C. Financial Reporting Process

The Audit Committee is responsible for oversight of the independent audit of LACERA's financial statements, 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. Audit Committee and Internal Audit Budget

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.

G. 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 April 23, 2021, and approved by the Board of Retirement on July 7, 2021, and the Board of Investments on July 14, 2021. This Charter is thereby effective July 14, 2021 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

*Joseph Kelly**July 19, 2021*

Joseph Kelly
Chair, Audit Committee

Date

*Keith Knox**July 19, 2021*

Keith Knox
Chair, Board of Investments

Date

*Alan Bernstein**July 19, 2021*

Alan Bernstein
Chair, Board of Retirement

Date

INTERNAL AUDIT
SERVICES

FISCAL YEAR 202**2**-202**3**
BUDGET REQUEST

Richard Bendall

INTERNAL AUDIT
FISCAL YEAR 2022-2023

Mission

To support LACERA's mission through independent, objective assurance, and consulting services.

INTRODUCTION

The purpose of Internal Audit is to provide independent, objective assurance services, and consulting services designed to add value and improve LACERA's operations. The mission of Internal Audit is to enhance and protect LACERA's organizational values by providing risk-based and objective assurance, advice, and insight. Internal Audit brings a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes to help LACERA accomplish its mission.

Internal Audit assists the organization in meeting its control objectives through Evaluating:

- Risk exposure relating to achievement of LACERA's strategic objectives.
- The reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- The systems established to ensure compliance with those policies, procedures, laws, and regulations, which could have a significant impact on LACERA
- The means of safeguarding assets and, as appropriate, verifying the existence of such assets
- The effectiveness and efficiency with which resources are employed.
- Operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operation or programs are being carried out as planned
- And monitoring governance processes

NOTABLE ACHIEVEMENTS AND CONTRIBUTIONS

All staff within Internal Audit are Certified Public Accountants, Certified Internal Auditors, or Certified Information Systems Auditors. Some have more than one certification and other relevant certifications such as certified fraud examiner and certified information security designations. During the current Fiscal Year, we established a pool of external audit firms and began using them to supplement the work we perform internally. Included in the performance of our annual audit plan,

Internal Audit developed, oversaw, or contributed significantly, in a consulting capacity, to the following notable achievements and ongoing efforts within LACERA.

- Initiated SOC-1 over OPEB Census data
- Oversaw ongoing actuarial audit activities
- Oversaw Real Estate Advisor Compliance and Operational Audits
- Oversaw Audit Committee Charter Revisions and Hiring of New Audit Committee Consultant
- Established a fully functional remote audit team
- Enhanced and formalized the Recommendation Follow-up Process
- Performed a Quality Assurance Improvement Program (QAIP) over Internal Audit Operations
- Upgraded Internal Audit's Automated Audit Management System

STAFFING

We are requesting one additional Senior Internal Auditor position. Internal Audit is often called upon to support LACERA in other areas of the organization and the additional position will provide us the flexibility to continue providing that support while ensuring we are appropriately staffed. Also, a position study was previously requested of the Principal Internal Auditor positions.

We look forward to participating in LACERA's internship program and are planning to employ an intern to work on a special project during the Fiscal Year. The budget for our intern will be included in Human Resources' budget.

We are continuing to evaluate, improve, and ensure that we provide comprehensive training for personnel at all levels to develop themselves as auditors, obtain credentials and provide for succession planning to the management (Principal) and Division Management level (Chief Audit Executive).

SERVICES AND SUPPLIES

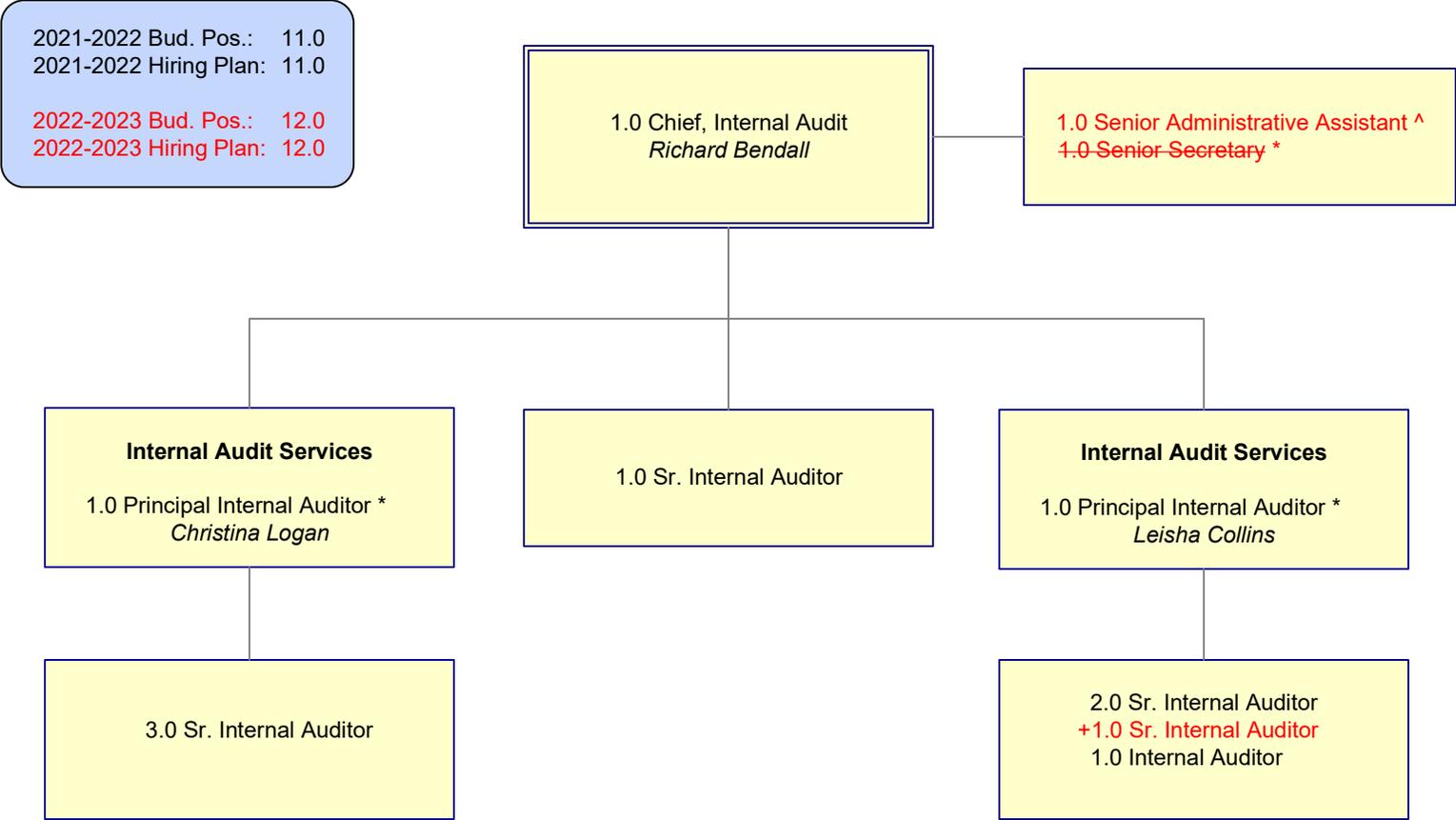
Each fiscal year, Internal Audit prepares a risk-based Audit Plan, approved by the Audit Committee. The Audit Plan defines the allocation of audit resources and communicates Internal Audit planned activities and resource requirements. This provides the basis for the Chief Audit Executive (CAE) and the Audit Committee to ensure that Internal Audit resources are appropriate, sufficient, and effectively deployed.

Internal Audit continues to leverage the use of external resources to better meet the needs of the organization and address the Audit Plan. The cost associated with these resources are a significant portion of the budget, \$650,000. Of this, approximately \$150,000 is for the external financial audit. \$500,000 is to be used at the discretion of the Audit Committee and/or staff to perform external IT audits, real estate advisor audits, and other external audits as needed to address the Audit Plan.

Our total S&S budget remained relatively unchanged, increasing only by \$4,000, from \$720,500 for Fiscal Year 2021-2022 to \$724,500 for Fiscal Year 2022-2023.

INTERNAL AUDIT

FISCAL YEAR 2022-2023



+ Added position

* Classification study for the position requested.

^ Position upgrade from Senior Secretary to Senior Administrative Assistant as a result of classification study (Pending Boards' approval).

INTERNAL AUDIT
FISCAL YEAR 2022-2023
AGENCY TEMPORARY STAFF

	<u>Amount</u>
Agency Temp Salaries	\$0

Justification: No agency staff requested for FY 2022-2023.

INTERNAL AUDIT SERVICES

FISCAL YEAR 2022-2023

LACERA INTERN PROGRAM

	<u>Amount</u>
Professional Student Worker/Intern	\$0

Justification: One (1) professional student worker or graduate student in the Accounting or Auditing field to assist in a Risk Management project in the Internal Audit Services for FY 2022-2023 which will come out of HR's Intern budget.

LACERA
FISCAL YEAR 2022-2023
OVERTIME REQUEST

INTERNAL AUDIT SERVICES

<u>POSITION</u>	<u>OVERTIME HOURS</u>	<u>TIME and 1/2 HOURLY RATES</u>	<u>TOTAL AMOUNT</u>
Internal Auditor	40		\$2,880
Senior Administrative Assistant	<u>40</u>		<u>\$2,120</u>
TOTAL	80		\$5,000

Justification:

Overtime request for special projects and audits.

INTERNAL AUDIT SERVICES
SERVICES AND SUPPLIES
FY 2022-2023 BUDGET REQUEST

ACCOUNT	DESCRIPTION	ACTUAL FY 2018-2019	ACTUAL FY 2019-2020	ACTUAL FY 2020-2021	APPROVED BUDGET FY 2021-2022	PROJECTION FY 2021-2022	DIVISION REQUEST FY 2022-2023	NOTES
TRANSPORTATION AND TRAVEL								
9181	TRANSPORTATION	\$1,058	\$1,333	\$0	\$2,000	\$800	\$2,000	APPFA, SACRS, IIA, ISACA, Roundtable, etc.
9182	TRAVEL	8,742	8,059	0	15,000	3,900	15,000	APPFA, SACRS, IIA, ISACA, Roundtable, etc.
	TOTAL	9,800	9,392	0	17,000	4,700	17,000	
OFFICE SUPPLIES AND EQUIPMENT								
9302	SPECIAL ORDERS/MINOR EQUIP	1,164	751	0	1,500	1,000	1,500	For new staff member, return to office, etc.
	TOTAL	1,164	751	0	1,500	1,000	1,500	
PROFESSIONAL AND SPECIALIZED SERVICES								
9541	AUDITS	312,476	279,411	292,969	650,000	650,000	650,000	Plante Moran, Ethical & Cultural Audit, IT, etc.
9702	AUDIT COMMITTEE CONSULTANT	8,600	7,350	16,450	21,000	21,000	25,000	Robert Griffin for audit committee consultant & travel expenses
	TOTAL	321,076	286,761	309,419	671,000	671,000	675,000	
EDUCATIONAL EXPENSES								
9961	MEMBERSHIPS	3,125	6,530	3,485	8,000	7,000	8,000	For new staff member
9962	REGISTRATION FEES	16,976	4,139	10,043	20,000	20,000	20,000	Governance Risks & Control, Ethics, APPFA, SACRS, IIA, Enterprise Risk & Pension Fund
9963	EDUCATIONAL MATERIALS	3,228	1,076	311	2,500	2,500	2,500	Roundtable, Teammate Automated Training, etc.
	TOTAL	23,329	11,745	13,839	30,500	29,500	30,500	
MISCELLANEOUS								
9986	MISCELLANEOUS	341	192	0	500	200	500	
	TOTAL	341	192	0	500	200	500	
GRAND TOTAL		\$355,709	\$308,840	\$323,258	\$720,500	\$706,400	\$724,500	3.0% more than FY 2021-2022 Projection & 0.6% more than FY 2021-2022 Mid-Year approved budget

ATTACHMENT D

Draft FY 2023 Audit Plan

Audit Projects		Audit Assignment	Basis For Inclusion In Audit Plan	Service Type
EXECUTIVE / LEGAL / ORGANIZATION				
1	Annual Organizational Governance Assessment	Internal	Annual	Assurance
2	Oversight of SOC-1 Type 2	Internal	Annual	Oversight
3	Business Continuity Plan / Disaster Recovery Audit	External	Risk Based	Assurance
4	Ethics Hotline Oversight & Investigations	Internal	Annual	Assurance
5	Targeted Organizational Governance Review	Internal	Risk Based	Assurance
6	Organizational Data Retention Audit	External	Risk Based	Assurance
7	Contract Development/Compliance Audit	Internal	Risk Based	Assurance
8	LA County Rehired Retirees Audit	Internal	Annual	Assurance
ADMINISTRATION - Admin Services, HR, Systems				
9	Continuous Auditing Program	Internal	Annual	Assurance
10	Recommendation Follow-Up	Internal	Annual	Assurance
11	Inventory Management Audit	internal	Risk Based	Assurance
12	LACERA Rehired Retirees Audit	Internal	Annual	Assurance
13	Administration Focused Audits (TBD)	Internal	Risk Based	Assurance
14	IT Governance Review	External	Risk Based	Assurance
15	IT Network Security/Pen Test	External	Risk Based	Assurance
16	Mobile Device Audit	Internal	Risk Based	Assurance
INVESTMENTS & FASD				
17	Oversight of THC RE Financial Audits	Internal	Annual	Oversight
18	Oversight of Actuarial Services	Internal	Annual	Oversight
19	Oversight of External Financial Audit	Internal	Annual	Oversight
20	Census Testing	Co-Sourced	Risk Based	Assurance
21	Custodial Bank Services	Internal	Risk Based	Assurance
22	RFP - Hiring of External Financial Auditor	Internal	Risk Based	Advisory
23	Investments & FASD Focused Audits (TBD)	Internal	Risk Based	Assurance
OPERATIONS - Benefits, DRS, RHC, Member Services, QA				
24	Continuous Audit Program	Internal	Annual	Assurance
25	Recommendation Follow-Up	Internal	Annual	Assurance
26	415B Audit	Internal	Risk Based	Assurance
27	Benefits Governance, Risk Control Review	internal	Risk Based	Assurance
28	Felony Forfeiture Audit	Internal	Risk Based	Assurance
29	Operational Focused Audit (TBD)	Internal	Risk Based	Assurance
INTERNAL AUDIT OPERATIONS				
30	Risk Assessment & Audit Planning	Internal	Annual	----
31	Quality Assurance Improvement Plan	Internal	Annual	----
32	Professional Development	Internal	Annual	----
33	Audit Committee Support	Internal	Annual	----



February 10, 2022

TO: 2022 Audit Committee
Alan J. Bernstein
Patrick L. Jones
Joseph Kelly
Keith Knox
Wayne Moore
Gina V. Sanchez
Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Principal Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **FY 2022 Internal Audit Plan Amendments**

RECOMMENDATION

The Audit Committee review and approve amendments to the FYE 2022 Internal Audit Plan

BACKGROUND

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, Standard 2010 (Attachment A) "the Chief Audit Executive (CAE) must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals. This requirement is also stated in the Audit Committee Charter (Charter). In alignment with the Standards and the Charter, the Audit Committee approved the FY 2022 Audit Plan (Audit Plan) at the June 2021 Committee meeting and staff has provided an update at the subsequent meetings.

The Standards and the Charter also require the CAE to communicate the audit plan and any subsequent significant changes to the audit plan to executive management and the Audit Committee. In accordance with the Standards and Charter, staff is proposing amendments to the Audit Plan. Changes are based on emergent risks and requests within the organization requiring audit resources, and the temporary transfer of audit staff to another division. Refer to Attachments B and C for the Audit Plan with proposed Amendments.

Proposed changes to the Audit Plan subsequent to the October 31, 2021 Reporting are as follows:

Project	Type of Adjustment	Audit Assignment	Justification
Account Settlement Collections Audit	Deferred	Internal	This engagement is deferred to FY 2023 as management is currently assessing the process.
Audit Committee Support	Increase Budgeted Hours	Internal	Additional hours necessary to allow for time spent in preparing materials and meetings which has been a significant allocation of staff time for audit work.
Audit Pool Oversight	Increase Budgeted Hours	Internal	For the first year of using audit pool, we underestimated the time required for development of documentation and procedures for audit pool oversight. Additional hours are necessary for work that will be necessary for the remaining part of the fiscal year.
Census Testing	New	Co-Sourced	We plan to have this audit conducted by a firm from our external audit pool.
Cyber SIEM	Scope	Audit Pool	Audit is changed to an IT Risk Assessment. Based on assessment, specific audits such as the SIEM audit will be planned and included on future audit plans.
External Quality Assessment	Increase Budgeted Hours	Internal	Additional hours are required due to the additional work required in working with auditors for engagement
Investment Due Diligence Audit	Increase Budgeted Hours	Audit Pool	After evaluating bids from the audit pool for this audit engagement, we determined that it is necessary to issue an RFP for this audit engagement to obtain a firm with the expertise required to conduct this audit.
LACERA Rehired Retirees Audit	New	Internal	Identified as a high-risk area.
Member Communication Audit	Scope	Internal	We are making a scope adjustment and will conduct this audit in two phases: 1) during FY 2022, IA will inventory all forms of member communications and assess audit scope based on high-risk areas. 2) IA will refine the scope of this audit engagement which will be conducted by a firm selected from our external audit engagement.
Organization Ethics and Value Review	Scope	Audit Pool	The audit scope for this engagement has been incorporated into the Organizational Governance Review. Additional audits, including an Ethics maybe included in the FY 2023 Audit Plan pending results from the Organizational Governance Review
Procurement Audit	Deferred	Internal	Postponed to due to workload priorities and staff constraints
Recommendation Follow Up	Increase Budgeted Hours	Internal	Additional hours are required due to the additional work required in the tracking and verification of the status of recommendations.
State Street Bank Monitoring	Audit Assignment	Internal	Project included to allocate audit resources for monitoring of State Street Bank access and wire authorization.
THC Operations	Deferred	Internal	Postponed to FY 2023 due workload priorities and staff resource constraints.
Wire Transfers	Audit Assignment	Audit Pool	We plan to have this audit conducted by a firm from our external audit pool.

RECOMMENDATION

The Audit Committee review and approve amendments to the FYE 2022 Internal Audit Plan

Attachments

- A. IIA Standard 2010
- B. Amended FY 2022 Audit Plan (Clean)
- C. Amended FY 2022 Audit Plan (Red-Lined)



International Professional
Practices Framework

Implementation Guide 2010

Standard 2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

Revised *Standards*, Effective 1 January 2017

Getting Started

The internal audit plan is intended to ensure that internal audit coverage adequately examines areas with the greatest exposure to the key risks that could affect the organization's ability to achieve its objectives. This standard directs the chief audit executive (CAE) to start preparing the internal audit plan by consulting with senior management and the board to understand the organization's strategies, business objectives, risks, and risk management processes. Thus, the CAE considers the maturity of the organization's risk management processes, including

whether the organization uses a formal risk management framework to assess, document, and manage risk. Less mature organizations may use less formal means of risk management.

The CAE's preparation usually involves reviewing the results of any risk assessments that management may have performed. The CAE may employ tools such as interviews, surveys, meetings, and workshops to gather additional input about the risks from management at various levels throughout the organization, as well as from the board and other stakeholders.

Considerations for Implementation

This review of the organization's approach to risk management may help the CAE decide how to organize or update the audit universe, which consists of all risk areas that could be subject to audit, resulting in a list of possible audit engagements that could be performed. The audit universe includes projects and initiatives related to the organization's strategic plan, and it may be organized by business units, product or service lines, processes, programs, systems, or controls.

Linking critical risks to specific objectives and business processes helps the CAE organize the audit universe and prioritize the risks. The CAE uses a risk-factor approach to consider both internal and external risks. Internal risks may affect key products and services, personnel, and systems. Relevant risk factors related to internal risks include the degree of change in risk since the area was last audited, the quality of controls, and others. External risks may be related to competition, suppliers, or other industry issues. Relevant risk factors for external risks may include pending regulatory or legal changes and other political and economic factors.

To ensure that the audit universe covers all of the organization's key risks (to the extent possible), the internal audit activity typically independently reviews and corroborates the key risks that were identified by senior management. According to Standard 2010.A1, the internal audit plan must be based on a documented risk assessment, undertaken at least annually, that considers the input of senior management and the board. As noted in Glossary, risks are measured in terms of impact and likelihood.

When developing the internal audit plan, the CAE also considers any requests made by the board and/or senior management and the internal audit activity's ability to rely on the work of other internal and external assurance providers (as per Standard 2050).

Once the aforementioned information has been gathered and reviewed, the CAE develops an internal audit plan that usually includes:

- A list of proposed audit engagements (and specification regarding whether the engagements are assurance or consulting in nature).
- Rationale for selecting each proposed engagement (e.g., risk rating, time since last audit, change in management, etc.).
- Objectives and scope of each proposed engagement.
- A list of initiatives or projects that result from the internal audit strategy but may not be directly related to an audit engagement.

Although audit plans typically are prepared annually, they may be developed according to another cycle. For example, the internal audit activity may maintain a rolling 12-month audit plan and reevaluate projects on a quarterly basis. Or, the internal audit activity may develop a multi-year audit plan and assess the plan annually.

The CAE discusses the internal audit plan with the board, senior management, and other stakeholders to create alignment among the priorities of various stakeholders. The CAE also acknowledges risk areas that are not addressed in the plan. For example, this discussion may be an opportunity for the CAE to review the roles and responsibilities of the board and senior management related to risk management and the standards related to maintaining the internal audit activity's independence and objectivity (Standard 1100 through Standard 1130.C2). The CAE reflects on any feedback received from stakeholders before finalizing the plan.

The internal audit plan is flexible enough to allow the CAE to review and adjust it as necessary in response to changes in the organization's business, risks, operations, programs, systems, and controls. Significant changes must be communicated to the board and senior management for review and approval, in accordance with Standard 2020.

Considerations for Demonstrating Conformance

Evidence of conformance with Standard 2010 exists in the documented internal audit plan, as well as the risk assessment upon which the plan is based. Supporting evidence also may exist in the minutes of meetings where the CAE discussed the audit universe and risk assessment with the board and senior management. In addition, memos to file could be used to document similar conversations with individual members of management at various levels throughout the organization.

About The IIA

The Institute of Internal Auditors (The IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 180,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit www.globaliia.org or www.theiia.org.

About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (non-mandatory) guidance for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

For other authoritative guidance materials provided by The IIA, please visit our website at www.globaliia.org/standards-guidance or www.theiia.org/guidance.

Disclaimer

The IIA publishes this document for informational and educational purposes. This guidance material is not intended to provide definitive answers to specific individual circumstances and, as such, is only intended to be used as a guide. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this guidance.

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ATTACHMENT B

Amended FY 2022 Audit Plan (Clean)

Amended Fiscal Year 2021-2022							
Audit Projects	Service Type	Audit Assignment	Estimated Internal Hours	Actual Hours	Variance	Status	
EXECUTIVE / LEGAL / ORGANIZATION							
1	Organizational Governance Review	Consulting	Audit Pool	300	118	182	IN PROGRESS
2	Oversight of SOC-1 Type 2	Assurance	Internal	200	179	21	COMPLETED
3	Business Continuity Plan/ Disaster Recovery	Consulting	Internal	150	3	147	IN PROGRESS
4	Review of Prior Privacy Audit	Assurance	Internal	200	10	190	IN PROGRESS
5	Organizational Check Management Policy Review	Consulting	Internal	300	25	275	IN PROGRESS
6	Ethics Hotline & Investigations	Consulting	Internal	200	59	141	ONGOING
7	Audit of Board Vantage Security Settings	Assurance	Internal	100	0	100	Q3
ADMINISTRATION - Admin Services, HR, Systems							
8	Continous Auditing Program	Assurance	Internal	500	161	339	ONGOING
9	Recommendation Follow-Up	Assurance	Internal	400	204	196	ONGOING
10	Review of HR's Recruiting & Hiring Processes	Consulting	Audit Pool	100	73	27	IN PROGRESS
11	Employee Salary Bonuses Audit	Assurance	Internal	150	466	-316	IN PROGRESS
12	Penetration & Social Engineering Audit	Assurance	Audit Pool	100	111	-11	PENDING REPORT
13	Review of IT Policies	Advisory	Internal	100	1	99	IN PROGRESS
14	Privilege Access Audit	Assurance	Internal	100	10	90	IN PROGRESS
INVESTMENTS & FASD							
15	Oversight of THC RE Financial Audits	Assurance	Internal	100	59	41	COMPLETED
16	Oversight of Real Estate Manager Reviews	Assurance	Internal	100	10	90	COMPLETED
17	Oversight of Actuarial Services	Assurance	Internal	100	33	67	ONGOING
18	Oversight of Financial Audit	Assurance	Internal	450	241	209	COMPLETED
19	Investments Due Diligence	Consulting	Audit Pool	250	97	153	IN PROGRESS
20	Wire Transfers Audit	Assurance	Audit Pool	200	0	200	Q4
OPERATIONS - Benefits, DRS, RHC, Member Services, QA							
21	Continous Audit Program	Assurance	Internal	500	193	307	ONGOING
22	Recommendation Follow-Up	Assurance	Internal	400	239	161	ONGOING
23	LA County Rehired Retirees	Assurance	Internal	250	129	121	IN PROGRESS
24	DLU's Death Claim Processing Audit	Assurance	Internal	250	188	62	IN PROGRESS
25	Required Minimum Distribution (RMD) Audit	Assurance	Internal	200	83	117	REPORT 8/13/21
26	Member Communications Audit	Assurance	Internal	150	4	146	IN PROGRESS
27	Governance, Risk, & Compliance _ RHC	Assurance	Internal	250	147	103	IN PROGRESS
INTERNAL AUDIT							
28	Risk Assessment & Audit Planning	Assurance	Internal	500	79	421	ONGOING
29	Quality Assurance Improvement Plan	Assurance	Internal	280	63	217	ONGOING
30	Professional Development	-	Internal	300	278	22	ONGOING
31	Audit Committee Support	Advisory	Internal	700	503	197	ONGOING
32	KPMG Recommendation Follow-Up	Assurance	Internal	200	41	159	IN PROGRESS
33	External Quality Assessment	Assurance	External	250	189	61	IN PROGRESS
34	Teammate	-	Internal	300	144	156	ONGOING
ADDITIONAL PROJECTS							
35	Macintosh Data Backup (Reco F/U review)	Consulting	Internal	40	0	40	Q4
36	Participation in Info Sec Project	Consulting	Internal	75	42	33	ONGOING
37	Fiduciary Review	Consulting	Internal	120	231	-111	COMPLETED
38	Audit Pool Planning & Oversight	Assurance	Internal	225	193	32	ONGOING
39	Accounts Payable	Assurance	Internal	200	99	101	IN PROGRESS
40	Review of Exec Office Credit Card	Assurance	Internal	100	145	-45	REPORT 10/11/21
41	IT Risk Assessment	Assurance	Audit Pool	200	0	200	Q4
42	Census Testing	Assurance	Audit Pool	200	28	172	IN PROGRESS
43	State Street Bank Monitoring Review	Assurance	Internal	100	10	90	IN PROGRESS
44	LACERA County Rehired Retirees	Assurance	Internal	250	91	159	IN PROGRESS
					839		
TOTAL HOURS			10140	4979	5161		

ATTACHMENT C

Amended FY 2022 Audit Plan (Red-Lined)

Audit Projects	Audit Assignment	Estimated Internal Hours	Actual Hours	Variance	Status
EXECUTIVE / LEGAL / ORGANIZATION					
1 Organizational Governance Review	Audit Pool	300	118	182	IN PROGRESS
2 Organizational Ethics & Values Review	Audit Pool			0	SCOPE ADJUSTMENT
3 Oversight of SOC-1 Type 2	Internal	200	179	21	COMPLETED
4 Business Continuity Plan / Disaster Recovery	Internal	150	3	147	IN PROGRESS
5 Review of Prior Privacy Audit	Internal	200	10	190	IN PROGRESS
6 Organizational Check Management Policy Review	Internal	300	25	275	IN PROGRESS
7 Ethics Hotline & Investigations	Internal	200	59	141	ONGOING
8 Audit of Board Vantage Security Settings	Internal	100	0	100	Q3
ADMINISTRATION - Admin Services, HR, Systems					
9 Continous Auditing Program	Internal	500	161	339	ONGOING
10 Recommendation Follow-Up	Internal	400	204	196	HOURS ADJUSTED FROM 250
11 Procurement Audit	Internal			0	DEFERRED TO FY 2023
12 Review of HR's Recruiting & Hiring Processes	Audit Pool	100	73	27	IN PROGRESS
13 Employee Salary Bonuses Audit	Internal	150	466	-316	IN PROGRESS
14 Penetration & Social Engineering Audit	Audit Pool	100	111	-11	IN PROGRESS
15 Review of IT Policies	Internal	100	1	99	IN PROGRESS
16 Cyber Security Incident Events Management (SIEM)	Audit Pool			0	REMOVED
17 Privilege Access Audit	Internal	100	10	90	IN PROGRESS
INVESTMENTS & FASD					
18 Oversight of THC RE Financial Audits (FY 2021)	Internal	100	59	41	COMPLETED
19 Oversight of Real Estate Manager Reviews	Internal	100	10	90	COMPLETED
20 Oversight of Actuarial Services	Internal	100	33	67	ONGOING
21 Oversight of Financial Audit (FY 2021)	Internal	450	241	209	COMPLETED
22 Investments Due Diligence	Audit Pool	250	97	153	HOURS ADJUSTED FROM 150
23 THC Operations & Management Audit	Internal			0	DEFERRED TO FY 2023
24 Wire Transfers Audit	Internal Audit Pool	200		200	ASSIGNED TO AUDIT POOL
OPERATIONS - Benefits, DRS, RHC, Member Services, QA					
25 Continous Audit Program	Internal	500	193	307	ONGOING
26 Recommendation Follow-Up	Internal	400	239	161	HOURS ADJUSTED FROM 250
27 LA County Rehired Retirees	Internal	250	129	121	IN PROGRESS
28 DLU's Death Claim Processing Audit	Internal	250	188	62	IN PROGRESS
29 Required Minimum Distribution (RMD) Audit	Internal	200	83	117	REPORT 8/13/21
30 Account Settlement Collections Audit	Internal			0	DEFERRED TO FY 2023
31 Member Communications Audit	Internal	150	4	146	SCOPE ADJUSTMENT
32 Governance, Risk, & Compliance _ RHC	Internal	250	147	103	IN PROGRESS
INTERNAL AUDIT					
33 Risk Assessment & Audit Planning	Internal	500	79	421	ONGOING
34 Quality Assurance Improvement Plan	Internal	280	63	217	ONGOING
35 Professional Development	Internal	300	278	22	ONGOING
36 Audit Committee Support	Internal	700	503	197	HRS ADJUST FROM 500 TO 700
37 KPMG Recommendation Follow-Up	Internal	200	41	159	IN PROGRESS
38 External Quality Assessment	External	250	189	61	HOURS ADJUSTED FROM 150
39 Teammate	Internal	300	144	156	ONGOING
ADDITIONAL PROJECTS					
39 Macintosh Data Backup (Reco F/U review)	Internal	40		40	Q4
40 Participation in Info Sec Project	Internal	75	42	33	ONGOING
41 Fiduciary Review	Internal	120	231	-111	COMPLETED
42 Audit Pool Planning & Oversight	Internal	225	193	32	HRS ADJUST FROM 125 TO 225
43 Account Payable	Internal	200	99	101	IN PROGRESS
44 Review of Exec Office Credit Card	Internal	100	145	-45	REPORT 10/11/21
45 Census Testing	Audit Pool	200	0	200	NEWLY ADDED
46 IT Risk Assessment	Audit Pool	200	28	172	NEWLY ADDED
47 State Street Bank Monitoring	Internal	100	10	90	NEWLY ADDED
48 LACERA County Rehired Retirees	Internal	250	91	159	NEWLY ADDED
TOTAL HOURS		10140	4979	5161	



February 1, 2022

TO: 2022 Audit Committee
Alan J. Bernstein
Patrick L. Jones
Joseph Kelly
Keith Knox
Wayne Moore
Gina V. Sanchez
Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **2022 Audit Committee Orientation**

The 2022 Audit Committee Orientation presentation provides each Audit Committee member with general information about the Audit Committee and Internal Audit, including an overview of the professional standards that internal auditors adhere to.

In conjunction with the presentation, we have attached the most current versions of LACERA'S Audit Committee and Internal Audit Charters, which are Attachment A and B respectively. Both charters were last reviewed and approved in 2021. Additionally, LACERA's Internal Audit division follows the International Standards for the Professional Practice of Internal Auditing (*Standards*) promulgated by the Institute of Internal Auditors (IIA). The IIA's *Standards* provide a framework for performing and promoting internal audit activities. The most recent version of the *Standards* is from 2017. The *Standards* are enclosed as Attachment C.

Attachments:

- A. LACERA Audit Committee Charter 2021
- B. LACERA Internal Audit Charter 2021
- C. Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing 2017

RPB:cl

Audit
Committee
Orientation
2022



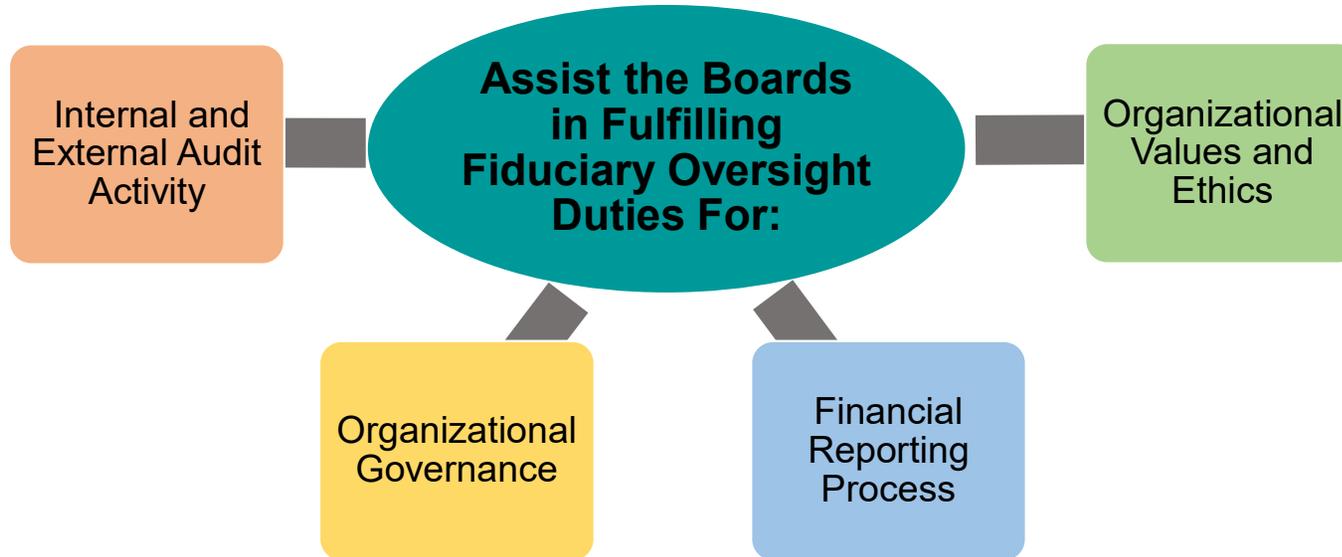
Agenda



- Audit Committee
- Internal Audit
- Institute of Internal Auditors (IIA) Framework and Standards



Purpose of the Audit Committee



In these times of rapid change and increased uncertainty, the need for the oversight role that audit committees play is as critical as ever. The most effective audit committees are engaged, executing their responsibilities with diligence, and this engagement significantly enhances the financial reporting output.

—Sagar Teotia, SEC Chief Accountant

Authority of Audit Committee



Principles of Audit Committee



The Audit Committee will conduct itself in accordance with LACERA's Code of Ethical Conduct and core principles from the Institute of Internal Auditors (IIA) Code of Ethics.

Integrity

Independence
& Objectivity

Confidentiality

Competency

Professional
Standards

IIA's Definition of the Board and the Audit Committee



- The IIA defines the **board** as “the highest-level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization’s activities and hold senior management accountable.
- The word “board” in the IIA *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an **audit committee**).



Audit Committee Charter



The Audit Committee 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.

Audit Committee Charter

- Defines the audit committee's purpose, authority, and responsibility
- Establishes the audit committee's responsibility and fiduciary oversight duties
 - Internal audit activity
 - Professional service provider activity
 - Financial reporting process
 - Values and ethics
 - Organizational governance

Review & Approval

- Reviewed at least every three years
- Last reviewed by the Committee on 4/23/2021
- Last approved by the BOR on 7/7/2021
- Last approved by the BOI on 7/14/2021
- Next review is in 2024

Audit Committee Consultant

The Audit Committee hires an Audit Committee Consultant as the technical and financial expert to advise the Committee on audit and financial matters.

Requirements for a Consultant

- Advanced degree and related certifications
- Prior experience advising Audit Committees
- Specific knowledge of '37 Act Pension Systems
- Broad knowledge of public pension and investment practices and emerging trends
- Knowledge of financial regulatory sources (GASB, GAAP, GAAS, etc.)
- Strong sense of corporate governance

Current Consultant

Robert Griffin, Managing Partner at William Adley

- Approved by the Audit Committee in December 2020
- Contract expires December 2023

Overview of LACERA's Internal Audit Division



Mission:

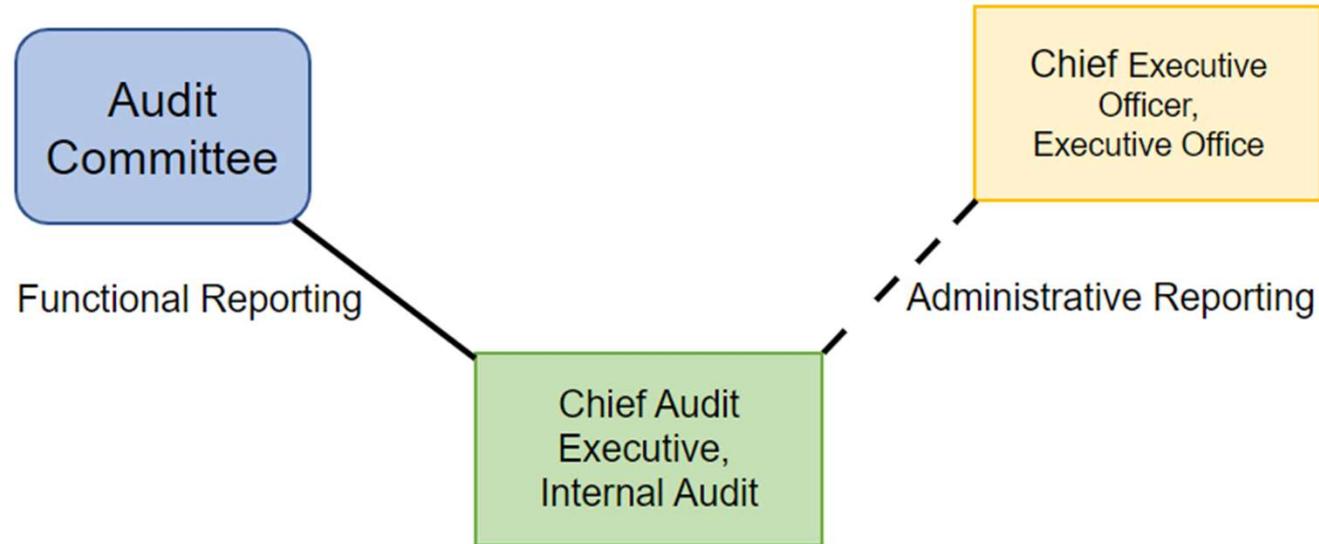
Enhance and protect LACERA's organizational values by providing risk-based and objective assurance, advice, and insight.

Purpose:

Provide independent and objective assurance, consulting, and advisory services that are designed to add value and improve LACERA's operations.

- **Assurance / Audit Engagements** - Provide an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for LACERA.
- **Consulting Engagements** - Work with Management to define the scope and objective of a formal assessment and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.
- **Advisory Engagements** - Provide informal advice to Management.

Internal Audit's Organizational Independence



Internal Audit reports functionally to the Audit Committee to ensure Management cannot unduly influence the nature or scope of audit work. Meetings are held to keep the Audit Committee abreast of Internal Audit's work, and risks and issues.

Internal Audit reports administratively to the Chief Executive Officer.

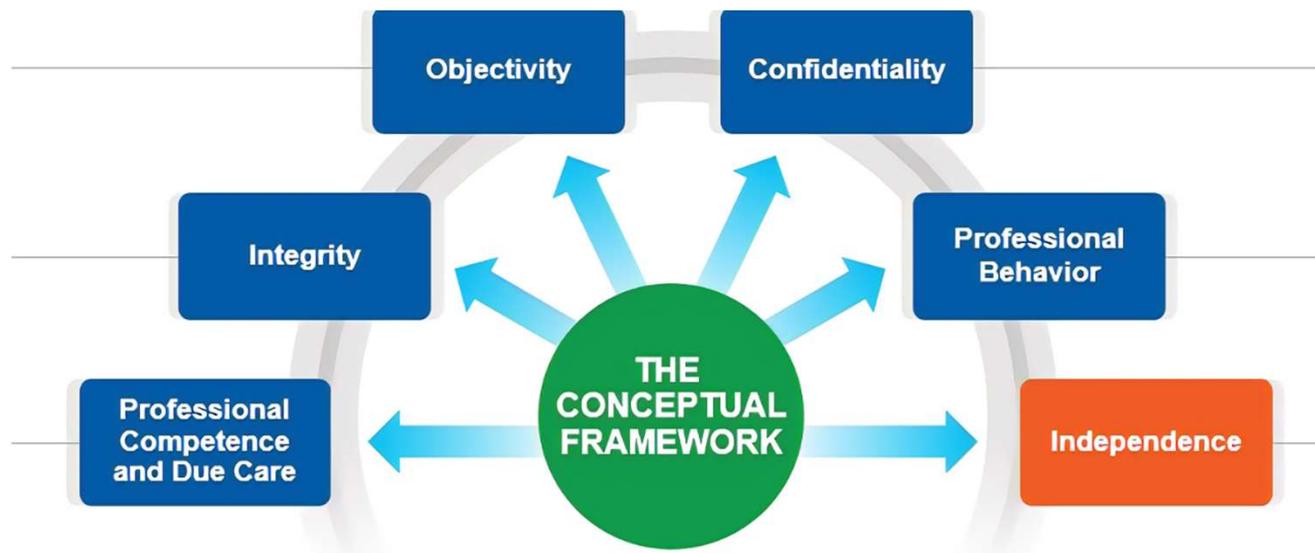
Key Take-Away: Internal Audit's is independent of operations.

Key Principles of Internal Audit



Internal Audit and its staff will conduct itself in accordance with LACERA's Code of Ethical Conduct and core principles from the Institute of Internal Auditors (IIA) Code of Ethics.

Annually, Internal Audit staff are required to attend a two-hour IIA Ethics course and acknowledge the IIA's Standards regarding Independence & Objectivity, Proficiency & Due Care, and the Code of Ethics. This was last completed in December 2021 with no exceptions.



Internal Audit Charter



The IIA *Standards* 1000 and 1010 requires an internal audit charter to define the purpose, authority, and responsibility of internal audit activity and to recognize the mandatory guidance in the audit charter.

Internal Audit Charter

- Defines the internal audit activity's purpose, authority, and responsibility
- Establishes the internal audit activity's position within the organization
- Defines the nature of the chief audit executive's functional reporting relationship with the board
- Defines the scope of internal audit activities

Review & Approval

- Reviewed annually by staff and present changes to Committee when necessary
- Last reviewed and approved by the Audit Committee on 8/26/2021

International Professional Practices Framework (IPPF)



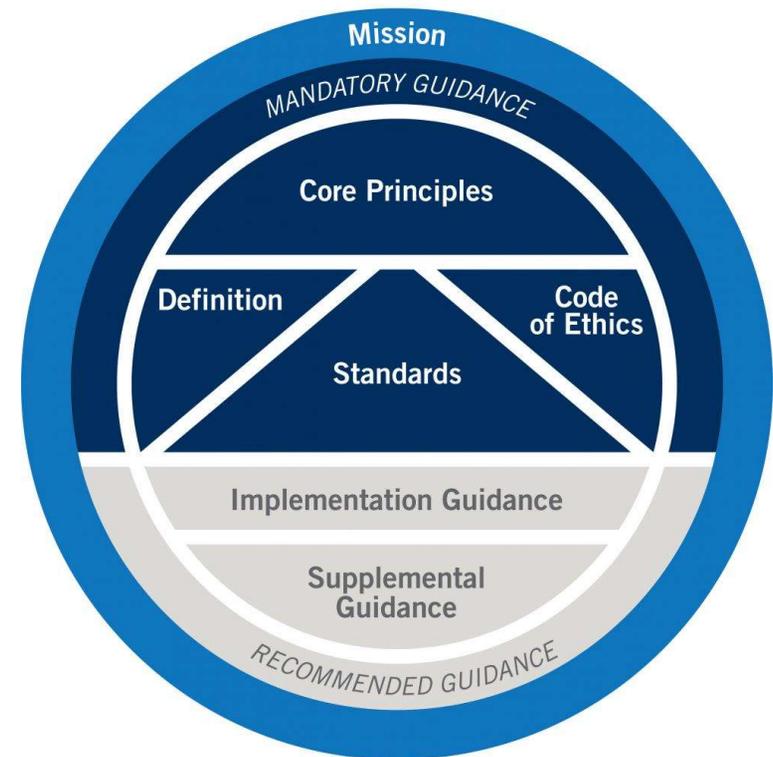
The International Professional Practices Framework (IPPF) is the conceptual framework that organizes authoritative guidance promulgated by the IIA.



International Professional Practices Framework

The IPPF covers the following internal auditing areas:

- Mandatory Guidance
 - Definition of Internal Auditing
 - Core Principles for the Professional Practice of Internal Auditing
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing (*Standards*)
- Recommended Guidance
 - Implementation Guidance
 - Supplemental Guidance



Attribute Standards



Attribute Standards address the characteristics of organizations and parties performing internal audit activities.

- 1000 – Purpose, Authority, and Responsibility
- 1100 – Independence and Objectivity
- 1200 – Proficiency and Due Professional Care
- 1300 – Quality Assurance and Improvement Program

Performance *Standards*



Performance *Standards* describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated.

- 2000 – Managing the Internal Auditing Activity
- 2100 – Nature of Work
- 2200 – Engagement Planning
- 2300 – Performing the Engagement
- 2400 – Communicating Results
- 2500 – Monitoring Progress
- 2600 – Communicating the Acceptance of Risk

Other Professional Resources for LACERA Internal Auditors



- Association of Public Pension Fund Auditors (APPFA)
- American Institute of Certified Public Accountants (AICPA)
- Association of Certified Fraud Examiners (ACFE)
- Information Systems Audit and Control Association (ISACA)
- Committee of Sponsoring Organizations of the Treadway Commission (COSO)

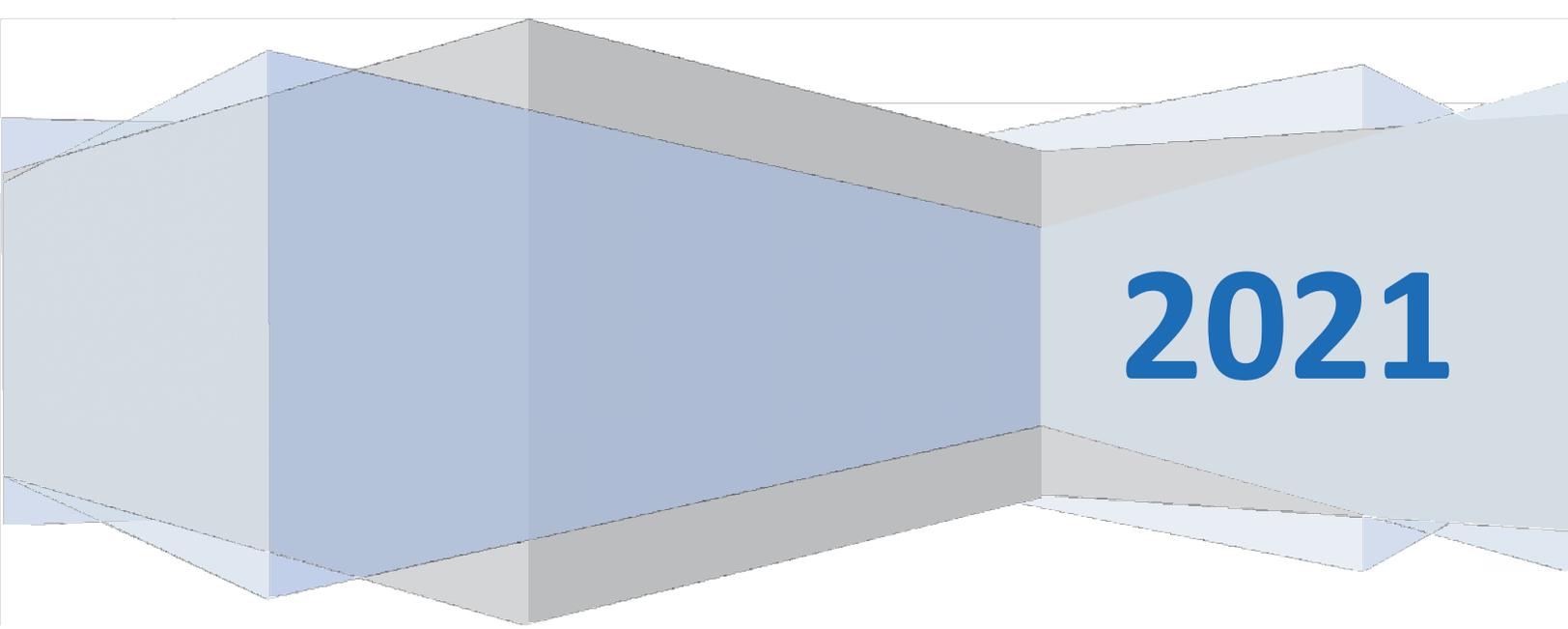


Questions or Comments



Audit Committee Charter

April 2021



2021



AUDIT COMMITTEE CHARTER

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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
- F. Audit Committee and Internal Audit Budget

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.

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 Los Angeles County Treasurer. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of his or her 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 Chair, 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 and also published on the LACERA website, lacera.com. 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, 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. 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 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.
4. Resolve any significant disagreements regarding risks, findings and/or compensation between management and Professional Service Providers

C. Financial Reporting Process

The Audit Committee is responsible for oversight of the independent audit of LACERA's financial statements, 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. Audit Committee and Internal Audit Budget

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.

G. 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 April 23, 2021, and approved by the Board of Retirement on July 7, 2021, and the Board of Investments on July 14, 2021. This Charter is thereby effective July 14, 2021 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Joseph Kelly

July 19, 2021

Joseph Kelly
Chair, Audit Committee

Date

Keith Knox

July 19, 2021

Keith Knox
Chair, Board of Investments

Date

Alan Bernstein

July 19, 2021

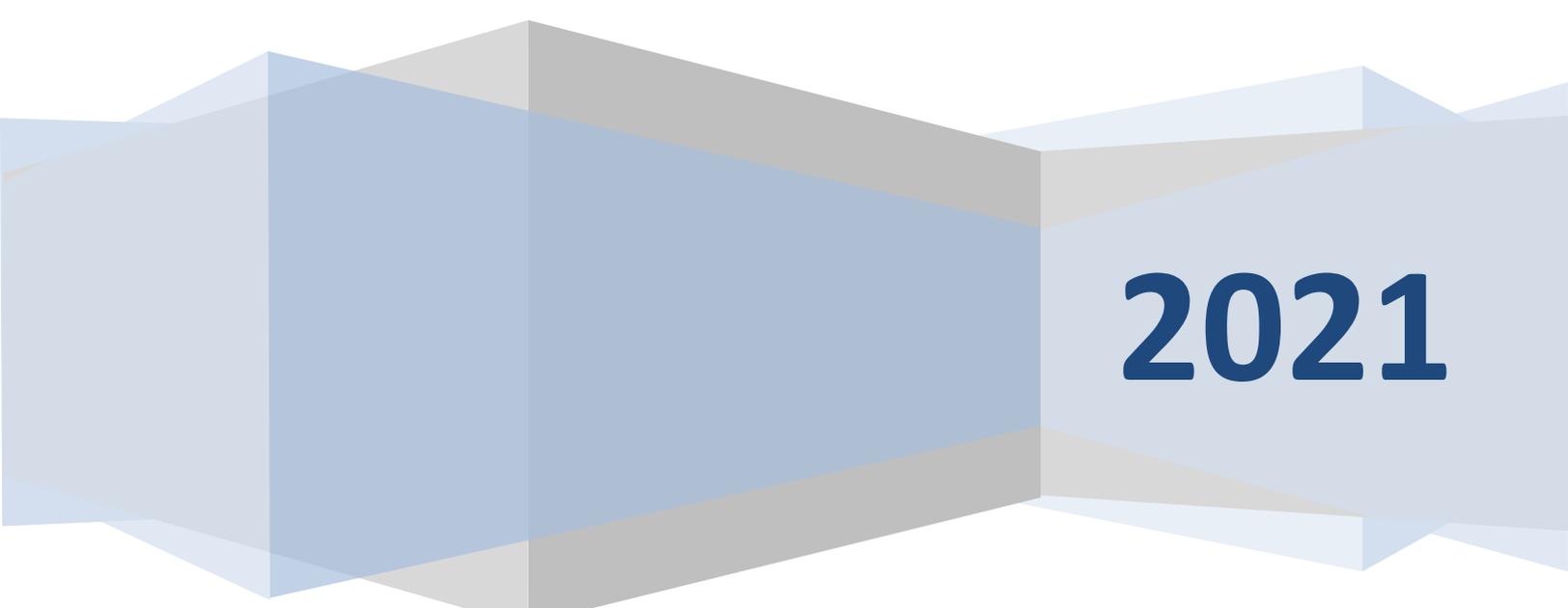
Alan Bernstein
Chair, Board of Retirement

Date

Internal Audit Charter

INTERNAL AUDIT SERVICES

August 2021



2021



INTERNAL AUDIT CHARTER

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INTERNAL AUDIT CHARTER

I. PURPOSE AND MISSION

The purpose of Internal Audit is to provide independent and objective assurance services, and consulting services designed to add value and improve LACERA's operations. The mission of Internal Audit is to enhance and protect LACERA's organizational values by providing risk-based and objective assurance, advice, and insight. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

II. ROLE

The internal audit activity was established by the Audit Committee. Internal Audit's responsibilities are defined by the Audit Committee as part of the Audit Committee's oversight role.

III. OBJECTIVES

A. Assurance Objectives

The goal of assurance services is to 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. Assurance services include audits and continuous process testing to assess if the organization's assets are adequately safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws and LACERA policies. Assurance services also include the independent assessment of the organization's risk awareness, reliability, and integrity of the organization's data and the achievement of LACERA's goals and objectives.

B. Consulting Objectives

The objective of consulting services is to provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility. Internal Audit will participate as consultants in the assessment and review of controls, policies, procedures, and systems, both manual and electronic. In addition, opportunities for improving management controls, and LACERA's image may be identified during audits; and these will be communicated to the appropriate level of Management.

C. Advisory Objectives

The objective of advisory services is to provide informal advice to Management. Having Internal Audit consult at the beginning of a project, aids management in identifying and managing risks effectively, and designing adequate internal controls. Examples of advisory services include participating in various committees in ex-officio capacity;



providing routine advice on policies, establishing controls, providing training and risk management tools, and facilitating meetings.

IV. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, *the International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The CAE will report periodically to executive management and the Audit Committee regarding Internal Audit's conformance to the Code of Ethics and the *Standards*.

Additionally, Internal Audit will obtain guidance from the professional standards and practices of other, relevant professional organizations, including but not limited to, the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Associate of Certified Fraud Examiners, and the Association of Public Pension Fund Auditors.

V. ORGANIZATION

The Chief Audit Executive (CAE) reports functionally to the Audit Committee of the Board of Investments and Board of Retirement, and administratively to the Chief Executive Officer. This reporting structure provides for Internal Audit's independence and objectivity as required by professional standards.

The Audit Committee's roles and responsibilities are defined in the Audit Committee Charter.

VI. AUTHORITY

Internal Audit, with strict accountability for confidentiality, and safeguarding of records and information, is authorized full, free, and unrestricted access to any and all of LACERA's hard copy and electronic records, data maintained within IT systems or databases, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities.

The CAE will have unrestricted access to, and communicate directly with the Audit Committee and Boards, subject to the requirements of the Ralph M. Brown Act (Government Code Section 54950, et seq.).

VII. INDEPENDENCE AND OBJECTIVITY

Internal Audit will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.



Internal Audit will be diligent in monitoring its own potential conflicts of interest in performing its Mission, Objectives, and Responsibility under this Charter. Where a conflict is identified, the Audit Committee will be advised, and a determination will be made by the Committee as to whether to proceed and procure an independent outside auditor. Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment.

Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The CAE will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit division. The CAE will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

VIII. SCOPE OF INTERNAL AUDIT ACTIVITIES

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of LACERA's governance, risk management, and control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.

A. LACERA's Operations

1. Assess that management has established processes and systems that are operating within the highest fiduciary standards and are directed toward the requirements defined in the Federal and state laws, regulations, and LACERA policies and procedures.
2. Evaluate the efficiency and effectiveness of processes and resources deployed.
3. Review the reliability and integrity of financial and operational information, and the means used to identify, measure, classify, and report such information.

B. Values & Ethics

1. Assess LACERA's processes for promoting appropriate ethics and values within the organization.



2. Review Management's process for communicating and monitoring compliance with LACERA's Code of Ethical Conduct for all stakeholders.

C. Organizational Governance

1. Risk Management
 - a. Assess business risks and effectiveness of mitigating control mechanisms.
 - b. Assess Management's implementation and maintenance of an appropriate enterprise wide risk management process.
2. Fraud
 - a. Assess LACERA's processes for preventing and detecting fraud.
 - b. Oversee LACERA's Ethics Hotline process.
3. System of Internal Controls
 - a. Review Management's established system of internal control to ascertain whether it is functioning as designed.
4. System of Compliance
 - a. Review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.

D. Other Responsibilities

1. Evaluate the quality of performance of Professional Service Providers, including the Financial Auditor, and the degree of coordination with Internal Audit.
2. Evaluate specific operations at the request of the Audit Committee, Boards, or Management, as appropriate.

IX. ACCOUNTABILITY

The CAE, in the discharge of his/her duties, shall be accountable to Management and the Audit Committee to:

- A. Select, train, develop, and retain a competent Internal Audit staff that collectively has the abilities, knowledge, skills, experience, and professional certifications to meet the requirements of this Charter. Report to the Audit Committee significant changes in Internal Audit personnel.
- B. Annually develop a flexible audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, the Audit Committee, or the Boards. Submit the annual Audit Plan and significant interim changes to Executive Management and the Audit Committee for review and approval.



- C. Annually provide a proposed budget that corresponds to the annual Audit Plan.
- D. Issue reports to Management and the Audit Committee, at the conclusion of each Internal Audit engagement. The written reports will include Management's responses, and if applicable, Management's timetable for implementing recommendations or corrective actions.
- E. Establish and maintain a follow-up system to monitor the disposition of results communicated to Management and ensure Management actions have been effectively implemented or that Executive Management has accepted the risk of not taking action.
- F. Annually provide an assessment on Management's process for communicating and monitoring compliance with LACERA's Ethical Code of Conduct for all stakeholders.
- G. Annually provide an assessment on the adequacy and effectiveness of LACERA's organizational governance, including risk management, fraud, system of controls, and system of compliance.
- H. Provide a summary of all cases reported to the Ethics Hotline at each Audit Committee meeting.
- I. Report significant issues related to the processes for controlling the activities of LACERA and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- J. Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.

X. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the division's activities. The program will include an evaluation of the division's conformance with the Definition of Internal Auditing and the Standards, and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of Internal Audit's activity and identifies opportunities for improvement.

The CAE will communicate to Executive Management and the Audit Committee on the Internal Audit division's quality assurance and improvement program, including the results of internal assessments and external assessments which are conducted at least once every five years by a qualified, independent assessor.

**XI. APPROVAL**

This Internal Audit Charter (“IA Charter”) was reviewed and adopted by the Audit Committee on August 26, 2021 . This IA Charter is thereby effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

APPROVED AND ADOPTED BY:

<i>Signature on File</i>	<u>09/15/21</u>	<i>Signature on File</i>	<u>09/15/21</u>
Joseph Kelly <i>Chair, Audit Committee</i>	Date	Santos H. Kreimann <i>Chief Executive Officer</i>	Date
 <i>Signature on File</i>	 <u>09/15/21</u>		
Richard Bendall <i>Chief Audit Executive</i>	Date		

INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

Introduction to the *Standards*

Internal auditing is conducted in diverse legal and cultural environments; for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The purpose of the *Standards* is to:

1. Guide adherence with the mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are a set of principles-based, mandatory requirements consisting of:

- Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- Interpretations clarifying terms or concepts within the *Standards*.

The *Standards*, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework; therefore, conformance with the Code of Ethics and the *Standards* demonstrates conformance with all mandatory elements of the International Professional Practices Framework.

The *Standards* employ terms as defined specifically in the Glossary. To understand and apply the *Standards* correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the *Standards* use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

The *Standards* comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.

Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor. Generally, three parties are participants in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The *Standards* apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity's overall conformance with the *Standards*.

If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the *Standards*, conformance with all other parts of the *Standards* and appropriate disclosures are needed.

If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, internal audit communications may also cite the use of other requirements, as appropriate. In such a case, if the internal audit activity indicates conformance with the *Standards* and inconsistencies exist between the *Standards* and other requirements, internal auditors and the internal audit activity must conform with the *Standards* and may conform with the other requirements if such requirements are more restrictive.

The review and development of the *Standards* is an ongoing process. The International Internal Audit Standards Board engages in extensive consultation and discussion before issuing the *Standards*. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA's website as well as being distributed to all IIA institutes.

Suggestions and comments regarding the *Standards* can be sent to:

The Institute of Internal Auditors
Standards and Guidance
1035 Greenwood Blvd, Suite 401
Lake Mary, FL 32746 USA

E-mail: guidance@theiia.org

Web: www.globaliia.org

**INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF
INTERNAL AUDITING (STANDARDS)**

Attribute Standards

1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 – The nature of consulting services must be defined in the internal audit charter.

1010 – Recognizing Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity 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, the chief audit executive has direct and unrestricted access to senior management and the board.

International Standards for the Professional Practice of Internal Auditing (Standards)

This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

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 to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter.*
- *Approving the risk-based internal audit plan.*
- *Approving the internal audit budget and resource plan.*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.*
- *Approving decisions regarding the appointment and removal of the chief audit executive.*
- *Approving the remuneration of the chief audit executive.*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1112 – Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the

International Standards for the Professional Practice of Internal Auditing (Standards)

internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

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, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

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.

Interpretation:

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.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.A3 – The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 – Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

International Standards for the Professional Practice of Internal Auditing (Standards)

1220.A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Probability of significant errors, fraud, or noncompliance.
- Cost of assurance in relation to potential benefits.

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- Relative complexity and extent of work needed to achieve the engagement’s objectives.
- Cost of the consulting engagement in relation to potential benefits.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement program.

1310 – Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

1311 – Internal Assessments

International Standards for the Professional Practice of Internal Auditing (Standards)

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

1321 – Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*”

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement program.

Interpretation:

The internal audit activity conforms with the Code of Ethics and the Standards when it achieves the outcomes described therein. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 – Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Performance Standards

2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:

The internal audit activity is effectively managed when:

- *It achieves the purpose and responsibility included in the internal audit charter.*
- *It conforms with the Standards.*
- *Its individual members conform with the Code of Ethics and the Standards.*
- *It considers trends and emerging issues that could impact the organization.*

The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

2020 – Communication and Approval

International Standards for the Professional Practice of Internal Auditing (*Standards*)

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 – Coordination and Reliance

The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

Interpretation:

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the *Standards*. Reporting must also include

International Standards for the Professional Practice of Internal Auditing (Standards)

significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- *The audit charter.*
- *Independence of the internal audit activity.*
- *The audit plan and progress against the plan.*
- *Resource requirements.*
- *Results of audit activities.*
- *Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues.*
- *Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization.*

These and other chief audit executive communication requirements are referenced throughout the Standards.

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Code of Ethics and the Standards.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

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- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor’s assessment that:

- *Organizational objectives support and align with the organization’s mission.*
- *Significant risks are identified and assessed.*
- *Appropriate risk responses are selected that align risks with the organization’s risk appetite.*
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization’s risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

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2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

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2201.A1 – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210 – Engagement Objectives

Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Interpretation:

Types of criteria may include:

- *Internal (e.g., policies and procedures of the organization).*
- *External (e.g., laws and regulations imposed by statutory bodies).*
- *Leading practices (e.g., industry and professional guidance).*

2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

2220 – Engagement Scope

The established scope must be sufficient to achieve the objectives of the engagement.

2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

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2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 – Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.

2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

Interpretation:

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Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 – Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information

Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 – Communicating Results

Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating

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Communications must include the engagement's objectives, scope, and results.

2410.A1 – Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 – Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

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2430 – Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”

Indicating that engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” is appropriate only if supported by the results of the quality assurance and improvement program.

2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2450 – Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other

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stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will include:

- *The scope, including the time period to which the opinion pertains.*
- *Scope limitations.*
- *Consideration of all related projects, including the reliance on other assurance providers.*
- *A summary of the information that supports the opinion.*
- *The risk or control framework or other criteria used as a basis for the overall opinion.*
- *The overall opinion, judgment, or conclusion reached.*

The reasons for an unfavorable overall opinion must be stated.

2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 – Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

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Glossary

Add Value

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board

The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Core Principles for the Professional Practice of Internal Auditing

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Impairment

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

Information Technology Governance

Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

Must

The *Standards* use the word “must” to specify an unconditional requirement.

Objectivity

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.

Overall Opinion

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organization is willing to accept.

Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.

Should

The *Standards* use the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the International Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

International Standards for the Professional Practice of Internal Auditing (*Standards*)



January 31, 2022

TO: Each Trustee,
Audit Committee

FROM: Santos H. Kreimann, ^{SHK}
Chief Executive Officer

Luis A. Lugo, ^{LL}
Deputy Chief Executive Officer

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **Management's Compliance Report**

Introduction

Management is committed to ensuring that LACERA's operations comply with laws, policies, best practices, and ethical principles and that an adequate system of controls is maintained across the organization. Moreover, that we promote and implement a compliance program that seeks to prevent, detect, and respond to violations of law and policy by staff members and others. Management recognizes that these goals are aspirational and will require continuous improvements in the fund's compliance process, including efforts to identify, assess, and minimize organizational risks.

This report will provide, first, an overview of Management's approach to operational compliance and risk management; second, a status report on Management's current compliance structure; and third, a general statement of Management's plans for the future to develop and enhance compliance efforts.

The report is intended to focus on enterprise-wide compliance and risk management; it does not cover investment compliance or risk which is currently under the authority of the Board of Investments.

Discussion

A. Management's Approach to Compliance

Management supports the approach outlined in The Institute of Internal Auditors' (IIA) Three Lines Model. Internal Audit has discussed this Model with the Audit Committee in the past. The IIA's most recent update on the Model is attached.

The Model provides a structure that assigns responsibility for compliance to all components of an organization through mutually reinforcing roles to fulfill the organization's Mission. The Model divides these roles into "three lines:"

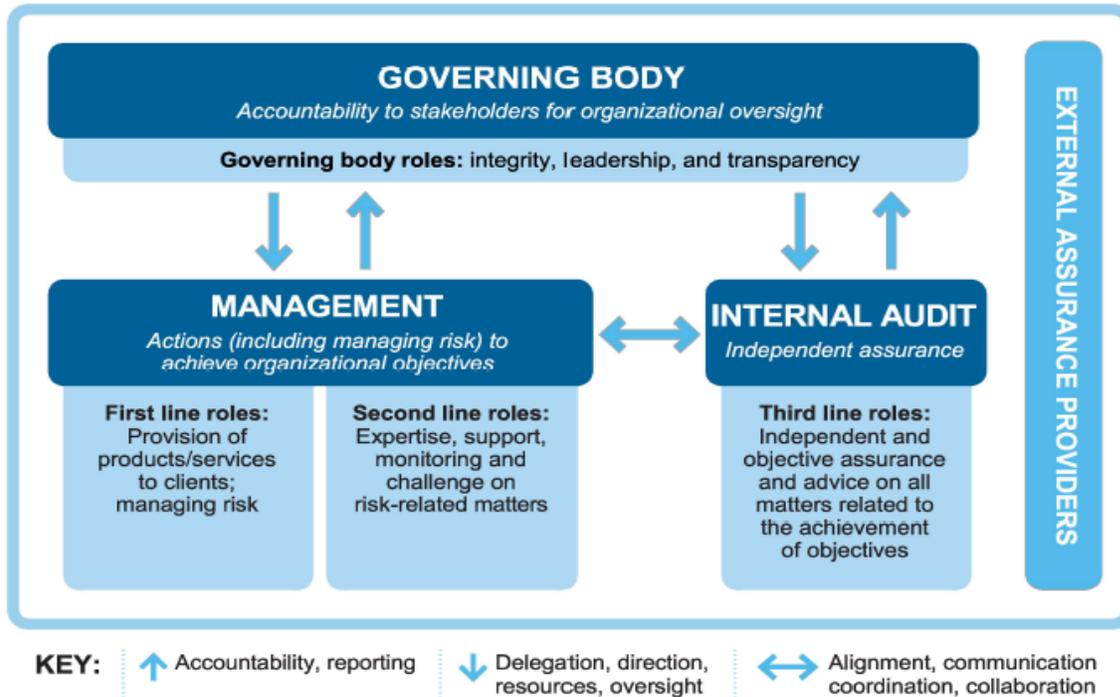
The First Line consists of those operational parts of the organization that are responsible for delivery of services to customers, which in LACERA's case are the fund's stakeholders – members, the plan sponsors, and the public. The First Line includes both “front of house” and “back of the house” activities. For LACERA, the First Line includes the member-facing divisions and those divisions that support them. Although the First Line role is operational, they have responsibility for managing risk by ensuring their processes comply with legal, policy, and ethical requirements. The First Line is overseen by and accountable to Management, and Management in turn is responsible and reports to the organization's governing body – LACERA's Boards and its Audit Committee – for the compliance of First Line divisions.

The Second Line provide expertise, support, and monitoring on risk-related matters. The Second Line is operational and works in a complementary manner with the First Line to provide expertise, support, and monitoring for the management of risk and the achievement of risk management goals. While the First Line is risk aware in the performance of operations, Second Line activities provide dedicated resources to address operational risk. The Second Line develops internal controls to ensure compliance with laws, policies, ethics, information security, and quality assurance. The Second Line can also have broad responsibility for enterprise risk management (ERM). As with the First Line, Second Line roles are overseen by and accountable to Management and Management is responsible and reports to the governing body regarding the success of the Second Line in risk-related matters. The Model recognizes that First and Second Line roles are often not completely separate and that a single division or function can blend responsibilities in both Lines.

The Third Line is Internal Audit, which provides independent assurance that the internal processes established by the First and Second Lines, under the direction of Management, are adequate. Internal Audit evaluates processes, identifies compliance gaps, provides recommendations for remediation, and follows up as to whether recommendations have been implemented. Internal Audit reports to the Audit Committee, as an extension of the governing body, LACERA's Boards. While Internal Audit is independent of operations, it communicates and collaborates with Management, and its First and Second Lines, in the oversight of risk in the organization.

The interrelationship and roles of the governing body, Management, Internal Audit, and the Three Lines is shown in the following diagram:

The IIA's Three Lines Model



Source: *The IIA's Three Lines Model: An Update on the Three Lines of Defense* (IIA, July 2020), page 4.

LACERA's Management strives to have strong and identifiable functions at each of the Three Lines. LACERA currently has strong functions in each Line, as will be discussed in the next section. However, a fully formed implementation of the Three Line Model remains an aspirational goal, as there is room for improvement in LACERA's compliance structures and risk management processes.

B. The Current Compliance Structure

As recognized in the Three Lines Model, many of LACERA's divisions have both First and Second Line responsibilities. The compliance responsibilities of each division are outlined below, roughly fitted into the Three Lines based on each division's primary responsibilities.

First Line

- Member Services Division provides First Line supportive and professional service to members through any of the available channels they choose whether it be online, by telephone, in person, or in writing. The division strives to provide accurate, clear, and common-language explanations of all plans, plans options, purchases, purchase options, and retirement-related issues. Division staff are aware that members rely upon the information provided in making life decisions regarding their benefits, and they are aware of the organizational risk that is created if advice is not correct and timely. Therefore, Members Services provides

its counseling in compliance with LACERA's policies and applicable law and ethical standards. They do so primarily through Operating Instructions (OIs) which help standardize the information provided to members. They also use a call quality scoring system for their Call Center staff to monitor policy and procedure adherence.

- Benefits Division provides the determination of the eligibility and amount of member pension benefits, through the collection of contributions and purchases, the payment of benefits, and the safeguarding of each member's account in compliance with governing law. While benefits processing is very much a First Line function, Division staff is aware of the risks created by inaccurate or untimely calculations. To address this risk, the Division includes a Process Management Group responsible for the development and promulgation of business rules in coordination with staff from throughout LACERA. The Division also includes a Benefit Protection Unit that protects members from loss due to member identity theft, fraud, or lost contact with members. Other Division units, including the Accounts Settlement Unit (to resolve account imbalances and outstanding payables and receivables), the Advanced Payroll Unit (for complex retiree processes), and the Death and Legal Unit (to process death-related transactions, as well as subpoena responses, legal splits, tax levies, and spousal and child support orders. Some of these responsibilities include elements of a Second Line risk management approach, in addition to the Division's primary First Line responsibilities.
- Disability Retirement Services is responsible for the First Line operational work of investigating and evaluating disability retirement applications and presenting recommendations to the Board of Retirement for action, working with the Legal Division when necessary. Staff also administers the disability appeals process in conjunction with the Disability Litigation Division and serves as the Custodian of Records for disability retirement files.
- Disability Litigation Division provides First Line legal representation to LACERA for disability retirement and service-connected survivor's benefit appeals at the administrative level before the Board of Retirement.
- Retiree Healthcare Division administers the healthcare benefits program for retirees and beneficiaries, including member service on healthcare-related matters, interaction with program insurers concerning contract and premium negotiations, and communicates with the County concerning its premium subsidies in compliance with the terms of the agreements between LACERA and the County.
- Communications Division services include project management, public relations and strategic marketing, graphic design, photography, writing and editing, and video production. Staff creates print materials, videos, and web design and content across our four websites (lacera.com, Intranet, HR Pros, and Board Resources). The Division's communications also include the quarterly member newsletters, PostScript and Spotlight, and design of the Annual Comprehensive Financial Report (ACFR).

- Human Resources Division is responsible for providing human resources support to all LACERA Division. The Division's First Line work encompasses all areas of human resources such as: leave management, recruitment, selection, performance and workforce management, classification, compensation, employee and organizational development, employee payroll and benefits, employee relations, labor negotiations, employee discipline, workplace investigations, workers' compensation, career planning and development, and conflict resolution. In performing these functions, the Division must be risk aware and applies, labor/employment law compliance and American Disability Act (ADA)/Family Medical Leave Act (FMLA)/California Family Rights Act (CFRA)/Fair Labor Standards Act (FLSA) administration.
- Financial and Accounting Services Division (FASD) supports administrative and investment financial transactions while ensuring compliance with regulatory and statutory financial reporting mandates. The Division's responsibilities include interaction with LACERA's financial auditor and actuaries, the County with respect to contribution setting and payments, and other financial matters. While these responsibilities are in many respects First Line, there is an emphasis also upon the management of risk in ensuring that sound financial processes are in place to ensure policy and legal compliance and avoid errors and fraud.
- Systems Division is responsible to strengthen, modernize, build, and maintain a world-class technological infrastructure supportive of LACERA's First Line operational needs and its Second Line compliance processes. Systems has implemented new remote computing capabilities, cloud-hosted services, better systems redundancies, and stronger cybersecurity features.
- Administrative Services Division provides the operational infrastructure that supports the other divisions in administering LACERA programs and services. In short, the Division ensures that each division and staff member has the right resources to do their jobs. The Division also ensures compliance with important risk-alert policies and processes such as workplace safety, business continuity, disaster recovery, the Procurement Policy and contract administration, the Record Information Management Policy and record retention schedule, and insurance.
- Legal Division provides First Line assistance to all LACERA divisions on questions arising from day-to-day operations. The Division also provides a great deal of Second Line services in providing independent advice and recommendations to the Boards, Management, and staff with respect to compliance with laws, regulations, and ethics.
- Investments Office with direction from LACERA's Board of Investment (BOI) is responsible for establishing LACERA's investment policy and objectives, as well as exerting authority and control over the investment management of the pension and benefits trusts. The Investment offices provides first and second line functions. The investment and risk compliance functions are under exclusive authority of the Board of Investment (BOI) and are not within the scope of the organizations operational and administrative compliance program.

Second Line

- Information Security Office, which is currently within the Executive Office, performs Second Line responsibilities to develop, communicate, and enforce policies processes and security procedures to manage and avoid risk with respect to LACERA's information technology and use of information. The Office is primarily a Second Line function. However, the service the Office provides to assist Management in delivering services through a secure system is a First Line role.
- Quality Assurance & Metrics Division performs Second Line services to LACERA's division that provide retirement benefit services to LACERA's members, including independent transactional audits of work processed by member-facing staff for our members, technical benefits training for the member-facing staff from new hires to veterans, developing performance metrics based upon new functions in Workspace, and special projects as assigned by the Executive Office and consistent with QA's independent quality assurance function. QA also performs the First Line function of assisting Benefits with in-line benefits review and processing.

Third Line

- Internal Audit Division is LACERA's Third Line providing independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management and internal controls.

C. Plans for the Future of LACERA Compliance.

1. Strategic Planning

Risk management will serve as a focus of LACERA's strategic planning process and the preparation and content of the Strategic Plan itself. The selection of a strategic planning consultant to guide the development of a risk aware planning process and to assist in the development of the plan is nearing completion.

2. Enterprise Risk Management

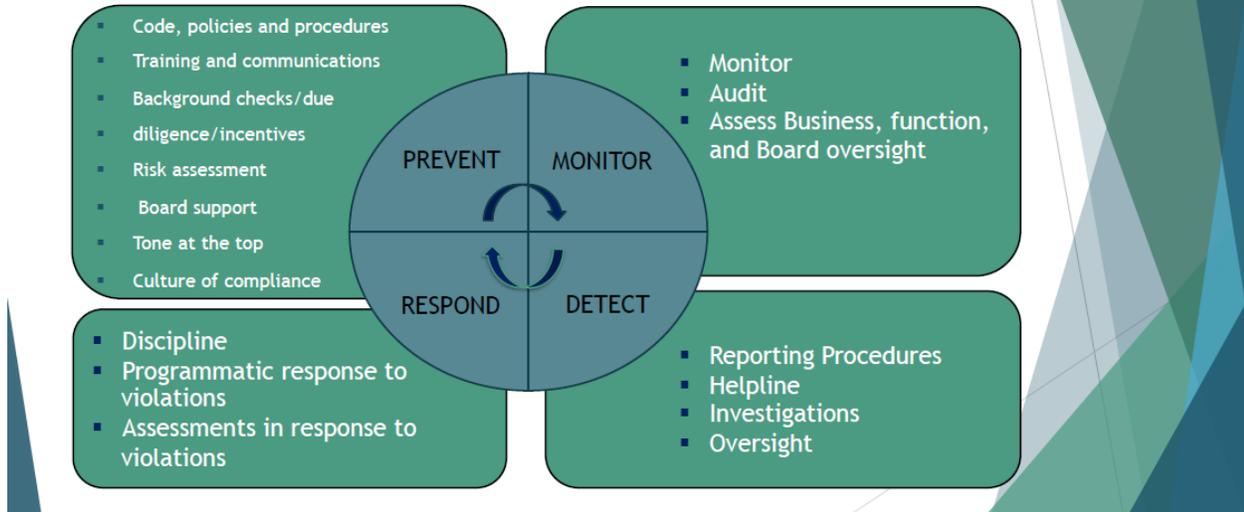
LACERA is committed to further maturing its management of organizational risk at all levels of the organization. Management intends to implement a broad discussion among the staff to identify organizational risks, prioritize them, and discuss solutions. All division should have accountability for the risks associated with their work. Management is accountable to factor these risks into an overall risk management plan.

3. Compliance Director

An important piece in developing a strong Second Line is the hiring of a Compliance Director. Their responsibilities will focus on risk management, without operational responsibility. The Compliance Director will be responsible for examining the policy, procedures, and rules set forth by LACERA, and build a compliance program that minimizes organizational risk and enforces policy and procedural compliance throughout LACERA.

The diagram below illustrates an example of a Compliance and Ethics governance structure. The Compliance Director will provide an oversight and governance structure to our program.

Compliance & Ethics Programs Structure



Source: California Association of Public Retirement Systems (CALAPRS) presentation on Compliance Programs (December 10, 2021).

Within the next several months, this position will appear on the Legal Division organizational chart. Management will bring a classification description and salary to the Boards for approval before the end of the 2022 Fiscal Year, followed by action by the Board of Supervisors to add the position to the County salary ordinance. Management's goal is to begin recruitment efforts in the third or fourth quarter of calendar year 2022.

Conclusion

Management welcomes the input of the Audit Committee with respect to LACERA's risk management and compliance process.

Attachment

c: Jonathan Grabel
JJ Popowich
Laura Guglielmo
Steven P. Rice
Richard Bendall
Leisha Collins
Christina Logan
MAC Team



February 4, 2022

TO: 2022 Audit Committee
Alan J. Bernstein
Patrick L. Jones
Joseph Kelly
Keith Knox
Wayne Moore
Gina V. Sanchez
Herman B. Santos

Audit Committee Consultant
Robert Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Kristina Sun 
Senior Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up Report**

Background

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

Internal Audit's Follow-Up Process

During the audit process, Internal Audit may identify findings or make recommendations to address risks or improve a process. The responsible division manager and the Executive Office review the findings and recommendations. Subsequently, the division manager provides responses indicating how and when planned improvements will be made. The final audit report includes the audit findings, recommendations, management's responses, and targeted completion date.

Internal Audit tracks recommendations through TeamMate+, our audit management software, and regularly follows up with Management. Internal Audit is responsible for 1) ensuring that Management's action plans have been effectively implemented, or 2) ensuring that Management remains aware of the risks that they accept by not taking action in a timely manner. On a quarterly basis, Internal Audit reports the status of all outstanding audit recommendations to the Audit Committee.

Overview

At the beginning of fiscal year (FY) 2022, there were 27 recommendations outstanding. During the October 2021 Audit Committee meeting, we reported out three recommendations had been implemented. From October 2021 to January 2022, an additional 12 recommendations were implemented by management. As of January 31, 2022, the total number of outstanding recommendations is 12. The full report for this reporting period is attached in Appendix A.

The following table presents a breakdown of outstanding recommendations for FY 2022:

	# of Recommendations
Beginning of FY2022 (6/1/2021)	27
+ New Findings	0
- Accepts Risk	0
- Implemented Findings	-3
Total Outstanding as of 9/30/2021	24
+ New Findings	0
- Accepts Risk	0
- Implemented Findings	-12
Total Outstanding as of 1/31/2022	12

Monitoring Outstanding Recommendations

Internal Audit actively monitors the outstanding recommendations. The chart below provides the status of outstanding recommendations as of January 31, 2022.

Current Recommendation Status	Divisions					Total
	Benefits	FASD	Investments	QA	Systems	
On Track	0	0	1	0	0	1
On Track - Approved 1st Extension	1	0	0	2	0	3
On Track - Approved 2nd Extension	0	0	0	0	7	7
Pending IA Verification	1	0	0	0	0	1
Implemented	-4	-2	-1	-4	-1	-12

Aging of Outstanding Recommendations

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

< 1 Year	> 1 Year	> 2 Year	> 3 Year	Implemented Since Last AC Meeting
5	7	0	0	-12

Staff from the respective divisions will be present at the February 17, 2022, Audit Committee meeting to address any questions.

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number Report Date Audit Rating						
Benefits Division						
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 12/31/2021	IMPLEMENTED Benefits management has implemented a process for managing the review and approval of exception reports. Also, a Business Rules Update (BRU) was provided by Benefits management. This BRU was created to address the procedures that establish a process to formally evaluate Benefits exception reports data and recipients. Date of implementation is 1/27/2022.
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.	6/30/2020 12/31/2020 5/31/2021 12/31/2021	IMPLEMENTED Benefits management has implemented a process for managing the review and approval of exception reports. Also, a Business Rules Update (BRU) was provided by Benefits management. This BRU was created to address the procedures that establish a process to formally evaluate Benefits exception reports data and recipients. Date of implementation is 1/27/2022.
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:	6/30/2020 12/31/2020 5/31/2021 12/31/2021	IMPLEMENTED Benefits management has implemented a process for managing the review and approval of exception reports. Also, a Business Rules Update (BRU) was provided by Benefits management. This BRU was created to address the procedures that establish a process to formally evaluate Benefits exception reports data and recipients. Date of implementation is 1/27/2022.

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022						
Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number						
Report Date						
Audit Rating						
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Low	No Documented Policy or Procedure for Six of the Nine Work Queues	For the six queues that have no documented policy or procedure, we recommend management implement policies and/or procedures for the related processes.	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	MANAGEMENT COMPLETED, PENDING AUDIT VERIFICATION Benefits management has created the following 6 procedures: *Active Death Pension Verification *Death Legal Misc. Correspondence *Payment Corrections *POA Conservatorship and Guardianship *Tax Levy While the recommendation called for six procedures, staff combined POA with Conservatorship and Guardianship as the processes are almost exactly the same, and use the same screens within Workspace to be executed. All documents are accessible to all Benefits staff via the "Benefits Index. Internal has yet to review these procedures.
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Medium	Workspace does not provide automated case tracking for pending death cases	As of March 2020, the Case Management project is one of the organization's "top four Strategic Plan goals" with a workgroup meeting regularly to move the project forward. The workgroup has identified 23 processes, one of which is death processing that would address this risk. We recommend Benefits Management work with the Executive Office and the Systems Division to develop a plan and timeline to address the implementation of the death processing through the Case Management project.	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 12/31/2021	IMPLEMENTED The Executive Office and the Systems Division have developed an RFP that includes a plan and timeline to address the implementation of the death processing through the Case Management project. The implementation of the death process will occur in the 5th phase of the development of the Case Management project. Internal Audit verified the RFP in question, which is public record, did in fact address the issue of case tracking per "Phase 5." Date of implementation is 11/29/2021.
Death Legal Unit 2020 51 February 1, 2021 Opportunities for Improvement	Medium	Service Level Expectations Do Not Effectively Manage Workloads	We recommend the Benefit's Division Process Management Group (PMG) coordinate the determination of organizationally accepted and agreed-upon service level expectations (SLEs) for death and legal processing between Member Services and Benefits.	The Benefits management agrees with the recommendation. The Benefits management agrees to work with PMG and Member Services management to draft a proposal to the Executive Office for adoption that includes the following: 1)Agreed upon SLEs for both sub-processes and in aggregate that can be communicated by Member Services per the Operating Instructions (OI). 2)A policy and procedure outlining a scheduled review of the SLE to ensure they are relevant and appropriate.	7/29/2021 Approved 1st Extension 3/31/2022	ON TRACK - Approved 1st Extension In July 2021, Management requested and was granted an extension until December 31, 2021. In September 2021, Management confirmed they are on track to implement the recommendation by 3/31/2022. As of 1/21/2022, Benefits, PMG, Exec, and Systems met to discuss a proposed automated solution for processing claim forms. Such an automated process will allow a more realistic tracking of the process for updating "Service Level Expectations". Systems is currently in the process of planning and coding such a process.

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022						
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	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 9/30/2021	IMPLEMENTED Based on Internal Audit's inquiry and validation, this recommendation is implemented. FASD explored and executed a contract for a travel solution. Internal Audit will follow-up on the Travel Process after the travel restrictions due to the pandemic are lifted. The Travel Process will have been revised due to the updated Board Travel Policy and the travel solution. Date of implementation is 10/21/2021.
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 9/30/2021	IMPLEMENTED Based on Internal Audit's inquiry and validation, this recommendation is implemented. FASD explored and executed a contract for a travel solution. Internal Audit will follow-up on the Travel Process after the travel restrictions due to the pandemic are lifted. The Travel Process will have been revised due to the updated Board Travel Policy and the travel solution. Date of implementation is 10/21/2021.

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022						
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, 2021 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	IMPLEMENTED The Investment Office met Internal Audit's recommendation of formalizing and documenting its procedures for receiving, tracking, and depositing checks, while also working with other LACERA divisions for feedback and additional procedural enhancements. Though beyond the scope of this recommendation and response, the Investment Office recommends further collaboration across LACERA divisions to arrive at a consistent LACERA-wide solution for processing all check receipts throughout the organization. Date of implementation is 1/19/22.
THC Stale Check Review 2021 47 June 15, 2021 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 State 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.

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022						
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 reports independently to the Administrative AEO.	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 Approved 1st Extension 6/30/2022	ON TRACK - Approved 1st Extension Management determined that additional staff positions and budget are needed to restructure the QA division. Management already submitted the budget request as part of the FY2023 budget. The budget is pending approval by the Board of Retirement in June 2022. The revised implementation date is 6/30/2022.
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 results.	QA Management agrees that a clear separation must exist between the audit work performed by Quality Auditors and the MOG Divisions.	6/30/2021	IMPLEMENTED QA management has transformed the inline audit process into two new processes: Pre-completion and Post-completion audits. The Member Operations Group Audit Platform (MOGAP) is a SharePoint system that can generate reports of pre- and post-completion audit work results performed by QA staff. QA management also reports the work results to the OOC and the Executive Office on a periodic basis. Date of implementation is 12/23/2021.
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	IMPLEMENTED QA management has implemented a process for assessing QA work using a risk-based approach. The MOGAP division management team are developing audit criteria and risk levels for each business process. A comprehensive risk assessment will be performed after all the business processes have been evaluated. Date of implementation is 12/23/2021.

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022						
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	<p>QA Management agrees with the recommendations. In this regard, QA has implemented the following measures:</p> <p>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.</p> <p>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.</p> <p>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.</p>	6/30/2021	<p>IMPLEMENTED</p> <p>QA management has enhanced the process for following up on transactional findings issued by QA staff. MOG division management are meeting on a biweekly basis to discuss and resolve outstanding findings. QA management also reports the work results to the OOC and the Executive Office on a periodic basis.</p> <p>Date of implementation is 12/23/2021.</p>
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	<p>IMPLEMENTED</p> <p>QA management stated that they are no longer issuing process improvement opportunities to the Benefits Division in the QA Annual Report. Instead, QA management are taking a proactive approach and meeting with other MOG divisions to discuss ongoing operational issues.</p> <p>Date of implementation is 12/28/2021.</p>
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 Approved 1st Extension 6/30/2022	<p>ON TRACK - Approved 1st Extension</p> <p>Management determined that additional staff positions and budget are needed to restructure the QA division. Management already submitted the budget request as part of the FY2023 budget. The budget is pending approval by the Board of Retirement in June 2022. The revised implementation date is 6/30/2022.</p>

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022						
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 3/30/2021 12/31/2021	IMPLEMENTED Systems management has implemented a monthly manual review to monitor or detect changes to application code deployed to the production system. Each monthly report is reviewed and approved by the Systems Interim manager to ensure code changes deployed into production are appropriate and approved. Date of Implementation 1/27/2022
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 Approved 2nd Extension 3/31/2022	ON TRACK - Approved 2nd Extension In January 2022, Internal Audit met with the Executive Office, Systems, and Admin Services to review progress on these recommendations and the related asset management policy. Systems and Admin Services are meeting weekly to revised / create an asset management policy. Internal Audit is meeting with Systems and Admin Services in early February to discuss the draft. They expect to provide a draft policy to the Executive Team by the end of February. All parties believe these recommendations can be addressed by March 31, 2022.
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.	12/31/2020 5/31/2021 Approved 2nd Extension 3/31/2022	ON TRACK - Approved 2nd Extension In January 2022, Internal Audit met with the Executive Office, Systems, and Admin Services to review progress on these recommendations and the related asset management policy. Systems and Admin Services are meeting weekly to revised / create an asset management policy. Internal Audit is meeting with Systems and Admin Services in early February to discuss the draft. They expect to provide a draft policy to the Executive Team by the end of February. All parties believe these recommendations can be addressed by March 31, 2022.

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022						
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	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.	12/31/2020 5/31/2021 Approved 2nd Extension 3/31/2022	ON TRACK - Approved 2nd Extension In January 2022, Internal Audit met with the Executive Office, Systems, and Admin Services to review progress on these recommendations and the related asset management policy. Systems and Admin Services are meeting weekly to revised / create an asset management policy. Internal Audit is meeting with Systems and Admin Services in early February to discuss the draft. They expect to provide a draft policy to the Executive Team by the end of February. All parties believe these recommendations can be addressed by March 31, 2022.
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.	12/31/2020 5/31/2021 Approved 2nd Extension 3/31/2022	ON TRACK - Approved 2nd Extension In January 2022, Internal Audit met with the Executive Office, Systems, and Admin Services to review progress on these recommendations and the related asset management policy. Systems and Admin Services are meeting weekly to revised / create an asset management policy. Internal Audit is meeting with Systems and Admin Services in early February to discuss the draft. They expect to provide a draft policy to the Executive Team by the end of February. All parties believe these recommendations can be addressed by March 31, 2022.
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.	12/31/2020 5/31/2021 Approved 2nd Extension 3/31/2022	ON TRACK - Approved 2nd Extension In January 2022, Internal Audit met with the Executive Office, Systems, and Admin Services to review progress on these recommendations and the related asset management policy. Systems and Admin Services are meeting weekly to revised / create an asset management policy. Internal Audit is meeting with Systems and Admin Services in early February to discuss the draft. They expect to provide a draft policy to the Executive Team by the end of February. All parties believe these recommendations can be addressed by March 31, 2022.

RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 31, 2022						
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.	12/31/2020 5/31/2021 Approved 2nd Extension 3/31/2022	ON TRACK - Approved 2nd Extension In January 2022, Internal Audit met with the Executive Office, Systems, and Admin Services to review progress on these recommendations and the related asset management policy. Systems and Admin Services are meeting weekly to revised / create an asset management policy. Internal Audit is meeting with Systems and Admin Services in early February to discuss the draft. They expect to provide a draft policy to the Executive Team by the end of February. All parties believe these recommendations can be addressed by March 31, 2022.
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.	12/31/2020 5/31/2021 Approved 2nd Extension 3/31/2022	ON TRACK - Approved 2nd Extension In January 2022, Internal Audit met with the Executive Office, Systems, and Admin Services to review progress on these recommendations and the related asset management policy. Systems and Admin Services are meeting weekly to revised / create an asset management policy. Internal Audit is meeting with Systems and Admin Services in early February to discuss the draft. They expect to provide a draft policy to the Executive Team by the end of February. All parties believe these recommendations can be addressed by March 31, 2022.



February 4, 2022

TO: 2022 Audit Committee
Alan J. Bernstein
Patrick L. Jones
Joseph Kelly
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Gina V. Sanchez
Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

Gabriel Tafoya 
Senior Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

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

BACKGROUND

Internal Audit reports 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. The sixth one, Consolidated Recos, is a consolidation of recommendations which overlapped or were repetitive into a singular recommendation for ease of managing.

SUMMARY OF OPEN RECOMMENDATIONS

Table 1: Recommendations Status – By Audit Engagement

Engagement Name	Report Date	Total Recos	Addressed During Prior Periods	Implemented Oct 2021 – Jan 2022	In Progress Jan 2022
Recommendation Status by Risk Level					
PM SOC FY2021					
High		—	—	—	—
Medium		5	—	1	4
Low		—	—	—	—
PM SOC Readiness Assessment February 2020					
High		—	—	—	—
Medium		10	6	1	3
Low		—	—	—	—
Clear Skies Penetration Test and VeraCode Report March 2020					
High		1	1	—	—
Medium		25	15	—	10
Low		17	5	3	9
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	1	3
Consolidated Recos January 2021					
High		2	2	—	—
Medium		2	1	—	1
Low		—	—	—	—
Totals		76	38	6	32

For recommendations which are listed as **In Progress**, Systems Division Management provided a summary of work to be performed and a timeline.

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

- Systems Division Management continues to address Tavora and Clear Skies Penetration Test recommendations.
- Systems Division Management implemented a monthly review of software development changes as recommended by the SOC Readiness Assessment.

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.
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.

Recommendation Follow-Up for Sensitive Information Technology Areas

February 4, 2022

Page 4 of 4

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

	Total Recos	Completed During Prior Periods	Implemented During Period	In Progress Jan 2022
Data Back Up & Recovery	1	1	—	—
Environmental	—	—	—	—
Information Security	12	3	—	9
Logical Access	43	25	5	13
Physical Security	—	—	—	—
System Development & Change Management	2	—	1	1
System Monitoring & Maintenance	18	9	—	9
Total # Recos by Implementation Status	76	38	6	32

Staff will be available to address questions at the February 2022 Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

RPB:cl:gt



February 1, 2022

TO: 2022 Audit Committee
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Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up KPMG's External Quality Assessment**

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 February 2022, Internal Audit has addressed and implemented 13 of the 14 recommendations. We plan to address the remaining recommendation during the next few months.

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

Summary of KPMG Recommendations:

<p><u>Observation #1</u> 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.</p>	
<p>a. Enhance new procedure to include:</p> <ul style="list-style-type: none"> 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. 	<p>Completed Reported June 2021</p>
<ul style="list-style-type: none"> 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. 	<p>Completed Reported June 2021</p>
<p>b. Evaluate implementing the TeamMate feature to enable management to directly upload evidence.</p>	<p>Completed Reported October 2021</p>
<p>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.</p>	<p>Completed See Status</p>
<p><u>Observation #2</u> 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>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.</p>	<p>In Progress See Status</p>
<p>b. Standardize and enhance recommendation follow-up procedures (as discussed in finding #1)</p>	<p>Completed Report June 2021</p>

<p>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.</p>	<p>Completed Reported October 2021</p>
<p>d. Add new team members to department as the opportunity arises. New team members can also address gaps in team skill set.</p>	<p>Completed Reported October 2021</p>
<p><u>Observation #3</u> IA does not include progress on completion of remediation status or evaluate potential to exceed due dates and leave risk exposure un-remediated.</p>	
<p>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.</p>	<p>Completed Reported June 2021</p>
<p>b. 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.</p>	<p>Completed Reported June 2021</p>
<p>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>	<p>Completed Reported October 2021</p>
<p><u>Observation #4</u> IA does not have a process for extension of recommendation follow-up due dates.</p>	
<p>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.</p>	<p>Completed Reported June 2021</p>

<u>Observation #5</u> A centralized tracking tool is not adequately used to manage IA recommendations and corresponding actions.	
a. Ensure that personnel utilizing TeamMate have been appropriately trained on the approved process for standardized data entry into the system.	Completed Reported June 2021
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 forward.	Completed Reported June 2021
c. Establish clear system of record documentation to comply with LACERA's documentation policy. IA record retention is 10 years.	Completed Reported June 2021

STATUS OF IN PROGRESS AND RECENTLY COMPLETED 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

- b. 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: Completed

As part of our mid-year risk assessment, we reviewed all audit findings from the past seven years 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: June 2022

At the February 2022 Audit Committee meeting, Internal Audit will be providing the Committee with a high-level orientation which will review the division, the Institute of Internal Auditors (IIA) standards, which include independence. May is internal audit awareness month, and we plan to discuss Internal Audit's role, responsibilities, and independence at a management and supervisor meeting in May 2022.

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

**FOR INFORMATION ONLY**

February 1, 2022

TO: 2022 Audit Committee
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Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Nathan K. Amick 
Senior Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

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

Internal Audit performs its **Continuous Auditing Program** (CAP) throughout the year. Our CAP consists of limited scope tests of large volumes of data or transactions facilitated by our use of automated auditing software tools, Teammate Plus Analytics, and/or Audit Command language (ACL). CAP testing falls into two categories:

- **Compliance Testing** – Tests of entire populations of transactions and/or data from one or more sources for specified periods of time to ensure compliance with known criteria: laws, policies or established guidelines.
- **Fraud Testing** – Tests of entire populations of transactions and/or data from one or more sources for specified periods of time to identify potential errors or fraud for further analysis and determination.

CAP Schedule for Fiscal Year 2021-2022

To determine CAP projects, 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, we will evaluate the project and perform a full audit.

The following table summarizes current and planned CAP testing for FY 2021-2022:

Audit Projects	Division	Service Type	Status
PEPRA-960 Hours	Exec	Compliance	In Progress
Workspace Terminated User	Systems	Compliance	In Progress
Terminated Staff Key Cards	Systems	Compliance	In Progress
Duplicate Payments to Vendors	FASD	Fraud	Completed 11/25/2021
Duplicate Payments to Members	FASD	Fraud	Begin Q4
Emp & Vendor Same Address	FASD	Fraud	Begin Q4
State Street Bank Users	Benefits	Fraud	In Progress
New Payees * (continuous)	Benefits	Fraud	Completed 01/31/2022
Foreign Payees	Benefits	Fraud	In Progress
Multiple Payments to Payee	Benefits	Fraud	Begin Q3
Minor Survivor Payees	Benefits	Compliance	Begin Q3
SSN TO SSN Verification System	Benefits	Fraud	Begin Q4
Pay Code Testing	QA	Compliance	Begin Q4

* New Payees has been completed through October 2021 but will immediately resume for subsequent periods through June 31, 2022.

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

RPB:nka

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.	06/01/2021 to 10/31/2021	Quarterly	Traced all new payees, per the monthly payroll, to LACERA and plan sponsor member records.	No exceptions were noted.
FASD	Duplicate Payments to Vendors	Validate controls in preventing duplicate vendor payments	As of 11/25/2021	Annually	Used data analytics software to analyze 7,128 invoice payments and identify potential payments for further analysis and determination of any actual duplicate payments.	One isolated, low value exception noted due to a combination of staff error and system constraint. Addressed with Division Management.

**FOR INFORMATION ONLY**

January 31, 2022

TO: 2022 Audit Committee
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Audit Committee Consultant
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FROM: Richard P. Bendall 
 Chief Audit Executive

Kathryn Ton 
 Senior Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **Ethics Hotline Status Report**

The purpose of this memorandum is to provide the Committee with information on ethics cases handled by LACERA. LACERA has contracted with NAVEX Global's EthicsPoint since November 2019 for its ethics hotline reporting and case management needs.

To date, since the inception of the Ethics Hotline, LACERA has received eight case reports, six of which have been closed and two of which are under investigation at this time.

Calendar Year	Issue Type	Count	Status
2021	Retaliation	1	In-progress
2021	Discrimination/Harassment	1	In-progress
2021	Discrimination/ Harassment	1	Closed
2020/2021	Time Abuse	3	Closed
2020	Accounting & Auditing Matters	1	Closed
2020	Violations of Policy	1	Closed

Staff will continue to provide updates to the Committee on future reports. Additionally, for the Committee's information, Internal Audit is not currently investigating, nor has received any new reports of wrongdoing and/or become aware of any matters of wrongdoing outside of the Ethics Hotline. Further, we have not identified any matters rising to the level of wrongdoing or fraud in any of our recent or current audit and consulting work.

RB:kt