

# LIVE VIRTUAL COMMITTEE MEETING



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TO PROVIDE PUBLIC COMMENT

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**Attention:** Public comment requests must be submitted via email to [PublicComment@lacera.com](mailto:PublicComment@lacera.com).

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

## AGENDA

A REGULAR 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

8:00 A.M., MONDAY, MAY 9, 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

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

### AUDIT COMMITTEE CONSULTANT

Robert H. Griffin

#### I. CALL TO ORDER

#### II. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Special Audit Committee Meeting of March 23, 2022.

### III. PUBLIC COMMENT

(Written Public Comment - You may submit written public comments by email to [PublicComment@lacera.com](mailto: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](mailto:PublicComment@lacera.com). We will contact you with information and instructions as to how to access the meeting as a speaker. If you would like to remain anonymous at the meeting without stating your name, please let us know.)

### IV. 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, so long as the State of Emergency remains in effect, and direct staff to comply with the agenda and public comment requirements of the statute. (Memo dated April 12, 2022)

### V. NON-CONSENT ITEMS

A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Kathryn Ton, Senior Internal Auditor: That the Audit Committee authorize staff to issue a Request for Proposal to select a qualified investment consulting firm to perform a consulting review of LACERA's Investment Office Operational Due Diligence program and processes.

(Memo dated April 21, 2022)

B. Recommendation as submitted by George Lunde, Senior Internal Auditor: That the Audit Committee review and discuss the LACERA Staff Bonus Program report and 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 April 7, 2022)

V. NON-CONSENT ITEMS (Continued)

C. Recommendation as submitted by Kathryn Ton, Senior Internal Auditor: That the Audit Committee review and discuss the Comprehensive Review of Human Resources Recruiting Process report and 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 April 18, 2022)

D. Recommendation as submitted by Kathryn Ton, Senior Internal Auditor: That the Audit Committee review and discuss the Accounts Payable Audit report and 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 April 15, 2022)

VI. REPORTS

A. Los Angeles County Employees Retirement Association Audit Committee  
Pre-Audit Communication

Jean Young, Plante Moran, Partner

Amanda Cronk, Plante Moran, Senior Manager

(Presentation) (Memo dated April 18, 2022)

B. Audit Plan Status Report

Leisha E. Collins, Principal Internal Auditor

(Presentation) (Memo dated April 22, 2022)

C. Annual Audit Planning for Fiscal Year 2022-2023

Richard P. Bendall, Chief Audit Executive

(Presentation) (Memo dated April 27, 2022)

VI. REPORTS (Continued)

- D. Overview of Survey of Retirement Systems Results  
Robert H. Griffin, Audit Committee Consultant  
(Presentation) (Memo dated April 15, 2022)
- E. Recommendation Follow-Up of Internal Audit's External Quality Assessment  
Leisha E. Collins, Principal Internal Auditor  
(Memo dated April 15, 2022)
- F. Recommendation Follow-Up Report  
Kristina Sun, Senior Internal Auditor  
(Memo dated April 27, 2022)
- G. Recommendation Follow-Up for Sensitive Information Technology Areas  
Christina Logan, Principal Internal Auditor  
Gabriel Tafoya, Senior Internal Auditor  
(Memo dated April 15, 2022)
- H. Status of Other External Audits Not Conducted at the Discretion of  
Internal Audit  
Richard P. Bendall, Chief Audit Executive  
(Verbal Presentation)
- I. Internal Audit Staffing Activity Report  
Richard P. Bendall, Chief Audit Executive  
(Verbal Presentation)
- J. Ethics Hotline Status Update  
Kathryn Ton, Senior Internal Auditor  
(For Information Only) (Memo dated April 21, 2022)

VII. CONSULTANT COMMENTS

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

VIII. ITEMS FOR STAFF REVIEW

IX. GOOD OF THE ORDER

(For Information Purposes Only)

## X. EXECUTIVE SESSION

- A. Potential Threats to Public Services or Facilities  
(Pursuant to Subdivision (a) of California Government Code Section 54957)

Consultation re. External Network Penetration Testing with: Kevin Villanueva, Moss Adams Cybersecurity Consulting Partner, LACERA Chief Audit Executive Richard P. Bendall, LACERA Chief Executive Officer Santos H. Kreimann, Deputy Chief Executive Officer Luis Lugo, Systems Division Interim Manager Kathy Delino, Chief Information Security Officer Bob Schlotfeld, and Other LACERA Staff.

- B. Potential Threats to Public Services or Facilities  
(Pursuant to Subdivision (a) of California Government Code Section 54957)

Consultation re. Social Engineering Assessment with: Kevin Villanueva, Moss Adams Cybersecurity Consulting Partner, LACERA Chief Audit Executive Richard P. Bendall, LACERA Chief Executive Officer Santos H. Kreimann, Deputy Chief Executive Officer Luis Lugo, Systems Division Interim Manager Kathy Delino, Chief Information Security Officer Bob Schlotfeld, and Other LACERA Staff.

## 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](mailto:PublicComment@lacera.com), but no later than 48 hours prior to the time the meeting is to commence.*

MINUTES OF THE 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, CA 91101

8:00 A.M., WEDNESDAY, MARCH 23, 2022

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

PRESENT: Gina V. Sanchez, Chair

Joseph Kelly, Vice Chair

Patrick L. Jones, Secretary

Alan J. Bernstein

Keith Knox

Wayne Moore (Joined the meeting at 8:01 a.m.)

Herman B. Santos

MEMBERS AT LARGE

Les Robbins, Board of Retirement

Antonio Sanchez, Board of Retirement

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 P. Bendall, Chief Audit Executive

Leisha E. Collins, Principal Internal Auditor

Christina Logan, Principal Internal Auditor

Nathan K. Amick, Senior Internal Auditor

George Lunde, Senior Internal Auditor

Kristina Sun, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Kathryn Ton, Senior Internal Auditor

Steve Goodson, Team Leader, The Institute of Internal Auditors

Robert H. Griffin, Audit Committee Consultant

I. CALL TO ORDER

The meeting was called to order virtually by Chair Sanchez at 8:00 a.m.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Audit Committee Meeting of February 17, 2022.

Mr. Santos made a motion, Mr. Knox seconded, to approve the minutes of the Regular Audit Committee meeting of February 17, 2022. The motion passed (roll call) with Messrs. Bernstein, Jones, Kelly, Knox, Moore, Santos and Ms. Sanchez voting yes.

### III. PUBLIC COMMENT

There were no requests from the public to speak.

### IV. CONSENT ITEMS

- A. 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, so long as the State of Emergency remains in effect, and direct staff to comply with the agenda and public comment requirements of the statute. (Memo dated March 10, 2022)

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

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

### V. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Audit Committee, review and discuss the Institute of Internal Auditors (IIA) Quality Services' (Quality Services) engagement report in accordance with the current Audit Committee Charter and 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 March 16, 2022)

V. NON-CONSENT ITEMS (Continued)

Mr. Steve Goodson from The Institute of Internal Auditors Quality Services presented a brief presentation. Mr. Bendall and Ms. Logan answered questions from the Committee.

Mr. Kelly made a motion, Mr. Bernstein seconded, to accept and file the report with the following direction 1) the Committee will receive regular updates in the reporting section of the agenda until the recommendations are addressed 2) forward the report to both Boards along with a cover letter laying out the action plan and timeline. The motion passed (roll call) with Messrs. Bernstein, Jones, Kelly, Knox, Moore, Santos and Ms. Sanchez voting yes.

- B. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Audit Committee approve the proposed Internal Audit Fiscal Year (FY) 2022-2023 salaries and employee benefits (S&EB) Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval. (Memo dated March 16, 2022)

Mr. Bendall and Ms. Guglielmo were present and answered questions from the Committee.

Mr. Kelly made a motion, Mr. Santos seconded, to approve staff's recommendation with a clarification that certain expenses may change based on Board action. The motion passed (roll call) with Messrs. Bernstein, Jones, Kelly, Knox, Moore, Santos and Ms. Sanchez voting yes.

March 23, 2022

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## VI. GOOD OF THE ORDER

The Committee thanked staff for their work. Mr. Griffin and Mr. Bendall provided brief comments to the Committee on the EQA Report.

## VII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 8:44 a.m.

April 12, 2022

TO: Each Trustee,  
Audit Committee

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

FOR: May 9, 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, so long as the State of Emergency remains in effect, and 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 recommend social distancing rules, provided that the Committee 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, so long as the State of Emergency remains in effect, 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 ordered that certain COVID-19 emergency provisions end on various dates in the near future. See Order No. N-04-22, issued February 25, 2022.

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 revised guidance that employers should, "Whenever possible, take steps to reduce crowding indoors and encourage physical distancing." <http://publichealth.lacounty.gov/acd/ncorona2019/bestpractices/>.

The City of Pasadena (City), where LACERA's offices are located and Audit Committee meetings are held, has substantially revised its guidance to give more flexibility. The City still offers guidance that businesses recognize that COVID-19 continues to pose a risk to communities, and it is important for employers to continue to take steps to reduce the risk

of COVID-19 transmission among their workers and visitors.  
<https://www.cityofpasadena.net/economicdevelopment/covid-19-business-resources/>.

Earlier guidance promoting physical distancing by business also remains posted on the City's COVID web page as a reference.

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, so long as the State of Emergency remains in effect, 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. Such findings can only be effective for so long as the State of Emergency is in effect.

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, so long as the State of Emergency is in effect, and direct staff to comply with the agenda and public comment requirements of the statute.

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



April 21, 2022

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

Audit Committee Consultant  
Robert H. Griffin

FROM: Richard P. Bendall   
Chief Audit Executive

Kathryn Ton   
Senior Internal Auditor

FOR: May 9, 2022 Audit Committee Meeting

SUBJECT: **Request for Proposal for Consulting Review of LACERA's Investment Office Operational Due Diligence**

## **RECOMMENDATION**

That the Audit Committee authorize staff to issue a Request for Proposal to select a qualified investment consulting firm to perform a consulting review of LACERA's Investment Office Operational Due Diligence program and processes.

## **BACKGROUND**

As part of the Fiscal Year 2022 Audit Plan, Internal Audit included an external consulting review of LACERA's Investment Office's Operational Due Diligence (ODD) process across all asset classes, growth, credit-oriented fixed income, real assets and inflation hedges, and risk reduction and mitigation. In December 2021, we solicited proposals from our pre-approved pool of external auditing and consulting services firms. However, in the process of doing so, we recognized that to ensure that we achieve the intent of the review, we need to go outside of our pool and seek consultants with more specific professional experience and expertise in performing operational due diligence on behalf of institutional investors.

ODD is performed both pre- and post-investment. Pre-investment ODD is the process of evaluating whether the investment manager has the necessary operational capabilities, controls, and framework to execute on the investment mandate that LACERA is considering. Along with investment due diligence (IDD), ODD is an important component of the decision to invest. Post-investment ODD is the process of evaluating whether the investment manager continues to have the necessary operational capabilities, controls, and framework to execute on the investment mandate that LACERA hired the manager to perform.

As a result, we are requesting Committee approval to issue a Request for Proposal (RFP) (Attachment A) to solicit proposals from qualified external consulting investment firms to evaluate LACERA’s ODD process. We are seeking firms with extensive experience performing, advising, or evaluating ODD on behalf of institutional clients. Refer to Minimum Requirements in the RFP on page 5. The intent of this consulting engagement is to select a qualified firm to provide an assessment and evaluation of LACERA’s ODD program and processes, both pre-investment and post-investment, and provide recommendations to further enhance and improve LACERA’s program and processes.

Internal Audit sought and obtained the Investment Office’s input on the development of the RFP.

Internal Audit anticipates that this RFP process will begin mid-May and take approximately three months to complete. The following table provides the timeline for the RFP, which is subject to change, but we anticipate completing by August 2022.

Event Description	Date
RFP Release Date	May 11, 2022
Written Questions from Respondents Due Date	May 20, 2022
LACERA’s Response to Respondents’ Questions	May 31, 2022
Intent to Respond Closing Date	June 3, 2022
RFP Due Date	June 17, 2022
Finalist Interviews (estimate)	July 2022
Audit Committee Approval of Selected Firm	August 19, 2022
Selection Notification to Firms (estimate)	August 2022
Commencement of Work	Upon contract execution

**LEGAL AUTHORITY**

Under Section IV.2 of the Audit Committee Charter, the Committee has the authority to “Approve the appointment, compensation, and work of other Professional Service Providers to perform non-financial statement audits, reviews, or investigations, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.” For this reason, the Audit Committee’s engagement of a consultant to perform an ODD review, falls within the Committee’s authority under its Charter.

**RFP AND SELECTION PROCESS**

We are seeking firms with extensive experience performing, advising, or evaluating ODD on behalf of institutional clients. An evaluation committee consisting of LACERA staff from Internal Audit and the Investment Office will evaluate the proposals. LACERA’s evaluation committee will perform an assessment of each proposal based on the criteria addressed on page 32 of the RFP. The evaluation committee will interview top candidates based on scores from the assessment and select a firm to recommend to the Audit Committee for approval.

**CONCLUSION**

Overall, the selection of a firm to perform this consulting engagement of ODD processes addresses, at least from an audit perspective, an important risk area that we have not previously reviewed. Staff will be available at the May meeting to answer questions from the Committee.

For these reasons, staff recommends that the Audit Committee authorize staff to issue an RFP to select a qualified investment consulting firm to perform a consulting review of LACERA's Investment Office ODD program and processes.

RPB:kt

Attachment

May 2022

**LACERA**

## REQUEST FOR PROPOSAL

Investments Operational Due Diligence Review

**DRAFT**

Kathryn Ton, Senior Internal Auditor  
626-564-6000 ext. 3525 | [kton@lacera.com](mailto:kton@lacera.com)  
300 NORTH LAKE AVENUE, SUITE 840  
PASADENA, CA 91101

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**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION  
REQUEST FOR PROPOSAL (RFP)  
INVESTMENTS OPERATIONAL DUE DILIGENCE REVIEW  
ISSUED: MAY 2022**

**1. INTRODUCTION**

1.1. Purpose of Request

The Los Angeles County Employees Retirement Association (LACERA), a \$74 public pension fund, is seeking proposals from qualified external consulting investment firms to evaluate LACERA's Investments Office's Operational Due Diligence (ODD) process (as defined in Section 1.2 below). We are seeking firms with extensive experience performing, advising, or evaluating ODD on behalf of institutional clients. The intent of this consulting engagement is to obtain an assessment and evaluation of LACERA's ODD processes, both pre-investment and post-investment (ongoing). LACERA invites qualified firms to respond to this RFP (Respondent).

1.2. Background Information

LACERA is a public pension fund established pursuant to the County Employees Retirement Law of 1937. LACERA operates as an independent governmental entity separate and distinct from Los Angeles County and the other participating agencies. LACERA has approximately 186,300 members, including 100,000 active members and 60,200 retired members. In addition to benefits administration, the fund invests in assets to support payment of the promised pension benefits as well as additional sums to support the retiree healthcare program. In addition to providing service to its members, LACERA acts as fiduciary agent and manager of the portfolio. LACERA administers a pension fund of approximately \$2.3 billion in assets.

LACERA is governed by two nine-member Boards: the Board of Retirement ("BOR") and the Board of Investments ("BOI"). The BOR is responsible for the administration of the retirement system. The BOI is responsible for establishing LACERA's investment policy and objectives, as well as exercising authority and control over the investment management of the fund. The day-to-day management of LACERA is delegated to a Chief Executive Officer appointed by both Boards. The day-to-day management of LACERA's investment portfolio is delegated to a Chief Investment Officer appointed by the BOI.

The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit helps LACERA accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Chief Audit Executive (CAE) reports directly to LACERA's Board of Retirement and Board of Investments through the Audit Committee for functional purposes and administratively to LACERA's Chief Executive Officer (CEO). Internal Audit consists of ten staff members.

LACERA's Investment Office is responsible for all aspects of the pension fund and OPEB Trust including asset allocation, liability analysis, investment program structure, and implementation

and monitoring of the fund. Internal Audit is looking to hire a firm to assess LACERA's internal ODD procedures over a broad range of functional categories including growth, credit-oriented fixed income, real assets and inflation hedges, and risk reduction and mitigation. While LACERA participates in co-investment programs for certain asset classes, trading securities within LACERA's investment portfolio is 100% outsourced to external investment managers. LACERA does not have internal trading operations.

ODD is performed both pre- and post-investment. Pre-investment ODD is the process of evaluating whether the investment manager has the necessary operational capabilities, controls, and framework to execute on the investment mandate that LACERA is considering. Along with investment due diligence (IDD), ODD is an important component of the decision to invest. Post-investment ODD is the process of evaluating whether the investment manager continues to have the necessary operational capabilities, controls, and framework to execute on the investment mandate that LACERA hired the manager to perform.

In 2020, the Investment Office formed an internal ODD working group comprised of team members from all asset classes to evaluate and potentially identify enhancements to LACERA's ODD processes across the portfolio with the goal of elevating the strategic importance of ODD. In November 2020, the ODD working group presented their analysis to the Board of Investments with staff action plans of identified improvements to be implemented by Investment Office. The ODD working group meets on a regular basis to assess the Investment Office's progress towards completing the ODD staff action plans and continues to evaluate LACERA's ODD framework.

Within the IPS (linked below), page 16 of the IPS shows LACERA's asset allocation to various categories and the target weights.

## 2. **SCOPE OF SERVICES**

All services performed by the contractor shall be under the direction of, and approved by, the Chief Audit Executive or designee. The scope of work should include but is not limited to assessing the following:

Review of the effectiveness of ODD in the execution of LACERA's investment program.

- Pre-investment ODD.
- Post-investment/ongoing ODD.

Consideration in both pre-investment and post-investment ODD should be given to:

- Evaluating the effectiveness, frequency, and degree/comprehensiveness of ODD performed.
- Assessing the effectiveness of reliance by LACERA staff on investment consultants and third parties for the performance of ODD in asset classes where those resources are available.
- Completeness and comprehensiveness of ODD documentation.
- Assessing whether the ODD Program covers all appropriate risk factors. Examples may include internal controls over operational processes, investment operations, infrastructure and business continuity, compliance, risk

management, disclosures, manager organization, fund terms, custody and counterparties, valuation policies, financial statements, and Form ADV's.

- Evaluation of ODD for internal investment operations.
- Communication of ODD efforts to the Board of Investments and utilization of data in managing portfolio.

Input of best practices in managing an effective ODD program.

Within the Investment Policy Statement (IPS), page 16 of the IPS provides additional background, specifically a breakdown of LACERA's asset allocation to various categories and the target weights. Please reference LACERA's Investment Policy Statement at [https://www.lacera.com/sites/default/files/assets/documents/general/invest\\_policy\\_stmt\\_031921.pdf](https://www.lacera.com/sites/default/files/assets/documents/general/invest_policy_stmt_031921.pdf)

### 3. **MINIMUM QUALIFICATIONS**

All respondents must clearly show and document in the proposal the following minimum qualifications:

- A. The proposing firm must have provided investment-related consulting or auditing services, including ODD-related work, for a minimum of ten (10) years.
- B. The proposed team should have extensive experience performing ODD on behalf of institutional clients. The team leader must have performed ODD-related work within the past ten (10) years and each team member must have at least five (5) years of experience.
- C. Key Personnel (Director, Manager/Supervisor) with planning and supervisory responsibilities must have at least ten (10) years of experience in the applied for specialty areas set forth in this RFP.

LACERA reserves the right to grant exceptions to the minimum qualifications with appropriate explanation and in our sole discretion.

### 4. **INSTRUCTIONS TO RESPONDENTS**

#### 4.1. RFP Important Dates

The following table provides a tentative schedule of important dates and deadlines for this RFP. All dates are subject to modification by LACERA without notice.

Event Description	Date
RFP release date	May 11, 2022
Written questions from Respondents due date	May 20, 2022

LACERA's response to Respondents' questions	May 31, 2022
Intent to Respond closing date	June 3, 2022
<b>RFP due date</b>	<b>June 17, 2022</b>
Finalist interviews (estimate)	July 2022
Selection notification (estimate)	August 2022
Commencement of work	Upon contract execution

## 4.2. Response Requirements and Formatting

4.2.1. Respondents to this RFP must submit the following for delivery no later than **5:00 PM PDT** on June 17, 2022, to the Project Manager specified in Section 4.3. below. Responses received after the specified deadline may be considered for evaluation solely at the discretion of LACERA. In addition, LACERA reserves the right to request additional information or clarifications from respondents, or to allow corrections of errors or omissions.

4.2.2. Send an electronic copy in PDF or Microsoft Word format of the original and redacted responses, if applicable. If Respondent requires any confidential information to be exempt from public disclosure, then submissions should also include one **electronic copy** marked "**REDACTED**". The redacted copy should redact all material from the proposal that the respondent believes in good faith is exempt from disclosure under the California Public Records Act, (California Government Code section 6250 et seq. the "Act"). Individual redactions should appear as blacked out material. Large sections, tables, or entire blank page(s) shall include the word "REDACTED" or "PROPRIETARY" inserted. Each respondent must indicate the basis for each redaction under the Act (defined below) with a citation to the code section and subsection relied upon. LACERA cannot guarantee that redacted information will not be publicly available, and LACERA reserves the right in its sole discretion to produce the entire RFP without redaction. Please see the **Section 5** below "*Notice to Respondents Regarding the Public Records Act AND RALPH M. BROWN ACT*" for further information. An electronic copy of both the original and the redacted response in PDF format saved on separate DVDs, each labeled accordingly.

4.2.3. Submittals shall be double-sided with text in at least 10-point font, but no larger than 12-point font, including Exhibits. Submittals shall address all RFP sections in the same order presented and be responsive to each section.

All responses to this RFP should follow the outline of the RFP requirements and should fully respond to each section as appropriate and to all questions in Exhibit C and should contain at a minimum:

4.2.3.1. Cover Letter. A cover letter (1 page) shall be signed by the individual(s) who is (are) authorized to bind the respondent contractually. The letter shall contain a statement to the effect that the respondent is not currently under investigation by any regulatory agency, state or federal, for any reason. The letter should identify your firm's competitive advantage, the specific team that will be working on the LACERA account, and the reasons why the firm should be selected.

4.2.3.2. Minimum Qualifications Certification. You must certify, by completing and signing EXHIBIT B, that your firm meets the minimum qualifications required.

4.2.3.3. Table of Contents. The response must contain a Table of Contents that identifies the major sub-sections.

4.2.3.4. Fee Schedule.

4.2.3.5. Attachments. Optional material such as brochures or company information may be included as an attachment but will not be counted as responsive to this RFP and will not be used in scoring.

4.2.4. All proposals made in response to this RFP must remain open and in effect for a period of not less than 180 days after the submission deadline. Responses to this RFP may be changed or withdrawn in writing if modifications are received prior to the submission deadline. Modification to or withdrawal of a proposal received after the submission deadline will not be considered. Responses received after the specified deadline may be considered for evaluation solely at the discretion of LACERA. In addition, LACERA reserves the right to request more information or clarifications from respondents, or to allow corrections of errors or omissions.

4.2.5. Proposals not following these instructions or not including complete information as requested may result in a lower evaluation score or the proposal being declared non-responsive. For each part of the response, restate the RFP item immediately above the response. Pages in the proposal shall be numbered. When asked, please provide details and state all qualifications or exceptions. All information supplied should be concise and relevant to qualifications.

#### 4.3. Contacts with LACERA Personnel

Contacts with LACERA personnel about this RFP, and all inquiries and requests for information shall be directed to the Point of Contact identified below:

Kathryn Ton  
Senior Internal Auditor  
LACERA  
Gateway Plaza  
300 North Lake Avenue, Suite 840  
Pasadena, CA 91101-4199

Email: [kton@lacera.com](mailto:kton@lacera.com)  
Phone: 626-564-6000 ext. 3525

#### 4.4. Quiet Period

To ensure that prospective Respondents to this RFP have equal access to information about the RFP and communications related to the RFP are consistent and accurate so that the selection process is efficient and fair, a quiet period will be in effect from the date of issuance of this RFP until the selection of one or more respondents is completed and announced.

This RFP and other relevant information related to the RFP, including addenda, modifications, answers to questions, and other updates, will be available to the public at [lacera.com](http://lacera.com). Each respondent to this RFP will be subject to the same terms and conditions and will receive the same information.

During the quiet period, respondents are not allowed to communicate with any LACERA staff member or Board member regarding this RFP except through the point of contact named herein. Respondents violating the quiet period may be disqualified at LACERA's discretion.

Respondents who have existing relationships with LACERA must limit their communications between LACERA staff and Board members to the subject of the existing services provided by them.

#### 4.5. Questions relating to this RFP

All questions, inquiries, and requests for additional information concerning this RFP should be received no later than 5:00 PM PDT, May 20, 2022, and should be emailed to Kathryn Ton. All questions received and responses thereto will be posted on LACERA's website ([www.lacera.com](http://www.lacera.com)) under the "Business Opportunities" section that relates to this RFP (<https://www.lacera.com/who-we-are/business-opportunities>) on or about 5:00 PM PDT, May 31, 2022.

#### 4.6. RFP Scoring and Selection Criteria

RFPs will be scored according to Exhibit E, *Selection Criteria*. LACERA staff may select Respondents based upon the selection criteria or using a combination of onsite interviews and reference verification based on LACERA's judgment as to the best qualifications and fit for the project. The highest scoring firm may not be selected.

Selected Respondents may be invited to an interview by LACERA's Board(s). At LACERA's discretion, selected Respondents may be offered the opportunity to present their materials to the Board(s).

#### 4.7. Intent to Respond

Each firm that intends to respond to this RFP must send the Intent to Respond, Exhibit A, via email to Kathryn Ton, by 5:00 p.m. PDT, June 3, 2022. Failure to send an Intent to Respond will disqualify your firm from submitting a response to this RFP.

### 5. **NOTICE TO RESPONDENTS REGARDING THE PUBLIC RECORDS ACT AND THE RALPH M. BROWN ACT**

The information submitted in response to this RFP will be subject to public disclosure pursuant to the California Public Records Act (California Government Code Section 6250, et. seq., the "Act"). The Act provides generally that all records relating to a public agency's business are open to public inspection and copying unless specifically exempted under one of several

exemptions set forth in the Act. If a respondent believes that any portion of its proposal is exempt from public disclosure or discussion under the Act, the respondent must provide a full explanation and mark such portion "TRADE SECRETS," "CONFIDENTIAL" or "PROPRIETARY," and make it readily separable from the balance of the response. Proposals marked "TRADE SECRETS," "CONFIDENTIAL" or "PROPRIETARY" in their entirety will not be honored, and LACERA will not deny public disclosure of all or any portion of proposals so marked.

By submitting a proposal with material marked "TRADE SECRETS," "CONFIDENTIAL" or "PROPRIETARY," a respondent represents it has a good faith belief that the material is exempt from disclosure under the Act; however, such designations will not necessarily be conclusive, and a respondent may be required to justify in writing why such material should not be disclosed by LACERA under the Act. Fee and pricing proposals are not considered "TRADE SECRET," "CONFIDENTIAL" or "PROPRIETARY".

If LACERA receives a request pursuant to the Act for materials that a respondent has marked "TRADE SECRET," "CONFIDENTIAL" or "PROPRIETARY," and if LACERA agrees that the material requested is not subject to disclosure under the Act, LACERA will deny disclosure of those materials. LACERA will not be held liable, however, for inadvertent disclosure of such materials, data, and information or for disclosure of such materials if deemed appropriate in LACERA's sole discretion. LACERA retains the right to disclose all information provided by a respondent.

The final report will be a public document and cannot be redacted or marked as confidential, except with LACERA's advance written approval in its sole discretion.

If LACERA denies public disclosure of any materials designated as "TRADE SECRETS," "CONFIDENTIAL" or "PROPRIETARY", the respondent agrees to reimburse LACERA for, and to indemnify, defend and hold harmless LACERA, its Boards, officers, fiduciaries, employees, and agents from and against:

1. All claims, damages, losses, liabilities, suits, judgments, fines, penalties, costs, and expenses, including without limitation attorneys' fees, expenses, and court costs of any nature whatsoever (collectively, Claims) arising from or relating to LACERA's non-disclosure of any such designated portions of a proposal; and
2. All Claims arising from or relating to LACERA's public disclosure of any such designated portions of a proposal if LACERA determines disclosure is deemed required by law, or if disclosure is ordered by a court of competent jurisdiction.

If LACERA staff recommends any respondent to the Boards for hiring, such recommendation, the reasons for the recommendation, and the relevant proposal(s) will appear on a publicly posted agenda and in supporting materials for public meetings of the Boards.

Nothing in this RFP requires LACERA to withhold any documents from production under the Act. LACERA has the authority in its sole discretion as to what is publicly released, including whether or not redactions are made.

## **6. NOTICE TO RESPONDENTS REGARDING LACERA DATA PROTECTION**

LACERA, its consultants, vendors, and contractors have a duty to protect all LACERA data, including without limitation, information related to members and beneficiaries, finances, systems, and operations.

The finalist selected through this procurement will have access to sensitive information protected by LACERA's internal policies, State, and Federal law. In such a case, by submitting a proposal, respondent agrees to subject itself to certain contractual terms designed to protect such information, including without limitation SOC-2 reports (or, in the alternative, a Security Controls Assessment as per Exhibit G) – used when vendor might have access to or use of LACERA systems or information. Respondents shall inform LACERA in their response if they have any limitations to agreeing to such terms. Respondents that do not make reservations shall lose their right to do so at the contracting phase.

## **7. CONTRACT NEGOTIATIONS**

Upon Board approval, staff will enter contract negotiations with the approved Respondent(s). LACERA may end negotiations, at its sole discretion, if it believes a satisfactory agreement cannot be negotiated. LACERA reserves the right to award a contract based upon proposals received; you should not rely upon the opportunity to alter your proposal (e.g., services to be provided, fees, etc.) during contract negotiations.

The final contract must allow LACERA to terminate a) for its convenience, and b) for default.

The general form of the contract LACERA intends to use for this engagement is attached as **Exhibit D**. By sending a proposal without comment on the general form contract, Respondent agrees to each term in the contract, and will not seek any modifications to the contract. LACERA has the right to change or negotiate contract terms different than those in Exhibit E in our sole discretion.

Respondents are required in their response to identify and explain any exception that it desires to take to any of the terms and conditions of this RFP. In addition, a respondent will be deemed to have agreed to each clause in the agreement (and not to seek inclusion of additional clauses), unless the respondent identifies an objection or inclusion, sets forth the basis for the objection or inclusion, and provides substitute language to make the clause acceptable to the respondent or to address an issue the respondent feels is not addressed by the agreement in its response to this RFP. If a satisfactory agreement cannot be negotiated with one or more of the firms, LACERA may, at its sole discretion, terminate such negotiations. LACERA, may then, at its option, initiate fee negotiations with another firm, and so on. LACERA reserves the final authority in its sole discretion to accept or reject, in whole or in part, requested modifications to the template form attached as Exhibit D.

LACERA reserves the right to make changes to the contract, including the template contract attached as Exhibit D, prior to execution, including material changes.

## **8. RESERVATIONS BY LACERA**

In addition to the other provisions of this RFP, LACERA reserves the right to:

- 8.1. Cancel or modify this RFP, in whole or in part, at any time.
- 8.2. Make such investigation as it deems necessary to determine the respondent's ability to furnish the required services, and the respondent agrees to furnish all such information for this purpose as LACERA may request.
- 8.3. Reject the proposal of any respondent who has failed to comply with the requirements of this RFP, or who is not currently in a position to perform the contract, or who has previously failed to perform similar contracts properly, or in a timely manner or for any other reason in LACERA's sole discretion.
- 8.4. Waive irregularities to negotiate in any manner necessary to best serve the public interest, and to make a whole award, multiple awards, a partial award, or no award.
- 8.5. Award a contract, if at all, to the firm which will provide the best match to the requirements of the RFP and the service needs of LACERA in LACERA's sole discretion, which may not be the proposal offering the lowest fees or achieving the highest score.
- 8.6. Request additional documentation or information from respondents. Requested information may vary by respondent. LACERA may ask questions of any respondent to seek clarification of a proposal or to ensure the respondent understands the scope of the work or other terms of the RFP.
- 8.7. The right to choose to not enter into an agreement with any of the respondents to this RFP or negotiate for the services described in this RFP with a party that did not submit a proposal.
- 8.8. Determine the extent, without limitation, to which the services of a successful respondent are or are not actually utilized.
- 8.9. Defer selection of a winning bidder to a time of LACERA's choosing.
- 8.10. Consider information about a respondent in addition to the information submitted in the response or interview.
- 8.11. Add terms and conditions during contract negotiations.
- 8.12. The information that a respondent submits in response to this RFP becomes the exclusive property of LACERA. LACERA will not return any proposal or reimburse proposal preparation expenses.

LACERA shall not be liable for any costs respondents incur in connection with the preparation or submission of a proposal.

*(The rest of this page is left intentionally blank)*

## EXHIBIT A

### PROPOSAL COVER PAGE AND CHECKLIST (TO BE SUBMITTED ON RESPONDENT'S LETTERHEAD)

Respondent Name:

Respondent Address:

By submitting this response, the undersigned hereby affirms and represents that they have reviewed the proposal requirements and have submitted a complete and accurate response to the best of their knowledge. By signing below, I hereby affirm that the respondent has reviewed the entire RFP and intends to follow all requirements.

Respondent specifically acknowledges the following facts:

1. Respondent has the required technical expertise and has sufficient capacity to provide the services outlined in the RFP.
2. Respondent has no unresolved questions about the RFP and believes that there are no ambiguities in the scope of work.
3. The fee schedule or price proposal sent in response to the RFP is for the entire scope of work and no extra charges or expenses will be paid by LACERA.
4. Respondent has completely disclosed to LACERA all facts bearing upon any possible interests, direct or indirect, that Respondent believes any member of LACERA, or other officer, agent or employee of LACERA presently has, or will have, in this contract, or in the performance thereof, or in any portion of the profits thereunder.
5. Materials contained in proposals and all correspondence and written questions sent during the RFP process may be subject to disclosure pursuant to the Act.
6. Respondent is not currently under investigation by any state or federal regulatory agency for any reason.
7. The signatory below is authorized to bind the respondent contractually.

## A. Proposal Contents

Your response to this RFP must be prepared and submitted according to the specifications set forth below, both for content and sequence. The proposal must provide a straightforward and concise description of the Proposer's capabilities to satisfy the requirements indicated in this RFP. Failure to adhere to these specifications may be cause for rejection of the proposal.

<u>Section</u>	<u>Title</u>
1.	Cover Letter
2.	Table of Contents
3.	Organization and Key Personnel
4.	Qualifications and Experience
5.	Assigned Professionals
6.	Client References (3)
7.	Project Planning/Approach
8.	Sample Reports
9.	Potential Conflict
10.	Legal Situations
11.	Fee Schedules

Each required section is listed below with a description of information that must be included in the proposal.

### 1. Cover Letter

- a) Introduction and background of the Proposer.
- b) Name, title, telephone number, and email address of the Proposer's representative(s) who is/are designated as the primary liaison(s) to LACERA.
- c) Name, title, telephone number, and email address of the representative who is authorized to legally bind the Proposer.
- d) A Statement indicating the Proposer's understanding and commitment to providing LACERA with the audit consulting services as described in the Scope of Work in this RFP.
- e) A Statement that the Proposer's proposal is an irrevocable offer, including proposed fees and proposed assigned staff, for 120 days following the date of proposal.

## 2. Table of Contents

Your proposal must include a table of contents identifying the proposal sections and corresponding page numbers.

## 3. Organization and Key Personnel

Please include the following information in this section:

- a) Describe your organizational structure giving specific details about your parent, any affiliated companies, or joint ventures.
- b) Identify the locations of the headquarters and branch office(s) that will be providing services under this LACERA contract.
- c) Describe the areas of audit specialty that your firm provides and the number of years that your firm has been providing the services.
- d) Please describe the levels of coverage for errors and omissions insurance and any other fiduciary or professional liability insurance your firm carries for negligent acts or omissions. Attach proof of coverage (e.g., a certificate of insurance) for such insurance that apply to proposer's actions under the contract.

## 4. Qualifications and Experience

- a) Provide a detailed resume for each member of the professional staff who will provide services under this LACERA contract, including their experience in audits and reviews with large retirement systems and other relevant institutions. For key personnel (Partner, Manager/Supervisor) who will have planning and on-site supervisory responsibilities include a description of audit experience and services provided within the last five (5) years.
- b) Provide a schedule of audit and consulting services completed by your firm within the last (5) five years for each of the areas listed in this RFP your firm will submit a proposal. Please indicate the size of investment portfolios reviewed and describe the nature of compliance reviews or consulting reviews performed. Provide an example of an audit report similar to the services requested in this RFP.

## 5. Assigned Professionals

The proposal must state the name of the lead consultant and all other professional staff expected to be assigned to LACERA work, including a detailed profile of each person's background and relevant individual experience and the ability of the professionals collectively to function together as a team and also to work effectively with LACERA's Boards and staff in performing the scope of services. Diversity is a core LACERA value, and therefore the proposal must specifically address the

diversity of the proposed team members in meaningful roles across levels of seniority to support the firm's work for LACERA. LACERA expects that this section of the response will only include those persons committed to supporting LACERA and investing in a relationship with LACERA on a regular and long-term basis. The proposal should include a commitment by the lead consultant to be reasonably available to LACERA on an ongoing basis.

With respect to diversity, the response must include:

- description of diversity policies, practices, and procedures maintained by the firm regarding equal employment opportunity, including the recruitment, development, retention, and promotion of a diverse and inclusive workforce, non-discrimination based on gender, race, ethnicity, sexual orientation, age, veteran's status, and other legally protected categories, and prohibition of sexual harassment in the workplace. If the respondent has written policies, a copy should be provided with the response to this RFP.
- the oversight, monitoring, and other compliance processes for implementation and enforcement of the firm's diversity policies, practices, and procedures, including the name of the individual who is responsible for oversight the firm's method to measure the effectiveness of the policies, and conclusions as to effectiveness.
- any judicial, regulatory, or other legal finding, formal action, or claims related to equal employment opportunity, workplace discrimination, or sexual harassment during the past ten (10) years.

## 6. Client References

The Proposer shall provide three clients for whom it has provided investments-related audit/consulting services relating to ODD in the past five (5) years. For each client reference listed, please include:

- Entity name, address, and key contact person
- Date of service(s)
- Nature of business
- Fund asset size and annual revenue
- Primary contact name, title, telephone number, and email address
- Nature and length of Proposer's relationship with said entity
- Description of services provided by Proposer

LACERA reserves the right to contact any of the individuals/agencies provided above.

## 7. Project Planning and Approach

Describe the specific methodology and services necessary to accomplish the scope of work set forth in this RFP for LACERA.

## 8. Sample Reports

Submit sample reports performing similar services to the scope in this RFP.

9. Potential Conflicts

- a) Describe in detail any potential conflicts of interest related to any other client relationships if awarded the LACERA engagement.
- b) Describe any potential conflicts of interest with the proposed Engagement Director and/or Engagement Manager relative to the LACERA engagement.
- c) List any perceived conflict of interest issues you anticipate if your firm is awarded this LACERA engagement.
- d) Provide details of any other affiliates offering services to LACERA that could represent conflicts of interest. Briefly describe your firm's policies and procedures for doing business with these affiliates, while safeguarding against conflicts of interest.
- e) Describe any known relationship your Firm or any staff have with any member of LACERA's Boards, management, staff, or plan sponsors (including, but not limited to, Los Angeles County).
- f) Describe the purpose and monetary value of any gifts, travel, expenses, entertainment, or meals given to any member of the LACERA Boards, management, or staff in the last two (2) years.
- g) Describe your firm's approach to resolving potential conflict issues that may be encountered during the performance of audit or consulting services for LACERA and any special assistance that will be requested from LACERA.

10. Legal Matters

- a) Describe the circumstances and status of any investigation, non-routine examination, complaint, disciplinary action, or other proceeding against your firm or any officer or principal of your firm commenced by any state or federal regulatory body or professional organization during the past five (5) years.
- b) Describe any situation whereby your firm or any officer or principal of your firm was censured or fined by any regulatory body within the last five (5) years.
- c) Describe any claims or litigation brought against your firm or any officer or principal of your firm by any entity for fraud, malpractice, misrepresentation, negligence, or similar cause of action within the last five (5) years.
- d) Describe each audit engagement with other clients, involving any member of the team that would be assigned to the LACERA, which has been the subject of litigation, arbitration, mediation, or other dispute resolution mechanisms within the

past five (5) years. Identify the individual(s) involved, and provide the case name and number, the damages sought, and the outcome.

- e) Describe any situation within the last five (5) years, when your firm was notified, by any actuarial consulting or actuarial auditing client, that your firm is in default of its contract, or that conditions exist jeopardizing the continuation of that contract. State the client's name, the year the notice was received, reasons for the notice, and resolutions or current status of the relationship.

#### 11. Terms and Conditions

Once a firm is selected for an engagement, the CAE will authorize staff to enter into negotiations with the approved firm(s) which will result in a formal Contract between the parties, An Audit Engagement Letter, approved by LACERA, will serve as the formal contract of services. LACERA may terminate negotiations, at its sole discretion, if it believes a satisfactory agreement cannot be negotiated. LACERA reserves the right to award a contract based upon proposals received; you should not rely upon the opportunity to alter your proposal (e.g., services to be provided, fees, etc.) during contract negotiations.

The final contract must allow LACERA to terminate (a) for its convenience upon not more than 30 days' notice and (c) for default. The contract must also include indemnity by your firm to LACERA from third party claims.

#### 12. Fee Schedules

The Proposer must submit a Fee Proposal in the format prescribed in Exhibit D.

[/s]

**EXHIBIT B**

**MINIMUM QUALIFICATIONS CERTIFICATION  
(TO BE SUBMITTED ON RESPONDENT'S LETTERHEAD)**

All Respondents must sign and return this attachment, along with written evidence of how you meet each qualification. The undersigned hereby certifies that the Respondent submitting this response fulfills the minimum qualifications outlined below, as well as the requirements contained in the RFP.

**Minimum Qualifications include:**

<b>Auditor Minimum Qualifications*</b>	<b>Yes</b>	<b>No</b>
The proposing firm must have provided investment-related consulting or auditing services, including ODD-related work, for a minimum of ten (10) years.		
The proposed team should have extensive experience performing ODD on behalf of institutional clients. The team leader must have performed ODD-related work within the past ten (10) years and each team member must have at least five (5) years of experience.		
Key Personnel (Director, Manager/Supervisor) with planning and supervisory responsibilities must have at least ten (10) years of experience in the applied for specialty areas set forth in this RFP.		

\* LACERA reserves the right to grant exceptions to the minimum qualifications with appropriate explanation and in our sole discretion.

**The undersigned hereby certifies that they are an individual authorized to bind the Firm contractually, and said signature authorizes verification of this information.**

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name and Title (please print)

\_\_\_\_\_  
Name of Firm

## EXHIBIT C

### STATEMENT OF WORK

All services performed by the contractor shall be under the direction of, and approved by, the Chief Audit Executive or designee.

ODD is performed both pre- and post-investment. Pre-investment ODD is the process of evaluating whether the investment manager has the necessary operational capabilities, controls, and framework to execute on the investment mandate that LACERA is considering. Along with investment due diligence (IDD), ODD is an important component of the decision to invest. Post-investment ODD is the process of evaluating whether the investment manager continues to have the necessary operational capabilities, controls, and framework to execute on the investment mandate that LACERA hired the manager to perform.

The scope of work should include but is not limited to assessing the following:

Review of the effectiveness of ODD in the execution of LACERA's investment program.

- Pre-investment ODD.
- Post-investment/ongoing ODD.

Consideration in both pre-investment and post-investment ODD should be given to:

- Evaluating the effectiveness, frequency, and degree/comprehensiveness of ODD performed.
- Assessing the effectiveness of reliance by LACERA staff on investment consultants and third parties for the performance of ODD in asset classes where those resources are available.
- Completeness and comprehensiveness of ODD documentation.
- Assessing whether the ODD Program covers all appropriate risk factors. Examples may include internal controls over operational processes, investment operations, infrastructure and business continuity, compliance, risk management, disclosures, manager organization, fund terms, custody and counterparties, valuation policies, financial statements, and Form ADVs.
- Evaluation of ODD for internal investment operations.
- Communication of ODD efforts to the Board of Investments and utilization of data in managing portfolio.

Input of best practices in managing an effective ODD program.

Within the Investment Policy Statement (IPS), page 16 of the IPS provides additional background, specifically a breakdown of LACERA's asset allocation to various categories and the target weights. Please reference LACERA's Investment Policy Statement at [https://www.lacera.com/sites/default/files/assets/documents/general/invest\\_policy\\_stmt\\_03\\_1921.pdf](https://www.lacera.com/sites/default/files/assets/documents/general/invest_policy_stmt_03_1921.pdf)



## **EXHIBIT E**

### **AGREEMENT FOR SERVICES**

THIS IS THE GENERAL FORM AND CONTENT OF THE CONTRACT LACERA INTENDS TO USE. IN SUBMITTING A PROPOSAL WITHOUT COMMENT ON THE CONTRACT, THE BIDDER WILL BE DEEMED TO HAVE AGREED TO EACH CLAUSE IN THE AGREEMENT BELOW (AND TO NOT SEEK ANY MODIFICATIONS TO THE AGREEMENT), UNLESS BIDDER'S PROPOSAL IDENTIFIES AN OBJECTION OR INCLUSION, SETS FORTH THE BASIS FOR THE OBJECTION OR INCLUSION, AND PROVIDES SUBSTITUTE LANGUAGE TO MAKE THE CLAUSE ACCEPTABLE TO BIDDER.

LACERA RESERVES THE UNILATERAL RIGHT IN ITS SOLE DISCRETION TO MAKE CHANGES TO THE CONTRACT PRIOR TO EXECUTION, WHICH CHANGES WILL NOT PROVIDE BIDDER WITH AN OPPORTUNITY TO MAKE FURTHER CHANGES TO THE OTHER TERMS OF THE CONTRACT.

DRAFT

## CONTRACT FOR CONSULTING REVIEW

This Contract an Investments Operational Due Diligence Review (“Contract”) is made and entered into by and between Los Angeles County Employees Retirement Association (“LACERA”) and [NAME] (“Consultant”) and is effective as of the date shown in Section 5.

### Recitals

LACERA seeks the services of a company to provide an assessment and evaluation of LACERA’s ODD processes, both pre-investment and post-investment.

Consultant represents that they have extensive experience performing, advising, or evaluating ODD on behalf of institutional clients.

### Contract

#### 1. Services to be Provided.

1.1 Consultant agrees to perform the services (“Services”) described in the Statement of Work (“Statement of Work”) attached to this Contract as Attachment A.

1.2 Consultant agrees to perform the Services at LACERA’s offices, and with LACERA’s consent, via telephone or email, and when appropriate, at a location of Consultant’s choice.

1.3 All writings, including the final report, prepared or furnished by Consultant to LACERA in the performance of this Contract shall be the exclusive property of LACERA and may be used and publicly distributed by LACERA, as LACERA deems appropriate.

1.4 Consultant’s quality of service will be at least equivalent to that which Consultant provides to other clients it serves in the same capacity. Consultant will be held to the same standard of care, skill, prudence, and diligence that applies to other experts practicing in a like enterprise.

#### 2 Independent Contractor.

2.1 Consultant agrees to perform the Services as an independent contractor and agrees they will be always acting as such. Neither party intends, and this Contract may not to be construed, to create any relationship of agent, servant, employee, partnership, joint venture, or association between Consultant and LACERA. Consultant is not and will not be deemed to be for any purpose (including, without limitation, Workers’ Compensation) an employee of Los Angeles County (the “County”). Consultant is not entitled to any rights, benefits, or privileges of County employees. Consultant is not eligible to participate in any insurance, savings, pension or deferred compensation offered by LACERA or the County.

2.2 Consultant has no power or authority to assume or create any obligation or responsibility, express or implied, on behalf of LACERA or the County, or to bind LACERA or the County in any way whatsoever.

2.3 Consultant accepts full and complete responsibility for filing all tax returns and paying all taxes, which may be required, or due for payments received from LACERA under this Contract. LACERA will memorialize payments for Consultant's services on a Form 1099.

2.4 Consultant represents and warrants that it will comply with all applicable federal, state, and local laws, including without limitation, those laws respecting business licenses, withholding, reporting, and payment of taxes. Consultant further represents and warrants that it will report any income accruing to it from this Contract to the appropriate taxing authorities.

3. LACERA's Project Director.

LACERA's Project Director, or designee, has responsibility for determining whether the Services are performed to LACERA's satisfaction. LACERA's Project Director is Richard Bendall.

4. Indemnification and Insurance.

4.1 Consultant shall indemnify, defend and save harmless LACERA, its agents, officers and employees from and against any and all liability, damage, suit, cost of suit, or expense, including defense costs and attorney's fees, arising out of or connected with claims for damages of any nature whatsoever arising from or connected with Consultant's operations or its services, including, without limitation, claims for bodily injury, death, personal injury, or property damage, including damage to Consultant's property.

4.2. Without limiting Consultant's obligations to indemnify LACERA, Consultant will provide and maintain at its own expense during the term of this Contract the programs of insurance programs specified in this Contract. Such insurance will be primary and not contributing with any other insurance of self-insurance programs maintained by LACERA, and Consultant agrees to provide and maintain such insurance at its own cost and expense.

4.2.1 Certificate(s) or other evidence of coverage satisfactory to LACERA shall be delivered to prior to commencing services under this Contract and annually thereafter to:

Kathryn Ton  
LACERA  
300 N. Lake Avenue, Suite 840  
Pasadena, CA 91101-4199

4.3 Such certificates or other evidence shall:

4.3.1 Specifically identify this Contract.

4.3.2 Clearly evidence all coverage's required in this Contract.

4.3.3. Contain the express condition that LACERA is to be given written notice by mail at least 45 days in advance of cancellation for all policies, or, alternatively, in the event the insurers that otherwise provide satisfactory insurance hereunder do not assume third-party notification provisions, Consultant hereby agrees to notify LACERA at least 45 days in advance of any cancellation of any of the policies provided for herein.

4.3.4 Include copies of the additional insured endorsement to the commercial general liability policy, adding that LACERA, its trustees, officers and employees as insureds for all activities arising from this Contract.

4.3.5 Self-Insured Retentions must be declared to and approved by the LACERA. LACERA may require Consultant to purchase coverage with no retention or provide proof of ability to pay losses and related investigations, claim administration, and defense expenses within the retention. The policy language shall provide, or be endorsed to provide, that the self-insured retention will be satisfied by the named Consultant

4.3.6 LACERA reserves the right to modify these requirements, including limits, based on the nature of the risk, prior experience, insurer, coverage, or other special circumstances.

4.4 Insurer Financial Ratings. Insurance is to be provided by an insurance company acceptable to LACERA with an A.M. Best rating of not less than A-, X, unless otherwise approved by LACERA.

4.5 Failure to Maintain Coverage. Consultant's failure to maintain the required insurance, or to provide evidence of insurance coverage acceptable to LACERA, shall constitute a material breach of the contract upon which LACERA may immediately terminate or suspend this Contract. LACERA, at its sole option, may obtain damages from Consultant resulting from said breach.

4.6 Compensation for LACERA Costs. In the event that Consultant fails to comply with any of the indemnification or insurance requirements of this Contract, and such failure to comply results in any costs to LACERA, Consultant shall pay full compensation for all costs incurred by LACERA.

4.7 Cooperation Regarding Insurance. LACERA may elect to procure insurance against loss or damage it may sustain in connection with Consultant's performance under this Contract. Consultant will promptly cooperate with any reasonable request for information regarding Consultant which is required to obtain such insurance.

4.8 Survival of Obligations. Consultant's obligations under this Section 4 shall survive expiration or termination of this Contract.

4.9 Commercial General Liability. Consultant shall provide and maintain a Commercial General Liability insurance policy, which names LACERA as additional insured. Such policy shall cover legal liability for bodily injury and property damage arising out of Consultant's business operations and services that Consultant provides pursuant to this Contract. Such policy shall include, without limitation, endorsements for Property Damage, Premises-Operations, Products/Completed Operations, Contractual, and Personal/Advertising Injury with a limit of at least \$1,000,000 per occurrence and an annual aggregate of at least 2,000,000. If such insurance is written on a Claims Made Form, such insurance shall be endorsed providing an extended reporting period of not less than five (5) years following termination or expiration of this Contract.

4.10 Auto Liability. Consultant shall provide and maintain a comprehensive auto liability insurance policy endorsed for all "owned", "non-owned", and "hired" vehicles, or coverage for any "auto", with a combined single limit of not less than One Million Dollars (\$1,000,000) per accident.

4.11 Workers' Compensation. Consultant shall bear sole responsibility and liability for furnishing Workers' Compensation benefits to Consultant's employees for injuries arising from or connected with any services provided to LACERA under this Contract. Consultant shall provide and maintain a program of Workers' Compensation, in an amount and form to meet all applicable statutory requirements. In all cases, worker's compensation insurance also shall include Employer's Liability Insurance with limits of not less than \$1,000,000, each accident, and \$1,000,000, disease, covering all of Consultant's employees.

4.12 Errors and Omissions. Consultant shall provide and maintain insurance covering liability arising from any error, omission, negligent or wrongful act of the Consultant, its officers, employees or Agents, with limits of at least \$1,000,000 per claim and an annual aggregate of at least \$2,000,000. The coverage also shall provide an extended one-year reporting period commencing upon termination or cancellation of this Contract.

4.13 Cyber Liability Insurance. Without limiting any of the obligations or liabilities of Consultant, Consultant shall carry and maintain, at its own expense including any applicable deductibles or retention, Cyber Liability insurance with limits of not less than \$2,000,000 for each occurrence and an annual aggregate of \$5,000,000 covering claims involving privacy violations, information theft, damage to or destruction of electronic information, intentional and/or unintentional release of private information, alteration of electronic information, extortion and network security. The policy coverage shall include, but not be limited to:

4.13.1 Privacy Liability Coverage. This coverage shall include LACERA and its members for breaches of their private information in the case of a data breach.

4.13.2 Notification Costs. This coverage shall cover the costs of notifying third parties and LACERA members potentially affected by a data breach.

4.13.3 Crisis Management. This coverage shall include the costs of managing the public relations outfall from most data breach scenarios.

4.13.4 Credit/Identity Monitoring. This coverage shall include coverage for affected members for at least 24 months or the minimum legally required period, whichever is longer.

4.13.5 Theft and Fraud Coverage. This coverage shall include the costs of theft or destruction of the LACERA's data and theft of funds.

4.13.6 Network and Business Interruption. This coverage shall include any expense due to an intentional interruption of the LACERA's computer systems.

4.13.7 Data Loss and Restoration. This coverage shall include the costs of diagnosing and repairing the cause of the loss and restoring all data.

5. Term.

The term of this Agreement commences on the EFFECTIVE DATE and continues through [DATE]. LACERA may terminate this Agreement for its convenience by giving CONSULTANT at least 30 days prior written notice of termination. CONSULTANT may terminate the Agreement for his convenience by giving LACERA's Committee at least 30 days prior written notice of termination

6. Non-Exclusive Services.

This Contract is not exclusive. Consultant has the right to perform services for others during the term of this Contract, but Consultant agrees not to engage in any business, work or services of any kind under contract, or otherwise, for any person, organization or agency, which in the opinion of LACERA is detrimental to the interests of LACERA or that would materially interfere with the performance of the Services. Consultant agrees to disclose such information regarding business, work or services they perform on behalf of any person, organization or agency as LACERA may reasonably require verifying Consultant's compliance with this Section.

7. Compensation.

LACERA agrees to pay Consultant according to the Fee Schedule attached as Attachment B for performing the Services. Consultant's expenses are included in the compensation described in Attachment B and therefore Consultant is not entitled to any separate reimbursement for any expenses incurred by it in discharging its duties under this Contract, unless otherwise agreed by LACERA.

8. Invoices.

Consultant agrees to submit invoices to LACERA's Project Director, in arrears, by the tenth day of each calendar month for Services performed during the previous calendar month. Each invoice must (a) describe in detail the Services performed and expenses incurred by Consultant during the invoice period, (b) show the cumulative charges year-to-date (based on a fiscal year beginning July 1) for all Services and expenses, and (c) include such other information as LACERA may reasonably request. Each invoice will be payable within thirty days of receipt by LACERA. If LACERA's Project Director disputes any portion of an invoice,

however, LACERA will pay the undisputed portion only and notify Consultant in writing of the disputed portion. Consultant and LACERA agree to act in good faith to resolve such disputes.

9. Contract Not Assignable.

Consultant may not assign any of its rights, duties, or obligations under this Contract without the prior written consent of LACERA, which LACERA may grant or withhold in its sole discretion.

10. Confidentiality.

10.1 Confidential Information. Consultant understands that, during the performance of this Contract, it will have access to confidential and proprietary LACERA information, policies and procedures, benefits, business practices, and technology concerning LACERA's operations, as well as sensitive confidential member information and business critical non-member information (collectively, "Confidential Information"). For clarity, Confidential Information includes all information of any and every kind provided to Consultant, regardless of whether it may previously have been disclosed by LACERA or others in other contexts, in that LACERA needs to know to whom, when, where, and how all of its information has been disseminated and reserves to itself the right to determine to whom, when, where, and how such information is released. Confidential Information further includes all information related in any way to LACERA provided to Consultant.

Confidential Information may be provided to Consultant or generated or stored by Consultant in written, electronic, verbal, and all others forms. Consultant understands and agrees that:

10.1.1 Consultant shall not disclose Confidential Information to any person within its organization except those persons required to perform the services of the Contract.

10.1.2 Consultant shall not disclose Confidential Information to any third party without LACERA's advance written approval.

10.1.3 Consultant's agreement not to disclose Confidential Information includes an agreement not to disclose information even on a no-names basis.

10.1.4 Consultant will use best efforts, including but not limited to the highest level of care Consultant accords to its own most sensitive information and the most sensitive information of its other clients, to secure and maintain the confidential nature of the Confidential Information.

10.1.5 Consultant will not use the Confidential Information for any purpose other than to perform the services required by this Contract. This confidentiality provision will survive the termination of the Contract.

11. Nondiscrimination.

Consultant hereby promises and agrees that it will comply with Subchapter VII of the Civil Rights Act of 1964, 43USC Section 2000e through 2000e (17), to the end that no person shall, on grounds of race, creed, color, sex, or national origin, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under this Contract, or under any project, program or activity supported by this Contract.

Consultant shall take affirmative action to ensure that applicants and employees are treated in an unbiased manner without regard to their race, color, religion, sex, age, ancestry, or national origin, physical or mental handicap, marital status, or political affiliation. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.

12. Compliance with Laws.

Consultant shall comply with all applicable Federal, State and local laws, rules, regulations, ordinances, and directives, and all provisions required to be included in this Contract are incorporated by this reference. Consultant shall indemnify and hold LACERA harmless from any loss, damage or liability resulting from a violation by Consultant of any such laws, rules, regulations, ordinances, and directives.

13. Conflict of Interest.

No officer or employee of LACERA whose position enables them to influence the award of this Contract or any competing agreement, and no spouse or economic dependent of such officer or employee shall be employed in any capacity or in any way remunerated by Consultant or have any direct or indirect financial interest in this Contract or in Consultant.

14. Modifications.

Any modification to this Contract must be in writing, signed by Consultant and LACERA, to be effective.

15. Termination for Default.

Services performed under this Contract may be terminated in whole or in part by LACERA providing to Consultant a written Notice of Default if (1) Consultant fails to perform the services within the time specified in this Contract or any extension approved by LACERA, or (2) Consultant fails to perform any other covenant or condition of this Contract, or (3) Consultant fails to make progress so as to endanger its performance under this Contract.

Consultant shall have ten (10) calendar days from the date of the Notice of Default in which to cure the Default(s), however, in its sole discretion, LACERA may extend this period or authorize a longer period for cure.

Without limitation of any additional rights or remedies to which it may be entitled, if LACERA terminates all or part of the services for Consultant's Default, LACERA, in its sole

discretion, may procure replacement services and Consultant shall be liable for all excess costs incurred by LACERA in connection with those replacement services, as determined by LACERA in its sole discretion.

If it is determined that Consultant was not in Default under the provisions of this Contract, or that the Default was excusable, then the rights and obligations of the parties shall be the same as if the Notice of Termination had been issued under Section 16. Termination for Convenience.

#### 16. Termination for Convenience.

Services performed under this Contract may be terminated in whole or in part at any time LACERA or Consultant deems that termination is in its best interest. LACERA or Consultant shall terminate services by delivering a written Termination Notice at least 30 days prior which specifies the extent to which services are terminated and the effective termination date.

After receiving a Termination Notice under this section, and unless otherwise expressly directed by LACERA, Consultant shall take all necessary steps and shall stop services on the date and to the extent specified in the Termination Notice and shall complete services not so terminated.

#### 17 SOC-2

SOC-2 Report. The Consultant shall have an annual audit performed by an independent audit firm. The audits shall include the Consultant's and any subcontractor's handling of Confidential Information and shall address all areas relating to information technology security and operational processes to provide such security. The audits shall be performed in accordance with the guidance set forth in Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy (SOC 2), as published by the American Institute of Certified Public Accountants (AICPA) and as updated from time to time, or according to the most current audit guidance promulgated by the AICPA or similarly recognized professional organization, as agreed to in writing by LACERA. The audit shall assess the security of information technology security and operational process to provide such security as follows:

17.1 The type of audit to be performed in accordance with the Guidance is a SOC 2 Type 2 Audit (referred to as the "SOC 2 Audit" or "SOC 2 Report"). The initial SOC 2 Audit shall be scheduled and completed within six months of executing the Contract. All subsequent SOC 2 Audits that are arranged after this first audit shall be performed and submitted annually.

17.2 The SOC 2 Audit shall report in writing on the Consultant's and any subcontractor's system(s) and the suitability of the design and operating effectiveness of controls of the information functions and/or processes to meet the requirements of the Contract, including the security requirements.

17.3 The scope of the SOC 2 Report shall include work performed by any subcontractors that provide essential support to the Consultant for the information functions or

processes for the services offered to LACERA under the Contract. The Consultant shall ensure the audit includes all subcontractors operating in the performance of the Contract.

17.4 All SOC 2 Audits, including those of the Consultant and any subcontractors, shall be performed at no additional expense to LACERA.

17.5 The Consultant and all relevant subcontractors shall promptly provide a complete copy of the final SOC 2 Report(s) to the Project Director upon completion of each SOC 2 Audit engagement.

17.6 The Consultant shall provide to LACERA, within 30 calendar days of the issuance of each SOC 2 Report, a documented corrective action plan that addresses each audit finding or exception contained in a SOC 2 Report. The corrective action plan shall identify in detail the required remedial action by the Consultant or subcontractor(s) along with the implementation date(s) for each remedial action.

17.7 If the Consultant or any subcontractor fails to obtain an annual SOC 2 Report, LACERA shall have the right to retain an independent audit firm to perform an audit engagement of a SOC 2 Report. The audit will include the information functions and processes utilized or provided by the Consultant and any relevant subcontractor under the Contract. The Consultant and any subcontractor agree to allow the independent audit firm to access its facilities for purposes of conducting this audit engagement. They will provide the necessary support and cooperation to the independent audit firm that is required to perform the audit engagement of the SOC 2 Report. LACERA will invoice the Consultant for the expense of the SOC 2 Report(s), or deduct the cost from future payments to the Consultant.

#### 18. Disaster Recovery & Business Continuity

Consultant will implement and maintain disaster recovery and business continuity procedures that are reasonably designed to recover data processing systems, data communications facilities, information, data and other business related functions of LACERA in a manner and time frame consistent with legal, regulatory and business requirements applicable to LACERA.

#### 19. Data Breach Verification

19.1 Consultant shall provide an annual written, signed attestation that to the best of its knowledge, no data breach, hacking, or incidental divulging of Member Records has occurred and that no Member Record has been compromised. The attestation shall verify that adequate internal policies and procedures exist to prevent data theft and unauthorized access.

19.2 Consultant shall provide an annual system penetration test in support of the attestation made in item A above. Consultant shall provide the results of penetration tests to LACERA.

19.3 Consultant shall comply with California Civil Code §1798.29(e) and California Civ. Code §1798.82(f). In the event of a security breach of more than 500 records, the Consultant shall electronically submit a single sample copy of that security breach notification, excluding any personally identifiable information, to the Attorney General.

19.4 Consultant shall notify any California resident whose unencrypted personal information, as defined, was acquired, or reasonably believed to have been acquired, by an unauthorized person as required by California Civil Code §1798.29(a) and California Civ. Code §1798.82(a).

19.5 Notwithstanding the legal notification requirements in the preceding paragraphs, Consultant will immediately notify LACERA upon its discovery of any incident or data breach.

20. Entire Contract and Severability.

This document (including Attachments A and B) constitutes the final, complete, and exclusive statement of the terms of the Contract between LACERA and Consultant for the services to be performed and supersedes all prior and contemporaneous understandings or Contracts of the parties. The provisions of this Contract are severable, and if any one or more provisions may be determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions or parts thereof shall nevertheless be binding and enforceable and the invalid, illegal or unenforceable provision shall be replaced by a mutually acceptable valid, legal and enforceable provision which comes closest to the intent of the parties.

21. Governing Law and Venue.

21.1 This Contract shall be governed by, and construed and enforced in accordance with, the laws of the State of California without regard to principles of conflicts of laws.

21.2 Any party bringing a legal action or proceeding against any other party arising out of or relating to this Contract or the transactions it contemplates (whether in contract, tort, equity, or otherwise), shall bring the legal action or proceeding in either the United States District Court or in any court of the State of California sitting in Los Angeles County.

21.3 Each party to this Contract consents to the exclusive personal and subject matter jurisdiction of any United States District Court sitting in the County of Los Angeles and any court of the State of California sitting in the County of Los Angeles, and their appellate courts for the purpose of all legal actions and proceedings arising out of or relating to this Contract or the transactions it contemplates, including all claims of any nature or type, whether in contract, tort, statutory, equitable, legal, or otherwise.

22. Attorney's Fees.

In the event of litigation between the parties concerning this Contract, the prevailing party shall be entitled to recover reasonable costs and expenses incurred therein, including without limitation attorney's fees. These expenses shall be in addition to any other relief to which the prevailing party may be entitled and shall be included in and as part of the judgment or decision rendered in such proceeding.

23. Interpretation.

Consultant acknowledges they have been given the opportunity to have counsel of their own choosing to participate fully and equally in the review and negotiation of this Contract. The language in all parts of this Contract shall be construed in all cases according to its fair meaning, and not strictly for or against any party hereto. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in interpreting this Contract.

24. Waiver.

No waiver of a breach, failure of any condition, or any right or remedy contained in or granted by the provisions of this Contract shall be effective unless it is in writing and signed by the party waiving the breach, failure, right, or remedy. No waiver of any breach, failure, right or remedy shall be deemed a waiver of any other breach, failure, right or remedy, whether or not similar, or preceding or subsequent, nor shall any waiver constitute a continuing waiver unless the writing so specifies.

*Remainder of Page Intentionally Left Blank*

IN WITNESS WHEREOF, Consultant has signed this Contract, and the [SIGNATORY TITLE] of LACERA has signed this Contract, effective as of the date indicated in Section 5.

LACERA:

[Consultant Name]:

Los Angeles County Employees Retirement Association

By: \_\_\_\_\_  
[TITLE]

\_\_\_\_\_  
[Authorized Signatory Title]

Address for notices:

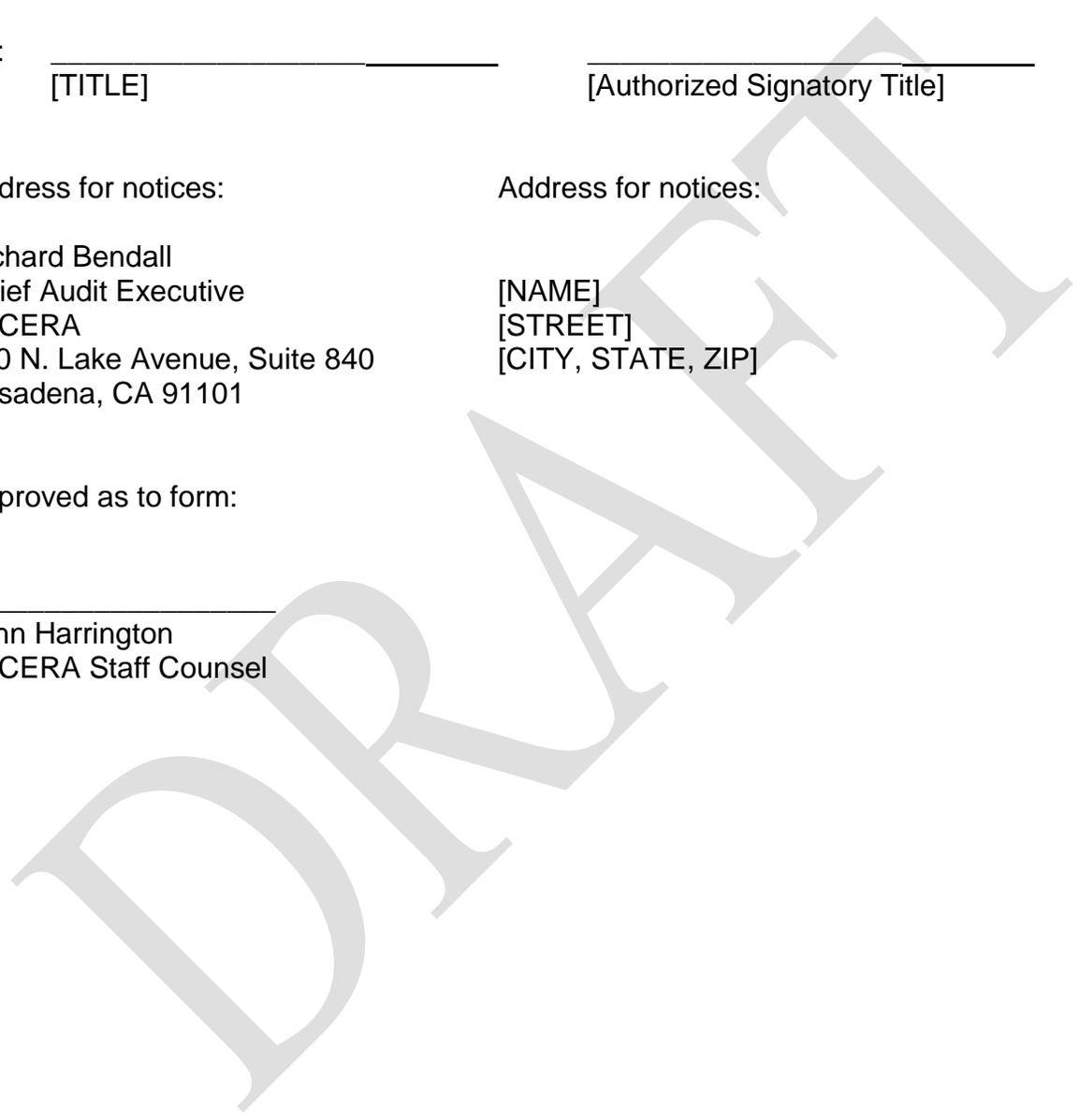
Address for notices:

Richard Bendall  
Chief Audit Executive  
LACERA  
300 N. Lake Avenue, Suite 840  
Pasadena, CA 91101

[NAME]  
[STREET]  
[CITY, STATE, ZIP]

Approved as to form:

\_\_\_\_\_  
John Harrington  
LACERA Staff Counsel



**EXHIBIT F**

**INTENT TO RESPOND**

Intent to Respond.

If you choose to respond to this RFP, please send this form to Kathryn Ton via email no later than 5:00 p.m. PT, June 3, 2022. Failure to send your Intent to Respond may disqualify your firm from submitting a proposal.

LACERA's responses to written requests for clarification or other information will be provided to all Respondents that have submitted an Intent to Respond.

**To:** Kathryn Ton  
**Co.:** LACERA – Internal Audit  
**Phone:** 626-564-6000 ext. 3525  
**Email:** [kton@lacera.com](mailto:kton@lacera.com)  
**Re:** Intent to Respond

**From:**  
**Title:**  
**Co.:**  
**Phone:**  
**Email:**  
**Date:**

Our firm intends to submit a response for LACERA's RFP for [Services Requested].

Please send inquiries to the following contact:

Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Company: \_\_\_\_\_  
Mailing Address: \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Facsimile: \_\_\_\_\_  
Email Address: \_\_\_\_\_

## EXHIBIT G

### SELECTION CRITERIA

The selection criteria below and the weighting schedule of the evaluation factors is a guide only and does not bind or limit LACERA in any way in its selection of vendor(s).

#### A. General Information

An evaluation committee will review, evaluate, score, and rank all responsive proposals by the evaluation criteria described below. LACERA may invite the highest ranked Respondents for presentations and interviews at which time each will have a limited amount of time to further describe their experience and qualifications, and to answer questions.

Scores will be used merely as an aid in selection and is not binding or determinative on LACERA with respect to the basis for selection. LACERA will evaluate proposals based upon the proven ability of the Respondent to satisfy the requirements in an efficient, cost-effective manner, considering quality of service. LACERA will evaluate responses against the following criteria and factors:

LACERA will consider the criteria, without a specific weighting, unless noted below. The balancing of the factors is in LACERA's sole discretion. LACERA reserves the right to consider factors other than those listed in making its choice.

#### B. Evaluation Committee

An Evaluation Committee consisting of LACERA staff will evaluate the proposals.

#### C. Evaluation of Proposals

LACERA will initially review all proposals to determine the responsiveness to this RFP. LACERA will perform an evaluation of each proposal. Criteria used as the basis for evaluation shall include:

- Adherence to RFP Instructions
- Professional capability, demonstrated competence, and specialized experience of the proposer
- Staffing capability, workload, and ability to meet schedules
- Experience and education of key personnel
- Diversity and inclusion efforts within the Firm
- Nature and quality of completed services for other clients
- Client references
- Reliability and continuity of firm
- Work plan and methodology
- Review of sample reports

- Proposed agreement terms and price proposal
- Interviews (for select firms)

The factors will be considered as a whole, without a specific weighting. The balancing of the factors is in LACERA's sole discretion. Factors other than those listed may be considered by LACERA in making its selection.

#### **D. Right to Reject Proposals**

Notwithstanding, anything contained in this RFP to the contrary, LACERA reserves the right without prejudice to reject any or all proposals.

#### **E. Incomplete Proposals**

If the information provided in a Proposer's proposal is deemed by the Evaluation Committee to be insufficient for evaluation, LACERA reserves the right to request additional information or to reject the proposal outright. False, incomplete, or unresponsive statements in connection with a proposal may be sufficient cause for its rejection. The evaluation and determination of the fulfillment of the requirements will be determined by LACERA, and LACERA alone, and such judgment shall be final.

#### **F. Formal Presentations**

During the evaluation process, any one or more of the Proposers may be requested to make a formal presentation to the Board of Retirement, Board of Investments, or a Committee of the Board such as the Audit Committee. Such presentation will provide the Proposer with an opportunity to answer any questions LACERA may have regarding the Proposer's proposal. Expenses incurred by the Proposer for such presentation will not be reimbursed. Once hired, the selected firm is required to present the results of their findings at a future Audit Committee meeting.

#### **G. Agreement Negotiations**

Contract negotiations will be initiated upon CAE approval, LACERA expects contract negotiations to be brief. If the contract cannot be negotiated quickly with the selected Proposer, LACERA may, in its sole discretion, terminate negotiations with the selected Proposer and commence contract negotiations with another party, whether or not that party submitted a proposal to this RFP.

#### **H. Agreement Approval and Award**

LACERA reserves the right to submit the final Audit Services Agreement (contract) to the Boards or Committee for approval. After approval and agreement award by LACERA, all Proposers will be notified of the outcome.



April 7, 2022

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

Audit Committee Consultant  
Robert H. Griffin

FROM: George Lunde *GL*  
Senior Internal Auditor

FOR: May 9, 2022 Audit Committee Meeting

SUBJECT: **LACERA Staff Bonus Program**

### **RECOMMENDATION**

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

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

### **ENGAGEMENT REPORT**

- a. LACERA Staff Bonus Program  
George Lunde, Senior Internal Auditor  
(Report Issued: February 14, 2022)

GL

Attachment

Noted and Reviewed:

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Richard P. Bendall  
Chief Audit Executive



**INTERNAL AUDIT DIVISION**

**LACERA Staff Bonus Program  
2021-37**

February 14, 2022

**Audit Performed By:**  
George Lunde, Senior Internal Auditor

## AUDIT REPORT

<b>Audit Name:</b>	LACERA Staff Bonus Program
<b>Responsible Division:</b>	Human Resources
<b>Audit Rating*:</b>	Unsatisfactory
<b>Prior Audit Rating*:</b>	None
<b>Prior Report Date:</b>	None

### BACKGROUND

In November 2019, the Los Angeles County Auditor-Controller (County) issued its review of LACERA's administrative expenses and operations. The County made four recommendations related to Bonus Monitoring and Oversight, focused on the Additional Responsibilities Bonus (ARB) and Out of Class (OCB) bonuses they reviewed. In May 2020, Management reported to the Boards that all four recommendations had been completed.

LACERA's staff bonus program (Program) is managed by the Human Resources division (HR). HR is responsible for awarding, monitoring, and terminating bonuses in compliance with Los Angeles County Code and LACERA's policies and procedures.

Internal Audit included an audit of the staff bonus program in our Fiscal Year 2021-2022 Audit Plan to evaluate HR's management of the program.

### AUDIT OBJECTIVE & SCOPE

After completing preliminary research and analysis, which included an engagement-level risk assessment, the following objectives were developed:

- **Evaluation of Policy and/or Procedures** – To evaluate the effectiveness of the applicable policy (or policies) and/or procedures for each bonus type.
- **Compliance** – To determine that each bonus type's practices are conducted in compliance with the applicable policies, procedures, and retention schedules.
- **Reliability of reporting and data** – To determine that reports provide Management with accurate and complete information appropriate to support Management's decision making and monitoring of bonus payments to staff.

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\* See Appendix 1 for Audit Rating

The scope of this engagement included all active bonus types listed on the July 31, 2021 payroll report. We tested 100% of the ARB and OCB population due to the concerns raised during the County Audit, 100% of bonus types that had a population of less than 5, and approximately 20% for populations equal or greater than 5.

Bonus Type	Quantity	Tested / %
Additional Responsibility	12	12 / 100%
Certification Bonuses	59	13 / 22%
Out Of Class	2	2 / 100%
Superior Subordinate Pay	2	2 / 100%
Temporary Assignment	2	2 / 100%
Bilingual	16	3 / 19%

The scope included consideration of relevant systems, records, and personnel.

### AUDIT RATING & SUMMARY OF FINDINGS

Overall, we found LACERA’s staff bonus program process to be unsatisfactory. We noted significant key control weaknesses that require significant improvement to support the program’s objectives and manage risks. We found:

- Policy and/or procedures do not exist for each bonus type.
- Bonus practices are generally compliant with Los Angeles County Code but since there is not a written LACERA policy and/or procedure(s), bonuses are not administered consistently.
- Reports provided to division managers and the Executive Office do not provide sufficient information to support management’s decisions for monitoring bonuses.

We found that HR is generally in compliance with LACERA’s retention schedule for the staff bonus documentation we tested. The documentation is included as part of the staff member’s personnel file.

### Summary of Findings

Finding #	Page	Description of Finding	Risk Rating**
F1	5	The bonus program does not have a formal comprehensive policy or procedures	High
F2	7	Bonus reporting to Executive Management and Division Managers is insufficient	High

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

\*\* See Appendix 2 for Finding’s Risk Rating

Although not within the scope and focus of this audit, we observed that much of HR's bonus management process is manual and could benefit from leveraging technology.

We would like to thank Human Resources staff and management for their cooperation with this audit.

**REVIEWED AND APPROVED**



Richard Bendall  
*Chief Audit Executive*

**Date:** February 14, 2022

**REPORT DISTRIBUTION**

2022 Audit Committee	Santos H. Kreimann, CEO	Carly Ntoya, Director of Human Resources
2022 Plante Moran Audit Team	Luis A. Lugo, DCEO	Steven P. Rice, Chief Legal Counsel
Robert H. Griffin, Audit Committee Consultant	Laura Guglielmo, AEO	
Internal Audit Group	J.J. Popowich, AEO	

**FINDING # 1**

The bonus program does not have a formal comprehensive policy or procedures	<b>Risk Rating**</b> High
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**BACKGROUND**

Subsequent to Los Angeles County’s Auditor-Controller’s audit of LACERA in November 2019, HR drafted a Bonus Policy (Policy) limited to addressing Additional Responsibilities (ARB) and Out of Class (OCB) in May 2020. The draft Policy was provided to the Executive Office however, the policy was never finalized and approved by the Chief Executive Officer (CEO) and salient provisions of the policy have not been consistently enforced.

Based on our test work, we found:

Bonus Type Total	Open-Ended Durations	Expired Bonuses Continued to be Paid	In Compliance with Draft Policy
ARBs 12	6	5	1
OCBs 2	1	1	0

**Open-Ended Durations**

One of the significant points of the draft Policy was that ARB and OCB would have a limited duration; they were not to exceed 180 days unless the CEO approved the exception. To ensure bonuses can easily be monitored, justification memos should provide clearly defined end-dates, whether it is when a specific position is filled or by a date. Currently, some open-ended bonuses for ARBs and OCBs are used to address vacancies or gaps in budgeted positions.

- Five of the 12 ARBs had open-ended durations without evidence of recent CEO approval. One bonus was initiated in 2016, three in 2018, and one in 2019.
- One of the 12 ARBs was initiated in November 2020 with an open-end date, after the draft Policy stated ARBs would not last longer than 180 days without review.
- One of the two OCB bonuses does not have a clearly defined end-date.

**Expired Bonuses Continued to be Paid**

Of the six remaining ARB bonuses:

- Three ARBs expired in December 2020 but have continued to be paid with the explanation by HR that “they are under HR’s review.” HR explained this may happen due to pending job studies or additional information required.
- Two ARBs continued to be paid without interruption after the bonus expiration date. The bonuses were approved 9 months or more after the expiration.
- The second of the two OCB bonuses expired in June 2021 and was under “HR’s review” as of November 2021. The bonus continued to be paid without interruption.

In addition to ARB and OCB, LACERA provides four other bonus types: Superior Subordinate, Temporary Assignment, Certification, and Bilingual bonuses. HR uses the Los Angeles County

\*\* See Appendix 2 for Finding’s Risk Rating

Code criteria to award these bonuses, but LACERA does not have its own policy or detailed procedures for these bonuses. Our test work for these other bonuses found:

- Two of the two Temporary Assignment bonuses have no end date and have not been reviewed since they were approved in November 2020.
- One of the two Superior Subordinate bonuses expired in June 2021 but continued to be paid. The bonus was re-approved in August 2021.
- HR does not require staff with certain certifications as Certified Employee Benefits Specialist (CEBS) or Worker's Compensation Certified Professional (WCCP) to provide evidence of good standing to continue the bonus. As of our test work date, the July 30, 2021 payroll, there were 59 total certification bonuses being paid, of which 16 were CEBS and 12 were WCCP bonuses.

## **RISK**

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Without a clear and complete approved policy and/or procedure(s), there is a risk that bonuses will not be consistently awarded, monitored, and/or terminated. The lack of documented policy and/or procedure(s) can result in poor transparency and accountability, practices that do not align with standards, regulations, best practices, and/or organizational intent, and can cause staff confusion.

## **RECOMMENDATION**

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HR management should:

1. Develop and ensure finalization of a comprehensive bonus policy and desk procedures.
  - The bonus policy should be provided and easily accessible to all staff.
  - Training on desk procedures should be provided to HR staff to ensure consistent application.
2. Review all bonuses to ensure they are consistent with the final approved Policy.

## **MANAGEMENT'S RESPONSE**

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LACERA Management agrees with the findings and recommendations. Within three months of the filing of this report, Human Resources will develop and have an approved comprehensive bonus policy that addresses all bonus types. Once approved, Human Resources will conduct a compliance review to ensure the applied bonuses are consistent with the approved policy.

The approved policy will be distributed to staff members via email and posted on LACERA Connect (intranet). Human Resources will conduct training at the management and supervisor action committees to explain how the policy is to be applied and to clarify the manager and supervisor role in bonus administration.

To supplement the policy, Human Resources will develop a procedure (PPG) that outlines the bonus review and approval process. Training will be provided for Human Resources staff who review bonus requests and apply bonuses (transactions).

## **TARGET COMPLETION DATE**

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May 31, 2022

**FINDING # 2**

Bonus reporting to Executive Management and Division Managers is insufficient	<b>Risk Rating**</b> High
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**OBSERVATION**

In LA County’s Audit of LACERA from November 2019, the auditor-controller made a recommendation to develop a bonus report to improve bonus monitoring and oversight. In May 2020, HR worked with the Systems Division to develop a Bonus Report, which includes the employee’s name, division, type of bonus, start and end date for the bonus, to improve the monitoring and oversight of all bonuses. Based on discussion with HR, they run the Bonus Report monthly to monitor bonuses. HR contacts either the staff person for certification bonuses or the division manager for all other bonuses to get updated paperwork if the bonus is scheduled to expire in the near future.

However, HR does not provide the Bonus Report to the Executive Office or division managers for oversight in managing bonuses. Instead, HR provides management with a link to the Item Control Report, but this report does not provide the same details about employee bonuses. Based on discussions with the Executive Office, the Executive Office and division managers are unable to use the report to monitor employee bonuses without details like the start and end date for a bonus.

**RISK**

Without clear reporting, there is a lack of transparency to division management and the Executive Office on bonuses in place within divisions and the overall organization.

**RECOMMENDATION**

HR should champion the development and periodic distribution of reports from the HR database to facilitate the Executive Office and division managers oversight of bonuses.

**MANAGEMENT’S RESPONSE**

LACERA Management agrees with the finding and recommendation. To draw specific attention to the bonus program, Human Resources will provide a bonus report to the Executive Office and Division Managers each quarter. The report will list staff members receiving a bonus and the bonus type. For this purpose, the existing Bonus Report will be modified to remove confidential information. Until this report is generated, the Human Resources Division will manually alter and distribute the report on a quarterly basis.

**TARGET COMPLETION DATE**

May 31, 2022

\*\* See Appendix 2 for Finding’s Risk Rating

## APPENDIX 1 AUDIT RATING SCALE

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

### **Satisfactory**

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

### **Opportunities for Improvement**

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

### **Unsatisfactory**

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

**APPENDIX 2**  
**FINDING'S RISK RATING SCALE**

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

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



April 18, 2022

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

Audit Committee Consultant  
Robert H. Griffin

FROM: Kathryn Ton   
Senior Internal Auditor

FOR: May 9, 2022 Audit Committee Meeting

SUBJECT: **Comprehensive Review of Human Resources Recruiting Process**

## **RECOMMENDATION**

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

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

## **BACKGROUND**

At the October 2021 meeting, the Audit Committee approved the engagement of Eide Bailly, LLC (Eide Bailly) to perform a review of LACERA's Human Resources' (HR) hiring and recruiting process. The key objectives of the engagement were to provide an independent review and assessment of LACERA's recruitment policy and procedures, and HR strategy and workforce plan to prioritize and fill vacancies. Their review is summarized in the attached report.

Internal Audit selected Eide Bailly from the external audit pool, which was established in December 2020 with the and Committee's approval. As part of the selection process, Internal Audit requested bid proposals, including audit approach, methodology, sample audit reports and proposed team member experience and qualifications. Proposals were reviewed and scored based on specific criteria and Eide Bailly was selected for the thoroughness of their proposal and their team's, expertise, and knowledge in performing human resource reviews. The Eide Bailly team consisted of Roger Alfaro, Lead Partner, Lealan Miller, Partner, Audrey Donovan, Senior Project Manager, and Doug Slyuk, Internal Audit Manager.

Although this was an externally performed audit engagement, Internal Audit met with Eide Bailly during the preliminary phase to the define audit scope and objectives. Internal Audit also met biweekly with the Eide Bailly team for updates on the audit, assisted in the coordination of meetings and obtaining audit documentation, discussed and reviewed audit findings, recommendations, and management responses for the audit report.

Internal Audit would like to extend its appreciation to the management and staff of the Human Resources' division for their time and cooperation with this review.

The Eide Bailly team will be present at the May 9, 2022 meeting to discuss the scope of work, findings and recommendations (**Attachment A**).

## **ENGAGEMENT REPORT**

- a. Comprehensive Review of Human Resources Recruiting Process Report  
Eide Bailly LLP  
(Report Issued: April 18, 2022)

KT

Attachment

Noted and Reviewed:



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Richard P. Bendall  
Chief Audit Executive



**CPAs & BUSINESS ADVISORS**

**LACERA**

Comprehensive Review of HR Recruiting Process

# BRIEFING – LACERA HR RECRUITING

Why the Audit

Objectives

Audit Process

3 Observations – Opportunities for Improvement

12 Recommendations to enhance internal controls



# BRIEFING — LACERA

## HR RECRUITING

**Improvement Opportunities identified:**

- **Planned, Measured and Optimized Recruiting Approach**
- **Policies, Procedures & Automation**
- **Structure, Culture & Service Level Agreements**

**Management responses were included in report**

# BRIEFING – LACERA HR RECRUITING

**Recommendations** were provided to enhance internal controls.

- Develop **Workforce Plan and Succession Plan**
- Create **HR Recruiting Manual, Workflow Diagram and Checklist.**
- Utilize **Systems** to obtain **metrics** to monitor recruiting performance.
- Assess **HR Staff capabilities**, strengths and professional development requirements.
- Assign each division a dedicated **HR Recruiter**
- Establish **Recruiting Service Level Agreements (“SLAs”)** with Divisions.
- Address **Work Culture, Staff Development and Communication.**

**Managements response** addressed the observations and the underlying risks.



# QUESTIONS?

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.



## **Comprehensive Review of Human Resources Recruiting Process**

April 2022

# **LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

### **Submitted By:**

Eide Bailly LLP

Doug Sluyk, CIA, CISA  
Manager, Risk Advisory Service

Audrey Donovan, CIA, CGAP, CRMA  
Senior Manager, Risk Advisory Services

Roger Alfaro, CPA, CITP  
Partner

March 2022

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**Opportunity #3: Structure, Culture & Service Level Agreements ..... 9**



## Executive Summary

Eide Bailly LLP (“we”, “our” or “us”) was engaged by Los Angeles County Employees Retirement Association (“LACERA”) to perform a Comprehensive Review (“review”) of the Human Resources (“HR”) Recruiting Process. This review was performed as a Consulting Service. The consulting services included a review of LACERA’s HR Recruiting Processes, workforce plan (strategy), written policies & procedures (“P&Ps”), interviews with division executives and key HR personnel, and management reports (metrics) related to recruiting.

The HR Recruiting engagement identified three (3) opportunities for improvement to enhance the existing processes and achieve efficiency and effectiveness of recruiting objectives.

We greatly appreciate and thank the input of the LACERA’s executive team and HR personnel who contributed to enhancing our understanding of the recruiting processes.

## Background

LACERA’s HR Recruiting function has been a high-risk area of concern as a result of the high vacancy rate and findings from an independent consulting report conducted in 2017. The findings can be found in the Recruitment Capabilities Assessment.<sup>1</sup> During our assessment we noted that some of the same issues previously reported have not been remediated or the associated risks mitigated.

LACERA’s HR Division is comprised of 12 members including a Director, Assistant Director, and four (4) analysts who perform recruiting functions in addition to other responsibilities. The divisions leadership changed in May 2020 with the current Director.

As of December 27, 2021, LACERA reported 116 vacant positions and 508 budgeted positions resulting in a 23% vacancy rate.

## Objective & Scope

The objective of our consulting services was to provide LACERA with a comprehensive review of LACERA’s HR recruiting function to attract talent and fill vacancies for the organization. The key objectives for this engagement included an independent review and assessment of the following:

1. LACERA’s Recruitment Policy & Procedures, including an evaluation of its integration with the organization and divisions and compliance with applicable employment laws and regulations.
2. HR’s strategy and workforce plan to prioritize and fill vacancies.
3. HR staffing and resources to support the hiring demands of the organization, including the recruiters’ workloads and expertise.
4. The selection criteria of the standard organizational competencies, including job-relevant criteria (as stated in the job description) and future requirements.
5. Analysis of LACERA’s dependence on plan sponsor’s ordinance and position classification policy and process as it relates to recruitment.
6. The recruitment strategy to target a qualified, diverse, and inclusive candidate pool.
7. The candidate ranking process.
8. The timeliness of recruitment process to secure high-quality candidates.

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<sup>1</sup> Recruiting Toolbox, July – August 2017, LACERA Recruitment Capabilities Assessment and Findings Report

9. Effectiveness of the communication and collaboration of HR and Managers throughout the recruitment process. This area also included gap analysis of Manager satisfaction with final candidate pools in alignment with qualifications of candidates that they are seeking.
10. Completeness of background checks during the on-boarding process.
11. Compliance with document retention and confidentiality requirements set forth by employment laws and LACERA's policies.
12. Assess whether controls over Human Resources, specifically recruitment, are designed adequately and operating effectively to ensure compliance with key federal and state regulations, as well as internal P&P.
13. Evaluate whether recruitment activities performed within Human Resources are in alignment with applicable best practice and current rules & regulations.
14. Evaluation of turnover by division and role to identify turnover frequency.
15. Effectiveness of on-boarding functions.

The **Scope** of the engagement was of HR Divisions current recruiting activities as of the assessment date and supporting data from June 2021 through assessment completion date of February 28, 2022. Our assessment did not include a review of HR Division's recruiting software NEOGov.

Our procedures included performing 20 interviews including four (4) LACERA Division Executives, nine (9) Division Management, six (6) HR staff members, and one (1) employee who resigned during our assessment. These interviews were to understand the divisions interactions with HR related to recruiting and identify what is working well, areas of concern and opportunities for improvement.

Our service was provided in accordance with the *Statements on Standards for Consulting Services* issued by the American Institute of Certified Public Accountants (AICPA). We did not provide audit, review, compilation, or financial statement preparation services to any historical or prospective financial information or provide attestation services under the AICPA *Statements on Standards for Attestation Engagements* and assume no responsibility for any such information.

### **Results of Comprehensive Review of HR's Recruiting Process**

We recognize LACERA has initiated changes related to HR recruiting functions. These changes include the hiring of a HR Director in May 2020, identification of succession planning as an initiative within the May 2020 Chief Executive Officer's 100-Day Management Report<sup>2</sup>, and a February 2022 hiring plan to fill vacancies.

We have identified three (3) opportunities for improvement and twelve (12) related recommendations to address inefficiencies with LACERA's Workforce Plan, Succession Plan, Recruiting Policies & Procedures, Service Level Agreements, and effectiveness of the HR recruiting function. With the opportunities addressed, the underlying risk(s), and corresponding recommendations will positively contribute to increasing the efficiency and effectiveness of LACERA's HR Recruiting efforts.

#### **Opportunity #1: Planned, Measured and Optimized Recruiting Approach**

Although a top priority for the organization, LACERA's recruiting efforts lack a planned, measured, and optimized recruiting approach that is proactive rather than reactive. This is due to gaps in workforce planning, ineffective implementation strategy, and lack of alignment with a <sup>(O&B)</sup> focused Organizational (LACERA) Strategic Plan, which is in process of being initiated by the Executive team and partnered

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<sup>2</sup> 100-Day Management Report To the Trustees of the Board of Retirement and Board of Investments, May 2020

consultant. The lack of a developed and well aligned Organizational Strategic Plan impacts the entire organization and creates a lack of direction for the individual divisions. For the HR Division, this has resulted in disjointed and misaligned processes that have impeded the ability to establish and implement an effective plan for recruiting initiatives.

The HR Division appears to operate in a reactive versus proactive nature, specifically related to recruiting challenges. This was exemplified by HR Division management confirming their awareness of the issues presented during our assessment, however the division has not developed an action plan to remediate the issues.

The purpose of an effective Workforce Plan provides clear and relevant workforce planning guidance that addresses staffing and competencies for the organization's current and future business needs while aligning with business strategy (Organizational Strategic Plan). A comprehensive Workforce Plan is critical for high-performing organizations and contains strategies to address five main areas: recruitment, retention, employee development, knowledge transfer, and succession management. An Organizational Strategic Plan is a tool that is useful for guiding day-to-day decisions, for evaluating progress to the plan, and changing approaches when needed moving forward.

In February 2022, the LACERA's Executive team prepared a short-term Hiring Plan to address the critical vacancies at LACERA. The focus of the Hiring Plan was to prioritize critical vacancies throughout the organization, evaluate recruitment capacity internally, and explore alternative recruitment resources outside the organization. The Executive team engaged each Division Manager to understand their respective divisional priorities. The CEO and Deputy CEO shared the vacancy prioritization identified through Management Action Committee (MAC) meetings which are held bi-weekly and include all divisional managers across the organization. Based on collected information, the vacancies were prioritized based on a tiered system. Although this plan identifies specific divisions as top priority for filling vacancies, based on divisional input, customer service, and organizational risk as the criteria, it does not appear to be based on a Workforce Plan or an Organizational Strategic Plan. As a result, there is a perception shared among the divisions that the recruiting process is not consistently practiced nor administered in accordance with an overall strategy defined by the organization.

Lastly, succession planning was identified as an area of enhancement within the May 2020 100-Day Management Report that has not been defined as an on-going key organizational or division level initiative which results in a reactive versus proactive nature of identifying upcoming vacancies and integration into the organization's future Workforce Plan. Effective succession planning can mitigate the shortfalls of new entrants through proactively forecasting attrition and vacancies. According to the Rockefeller Institute of Government, *The Great Resignation's Impact on Local Government* "scores of workers are quitting, and governments are scrambling to adapt."<sup>3</sup> The study specifies that one of the biggest factors driving government separation is retirement. The compounded effect is that retirees are outpacing new entrants to the workforce, particularly government roles.

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<sup>3</sup> The Great Resignation's Impact on Local Government. <https://rockinst.org/blog/the-great-resignations-impact-on-local-government/>

**RECOMMENDATIONS For Opportunity #1**

- 1.a.** LACERA’s Executive Team should work with HR Management to develop an effective Workforce Plan and Implementation Strategies that clearly align with the organization’s current and future Strategic Plans related to recruitment efforts. The Strategic Plan should include or address the following:
  - i.** HR should gather and analyze the organizational data and continue to evaluate the market supply versus LACERA’s demand for talent while factoring in employee retention, employee development, knowledge transfer, and succession management.
  - ii.** Address initiatives to meet established goals such as workplace diversity through recruiting and whether vacancies are to be filled internally versus externally (open competitive).
  - iii.** Provide Division Management & Executives (stakeholders) with the performance metrics that assist in identifying the risk of turnover, retirement, retention drivers, and measurements related to recruitment activities and initiatives (i.e., time-to-hire, qualified candidates per opening, source quality, quality of hire, offer acceptance rate, first-year turnover rate, equitable recruiting, and employer of choice).
  - iv.** Document method of prioritizing future workforce initiatives that include criteria used or risk analysis performed.
  - v.** Method to effectively communicate to applicable HR resources and division management involved in recruiting efforts.
- 1.b.** Identify an individual or committee (governance structure) to oversee the alignment of the approved Workforce Plan and HR’s Implementation Strategies for recruiting.
- 1.c.** LACERA’s Workforce Plan should address succession planning as a key component. Each division should perform forecasting of future vacancies through retirement and attrition. Succession candidates should be identified in each division and professional development should occur to prepare these members for future roles.

We recommend that LACERA identify a Workforce Planning Model such as that established by the California Department of Human Resources or an alternative model.

**Managements Response – 1.a.:**

LACERA viewed the recommendations in 1a to include several components, which require certain foundational issues to be addressed before others can be implemented. As such, we identify specific components and timelines in accordance with planned implementation approach.

**Step one: Strategic Plan**

LACERA has engaged a Strategic Planning Consultant to facilitate the development of its Strategic Plan, including an actionable work plan with specified goals, objective, milestones and metrics. This foundational work must be completed before the detailed implementation of specific recommendations can be addressed.

**Step two: Workforce Plan & Succession Plan**

LACERA’s Strategic Plan will include the development of a Workforce Plan that addresses LACERA’s goals and objectives surrounding its workforce needs. The Workforce Plan will identify LACERA’s workforce needs and priorities and include specific goals and metrics associated with the quality and responsiveness of the recruitment and on-boarding processes, and employee satisfaction, engagement, and retention.

Concurrent with the development of the Workforce Plan will be the development of Succession Plan, which is discussed in more detail under management’s response to 1b.

Management believes strongly in implementing a robust Diversity, Equity, and Inclusion (“DEI”) program as a foundational pillar that supports our ongoing recruitment and hiring efforts. As such, we will continue to

work toward readying our leadership team, managers, and Human Resources Division to strategically implement this important initiative.

Communication: The Workforce Plan will be shared with all HR Division staff and will be presented to the MAC Team. The Human Resources Director will present quarterly status updates to the MAC Team.

**Responsible Parties:** Executive Management, Human Resources Director, Workgroup Members

**Timelines:** Strategic Plan, December 31, 2022  
Succession Plan, June 30, 2023  
Diversity Equity and Inclusion Program, June 30, 2024

**Management Response 1.b.:**

As part of its Strategic Planning implementation, Executive management will establish a working group to assist in the development and implementation of the Workforce Plan. The purpose, roles and responsibilities of the workgroup will be documented in a Charter, along with established meeting frequency.

**Responsible Party:** Executive Management

**Timeline:** December 31, 2022

**Management Response – 1.c.:**

LACERA will develop a Civil Service-compliant succession plan. Executive Management will assess the organizational risks due to staff retirement eligibility, organizational structure and career ladders, critical positions, and expectations for different levels of staff. Division Managers will be responsible for identifying the needed knowledge, skills and abilities (“KSAs”) for their team members. KSAs and expectations at each level of the organization and for all positions will be documented and shared with staff. Managers will be expected to assess their staff readiness with specified frequently, regularly discuss individual goals with staff and to provide opportunities for their staff to develop and obtain the necessary KSAs to reach the next level.

**Responsible Parties:** Executive Management with input from Division Managers

**Timeline:** June 30, 2023

## Opportunity #2: Policies, Procedures & Automation

We noted HR has policies and procedures (“P&Ps”) related to hiring however the department does not have procedures specific to recruiting. Lack of automation and nonexistent policies and procedures (“P&Ps”) and limited automation related to recruiting creates inefficient and inconsistent processes that increase the risk of noncompliance with applicable employment laws, regulations, and rules. Additionally, it creates misunderstanding by Division Management & Executives (stakeholders).

The primary reasons for HR recruitment P&Ps is to: 1) ensure LACERA’s recruiting procedures comply with Los Angeles County Civil Service Policy Procedures (“LA County Civil Service Rules”); 2) provide for a transparent and fair hiring process that can assist the recruiters in selecting the right candidate on the basis of merit and relevance with the job; 3) provide HR employees with the methods, tools, and resources to manage candidate recruiting matters which helps with process efficiency and effectiveness; 4) assist with training, guiding, and managing new and existing employees; and 5) help with organizational culture and employee moral as P&Ps provide consistent practices and processes to be performed.

During our interviews we identified that the level of knowledge throughout LACERA regarding recruiting practices was inconsistent and not clearly defined. The division management interviewed provided comments regarding internal processes continually changing without forewarning and processes that are not defined. This appears to be due to LACERA’s HR recruitment processes not clearly defined by documented policies and procedures communicated throughout the organization.

Lastly, HR management was unable to provide requests for percentage of time spent by HR staff to perform recruiting tasks. These recruiting tasks and time requirements are not clearly defined as a result of not utilizing systematic reports, which results in the inability to determine level of effort related to recruiting. Although LACERA utilizes NEOGOV, an HR Software for the public sector, the reporting functionality of the system is not fully utilized by HR resulting in lack of key performance data related to recruiting to monitor and track recruiting efforts (i.e., turn-over, time-to-hire).

## RECOMMENDATIONS For Opportunity #2

Communication is an essential component of a comprehensive framework of internal controls. A well-designed and properly maintained system of documenting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff and facilitate cross utilization.

- 2.a.** HR should create and disseminate an HR Recruiting Manual to assist hiring officials (division managers) and recruiters in identifying and recruiting the best candidates. The following should be included in the HR Recruiting Manual, but is not limited to, the following:
  - i.** Aligns with Civil Service rules for all procedures to ensure compliance with rules associated with recruitment activities.
  - ii.** Defines the various roles and responsibilities for all involved in recruiting efforts.
  - iii.** Identifies potential legal issues, such as FLSA, affecting employment.
  - iv.** Document process and procedures for all recruiting efforts, such as opening a position, examinations, eligible lists, application screening, internal applicants, transfers, etc.
  - v.** Establish a process to evaluate and update the P&P manual based on an established frequency or as changes to processes occur.
- 2.b.** HR should utilize the resources and tools available through automated systems such as NEOGov or alternative systems to obtain data contained within the Analytics and Reporting functionality of the system. This data should be used to monitor and assess performance, such as, time-to-hire.
- 2.c.** HR should develop a Recruiting Process Flow Diagram which summarizes the key phases, responsibilities of divisions, and hand-off points which occur for all phases of recruitment. This should be performed in collaboration with divisions to identify opportunities for streamlining, to ensure

agreement and reduce areas of confusion. This document along with updated P&P's will enable both HR and Divisions to have a clear and consistent understanding of the recruitment process.

**Management Response – 2.a.:**

HR will develop a Division Manager-oriented manual Recruitment Manual documenting recruitment processes and procedures, including roles and responsibilities of HR staff and Division staff, a workflow diagram, checklists, and all necessary forms and documentation. The HR Director will also review and update the existing HR internal procedure manual used by recruiters to correspond to the Division Manager's manual, and include HR specific responsibilities, and links to the appropriate Civil Service Rules.

**Responsible Party:** HR Director

**Timeline:** December 31, 2022

**Management Response – 2.b.:**

LACERA will assess the capabilities of the existing (NEOGov) and other commercially available systems and look for opportunities to obtain the desired metrics identified in this report and through the strategic planning process. LACERA is constrained, however, by its unique relationship with Los Angeles County as it does not own or have access to all of the required data.

**Responsible Parties:** HR Division & Systems Division

**Timeline:** June 30, 2023

**Management Response – 2.c.:**

HR will develop a workflow diagram and checklists as part of the Division Manager-oriented Recruitment Manual identified in Recommendation 2a.

**Responsible Party:** HR Director

**Timeline:** December 31, 2022

**Opportunity #3: Structure, Culture & Service Level Agreements**

A mis-aligned, non-cohesive HR Division and absence of clearly defined processes through agreed upon Service Level Agreements (SLA's) between HR and Divisions result in inefficiencies, poor customer service, and an ineffective recruiting process.

The following are captured from interviews showing trends across the organization and the associated risk(s).

- a. HR analysts who are assigned recruiting efforts have significant time requirements on non-recruitment tasks such as contact tracing related to the pandemic and payroll support. These tasks have diverted recruiting efforts and highlights the need for HR Analysts dedicated solely to recruiting efforts. Divisions have expressed bottlenecks, delays, and confusion related to recruiting. Additionally, the divisions have expressed they are not provided with information related to recruiting efforts, such as time-to-hire, and that SLA's do not exist between HR and the divisions. This results in a disconnect between stakeholders and HR related to the order and timing of recruiting processes and impedes the organization's ability to work collaboratively together

- effectively and efficiently. Having a clear understanding of roles and responsibilities will reduce confusion and inconsistency related to the process.
- b. Although job descriptions for HR Management (Director and Assistant Director) were recently updated in 2019, the HR Analysts job descriptions have not been updated since 2004 and do not outline and summarize the roles and responsibilities related to recruiting.
  - c. Concerns were expressed that there is a lack of HR Division cohesiveness and alignment with Division management. Lack of alignment and cohesiveness within the organization can greatly affect the HR Division and organization culture.

### **RECOMMENDATIONS For OPPORTUNITY #3**

HR Division should lead by example to working together as a cohesive group to build trust and credibility with the organization. Leading fosters collaboration, mutual respect, and inspires enthusiasm for the organization's initiatives.

- 3.a.** HR should align with the Society of Human Resources Management ("SHRM")<sup>4</sup> best practice for recruiting to establish the recruitment team configuration. Based on the current number of vacancies which LACERA has, dedicated recruiters will result in a focus on recruitment to meet the needs of the organization.
- 3.b.** HR should have recruiting specialists who are assigned specific Divisions as requested by organization stakeholders.
- 3.c.** HR should perform a needs assessment to determine whether additional resources are needed by performing the following activities: i.) an evaluation of the competencies of the team; ii.) performing a skills and capabilities assessment; iii.) identifying areas of strengths and professional development needs; iv.) an analysis of the division's tasks performed; and v.) the associated time requirements.
- 3.d.** HR Management and Division Management should establish SLAs as it relates to recruiting efforts. SLAs should identify individual roles and responsibilities at the division level and those performed by HR recruiting staff. Additionally, performance measures should be established to address both efficiency and effectiveness (i.e., performance measure on timing associated with candidate interviews). Lastly, monitoring of the agreements should occur to hold both HR and Divisions accountable for responsibilities and timeliness of recruiting activities.
- 3.e.** HR should update work programs for all HR members including the members exclusively dedicated to recruiting efforts. The work programs should outline key recruiting steps, organizational support, and performance measures and accountability.
- 3.f.** Based on the anecdotal evidence shared throughout this engagement it is apparent that LACERA's workplace culture is being affected in negative ways through perceptions and experiences of individuals who are directly related to the recruiting efforts, primarily at the Division level. As such, LACERA should perform an assessment of their HR Division to evaluate the team-member cohesiveness, related to employee satisfaction, level of engagement, perception of HR division management, and alignment with organizational strategy.

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<sup>4</sup> How Many Open Reqs Should In-House Recruiters Have? <https://www.shrm.org/resourcesandtools/hr-topics/talent-acquisition/pages/how-many-open-reqs-should-in-house-recruiters-have>

**Management Response – 3.a.:**

The use of a Generalist Human Resources Analyst vs. Specialized recruiter will better meet LACERA’s long-term organizational needs. The goal is for each division to have a dedicated Human Resource Generalist that will assist and advise on matters of not only recruitment, but labor relations, employee relations, employee performance, and other Human Resource activities. The Human Resource department has requested additional resources as part of the 2022/23 Proposed Budget with the proposed structure in mind.

**Responsible Party:** Human Resource Director, Assistant Executive Officer-Administration

**Timeline:** June 30, 2023

**Management Response – 3.b.:**

Management’s response within 3.a addresses this recommendation.

**Responsible Party:** Human Resource Director

**Timeline:** June 30, 2023

**Management Response – 3.c.:**

This is a foundational issue that must be accomplished before several other recommendations. LACERA will seek professional assistance to complete an assessment of Human Resources staff capabilities and strengths and identify plans for professional development to fill relevant skill gaps that may exist.

**Responsible Party:** Human Resource Director, Assistant Executive Officer-Administration

**Timeline:** June 30, 2023

**Management Response – 3.d.:**

Roles and responsibilities and expected timelines will be outlined in the Human Resources recruitment manual discussed under Recommendation 2.a. SLAs will need to be negotiated with individual Divisions. Constraints will include available metrics, and HR and Division staff capacity. HR staff will develop an SLA template that will be used to document agreed upon deliverables and timelines.

**Responsible Party:** Human Resource Director, Divisional Management

**Timeline:** December 31, 2022

**Management Response – 3.e.:**

Human Resources will assess work programs, review classifications, and identify gaps.

**Responsible Party:** Human Resource Director, Assistant Executive Officer- Administration

**Timeline:** December 31, 2022

**Management Response – 3.f.:**

Management will work toward addressing this issue as part of the Work Culture and Staff Development portion of the Strategic Plan.

**Responsible Party:** Assistant Executive Officer-Administration, Deputy CEO

**Timeline:** December 31, 2022

# CULTURE

## THE FOUNDATION OF SUCCESS

A hand holding a glowing globe of interconnected nodes against a sunset background. The globe is composed of numerous small white dots connected by thin lines, creating a network-like structure. The background is a warm, orange and yellow sunset sky with soft clouds. The overall image has a bright, optimistic feel.

Caring for our external and internal clients with a passion to go the extra mile.

Respecting our peers and their individual contributions.

Conducting ourselves with the highest level of integrity at all times.

Trusting and supporting one another.

Being accountable for the overall success of the Firm,  
not just individual or office success.

Stretching ourselves to be innovative and creative, while managing the related risks.

Recognizing the importance of maintaining a balance between work and home life.

Promoting positive working relationships.

And, most of all, enjoying our jobs ... and having fun!



**What inspires you, inspires us.**

[eidebailly.com](http://eidebailly.com)



April 15, 2022

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

Audit Committee Consultant  
Robert H. Griffin

FROM: Kathryn Ton   
Senior Internal Auditor

FOR: May 9, 2022 Audit Committee Meeting

SUBJECT: **Accounts Payable Audit Report**

### **RECOMMENDATION**

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

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

### **ENGAGEMENT REPORT**

- a. Accounts Payable Audit Report  
Kathryn Ton, Senior Internal Auditor  
(Report Issued: April 15, 2022)

KT

Attachment

Noted and Reviewed:



Richard P. Bendall  
Chief Audit Executive



**INTERNAL AUDIT DIVISION**

**Accounts Payable Audit  
2022-UP3**

April 15, 2022

**Audit Performed By:**  
Kathryn Ton, Senior Internal Auditor

## AUDIT REPORT

<b>Audit Name:</b>	Accounts Payable Audit
<b>Responsible Division:</b>	FASD
<b>Audit Rating*:</b>	Satisfactory
<b>Prior Audit Rating*:</b>	N/A
<b>Prior Report Date:</b>	N/A

### BACKGROUND

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An audit of LACERA's accounts payable function was performed as part of the Fiscal Year 2021-2022 Audit Plan.

LACERA's Financial Accounting Services Division's (FASD) Accounts Payable Disbursements Unit (DU) is responsible for processing all payment vouchers for administrative expenses for goods and services received, including travel and other expense reimbursements. The DU also processes payments for non-administrative expenses such as Retiree Healthcare Benefits, Other Pension Employee Benefits (OPEB) Trust expenses, and special member benefit payments.

The payment process is initiated when either division staff or procurement complete a payment voucher, obtain the appropriate approval(s) and submit it with supporting documentation to the Administrative Services Division's Budget Unit (Budget Unit). The Budget Unit reviews the voucher to validate that the appropriate general ledger code has been placed on the voucher and that there is sufficient budget for the expense. The Budget Unit then adds its approval and forwards the voucher and supporting documentation to the Administrative Division's Contract Management (CM) Unit who validates if the expense is related to a contract, and that the expense has been sufficiently contracted for. After CM adds its approval, CM forwards the payment voucher and supporting documentation to FASD.

Upon receipt of payment vouchers, FASD's Disbursement Unit (DU) staff review the voucher for the three areas of approval and then enters the payment information into the Payables Management module of LACERA's integrated Microsoft Dynamics Great Plains (GP) accounting system. There is a separation of duties between DU staff printing the checks and FASD staff performing check reviews against the payment requests. FASD staff then delivers the printed checks to the Administrative Services Division's mailroom for distribution. During calendar year 2021, FASD processed over 2,750 invoices totaling \$34.7 million for approximately 570 vendors.

The Covid-19 pandemic necessitated the implementation of work arounds in reducing the number of DU staff in the office each day, and check generation was changed from daily to Tuesdays and Thursdays only. Electronic payment authorization approvals via LACERA email also became acceptable and were incorporated into payment request documentation packets used to enter invoice information into the Payables Management module of the GP system. Despite these workarounds and some staffing challenges, we did not note any significant processing delays within the FASD DU.

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\* See Appendix 1 for Audit Rating

Prior to this audit, FASD completed a search, selected a vendor, Emburse Certify, and will be implementing an automated accounts payable system and ACH payment process later this year. Our scope in this audit was limited to understanding the timeline for implementing the automated solution.

## **AUDIT OBJECTIVE AND SCOPE**

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The objectives of the audit were to:

1. Assess the effectiveness and adequacy of key controls, including FASD's documented policies and procedures over the accounts payable process, the validity and timeliness of payments, and segregation of duties.
2. Perform sample-based testing on transactions (11% of dollar population) to assess the operational effectiveness of internal controls, specifically:
  - Documentation exists to support payments
  - Authorization is appropriate in alignment with the Procurement Policy
  - Valid contracts and purchase orders are in place, where necessary
  - Payments are only for items received and services provided
  - Consideration is given to taking advantage of available vendor discounts
  - Payment vouchers are timely in accordance with the Procurement and Travel and Education Policy
  - Payments are recorded to the correct GL expense accounts
3. Gain an understanding of the timeline for implementing a new accounts payable solution and ACH payment system.

The scope of the audit covered the period from January 1, 2021 to December 31, 2021 for accounts payable transaction testing. The audit was performed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

## AUDIT RATING AND SUMMARY OF FINDINGS

We conclude that controls over the accounts payable process are satisfactory based on our review of the procedures, controls, and results of our testing. We commend FASD for maintaining a consistently strong system of internal controls despite having to make operational modifications related to the pandemic and in the face of staffing challenges. We did note one area where further control improvements can be made.

### Summary of Findings

Finding #	Page	Description of Finding	Risk Rating**
F1	5	LACERA does not have a formal Accounts Payable policy.	Low

The above finding is detailed in the following pages and includes our recommendations and management action plans.

We would like to thank FASD for their time and cooperation with this audit.

### REVIEWED AND APPROVED



Date: April 15, 2022

Richard Bendall  
*Chief Audit Executive*

### REPORT DISTRIBUTION

2022 Audit Committee	Santos H. Kreimann, CEO	Ted Granger, Interim Chief Financial Officer
Robert Griffin, Audit Committee Consultant	Luis Lugo, DCEO	Roberta Van Nortrick, Interim Administrative Services Division Manager
Steven Rice, Chief Legal Counsel	J.J. Popowich, AEO	Internal Audit Group
	Laura Guglielmo, AEO	

\*\* See Appendix 2 for Finding's Risk Rating

**FINDING #1**

<b>LACERA does not have a formal Accounts Payable policy.</b>	<b>Risk Rating**</b>
	<b>Low</b>

**OBSERVATION**

FASD Staff are experienced and knowledgeable about the accounts payable process and have desk procedures and workflows in place. However, these procedures are not inclusive of the BU and CM Units, which cover all areas of accounts payable practices. Because an organizational wide policy does not exist, divisions involved in the accounts payable process are not aware of their roles and responsibilities which leads to unclear expectations and increased risks of untimely and inaccurate payments.

An accounts payable policy is an effective means of establishing expectations for timely, accurate recording of expenditures and ensures that vendors are paid appropriately. Furthermore, having a policy that is easily accessible to all staff and well-documented allows for transparency and confidence in the FASD team and the accounts payable process. Establishing this policy in the near future is critical as FASD faces some staffing shortages and will be implementing a new accounts payable module and ACH system later this year.

**RISK**

Without a formal accounts payable policy manual to facilitate understanding and consistency in operations, organizations run the risk of processing issues such as erroneous, late, or missed payments.

**RECOMMENDATIONS:**

1. FASD, in conjunction with the Administrative Services Division, should develop a policy that covers all areas of accounts payable practices to help LACERA divisions obtain a mutual understanding of responsibilities and ensure compliance.
2. Once the policy has been developed, FASD should communicate the Policy to the management team.

**MANAGEMENT’S ACTION PLAN**

Management agrees with the recommendation. FASD management will work with Administrative Services management to develop and communicate a policy that addresses the accounts payable process including the purchasing functions. Management is currently implementing a new accounts payable automated tool, anticipating deployment during the next fiscal year, which may alter steps within the current process. Management will incorporate into the policy any process changes that occur when implementing the new tool.

\*\* See Appendix 2 for Finding’s Risk Rating

**RESPONSIBLE PARTY FOR MANAGEMENT'S ACTION PLAN**

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FASD and Administrative Services Division

**TARGET COMPLETION DATE**

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No later than March 31, 2023.

## **APPENDIX 1**

### **AUDIT RATING SCALE**

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

#### **Satisfactory**

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

#### **Opportunities for Improvement**

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

#### **Unsatisfactory**

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

## APPENDIX 2 FINDING'S RISK RATING SCALE

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

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



April 18, 2022

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

Audit Committee Consultant  
Robert Griffin

FROM: Nathan K. Amick   
Senior Internal Auditor

FOR: May 9, 2022 Audit Committee Meeting

SUBJECT: **Los Angeles County Employees Retirement Association Audit Committee  
Pre-Audit Communication**

To initiate communication with the Audit Committee for Fiscal Year-Ended June 30, 2022 Financial Audit, Plante Moran will be at the May 9, 2022 meeting to present the timing, scope, and approach to the upcoming audit.

NKA

Attachment

Noted and Reviewed:



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Richard P. Bendall  
Chief Audit Executive



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

# Los Angeles County Employees Retirement Association Audit Committee Pre-Audit Communication

Representing Plante Moran:  
Jean Young & Amanda Cronk



# Agenda



- Pre-Audit Communication
  - Audits to Perform
  - Auditor Responsibilities
  - Identification of Significant Risks
  - Plante Moran's Approach to Internal Control
  - Materiality Concept
  - Audit Committee Member Views
- Audit standard changes for FY 2022
- Questions



# Pre-Audit Communication



# Pre-Audit Communication

## Plante Moran will perform an audit and express an opinion on the following statements:

- LACERA's Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2022 (target issuance date of October 13, 2022)
- Schedule of Employer Allocations and Schedule of Pension Amounts of the LACERA Cost-Sharing Multiple-Employer Defined Pension Plan (March/April 2023)
- Schedule of Changes in Fiduciary Net Position by Employer of the LACERA Agent Plan Multiple-Employer Retiree Healthcare Plan (Spring 2023)



# Pre-Audit Communication

## Auditor Responsibilities

- Express an opinion about whether the financial statements prepared by management are fairly presented, in all material respects, in accordance with GAAP
- Communicate noncompliance with provisions of laws and regulations that have a material effect on the financial statements that come to our attention



# Pre-Audit Communication

## Identification of Significant Risks

- Appropriate valuation of investments, particularly the alternative investment that do not have readily establish market values
- Accuracy of participant census data and the assumptions underlying the determination of the total pension liability under GASB 67
- Accuracy of active participant data and payroll information submitted to LACERA by participating employers, particularly the County
- Accuracy of benefit calculations and related payments, including disability claims



# Pre-Audit Communication

## Plante Moran's Approach to Internal Control

- Narratives/Questionnaires
- Observation and inspection of procedures
- Effectiveness of LACERA's Internal Controls for Financial Reporting, including investment valuation
- No opinion on effectiveness of internal controls

## Materiality Concept

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



# Auditing Standards Changes

## AICPA issued Auditing Standards No. 134 – 140

- What changed?
  - Format of auditor's opinion
  - Enhanced communications
  - Additional focus on related parties
  - Auditor's responsibility for "other information"
- Why change?
  - These changes are focused on the needs of the users of the financial statements
- When is this effective?
  - LACERA's 6/30/2022 year end



# Auditing Standards Changes

## Additional impacts

- Additional audit procedures and inquires related to related party transactions
- Focus on significant unusual transactions
- Changes to the:
  - Engagement letter
  - Management representation letter
  - End of audit communications
- SAS 137 – Procedures on LACERA's ACFR and Popular Annual Financial Report



# Auditor Independence Changes

## Requirement:

Auditors must be independent of their attest clients (in fact and appearance)

- LACERA needs to be cognizant of auditor independence and ensure compliance
- Independence is a shared responsibility between the auditor and their client

## What changed?

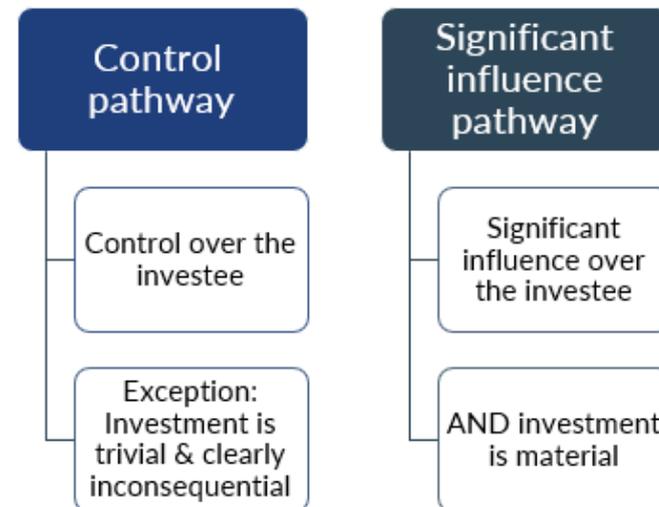
- Previous rules required independence only for the entity being audited
- New guidance expands scope of independence to “client affiliates”
  - Guidance defines how to determine “affiliates”



# Auditor Independence

## Most significant change for LACERA

- Certain investments held by LACERA could be considered an affiliate based on either control and/or influence pathways, which would require auditor independence from the affiliate.
- Plante Moran and LACERA have already worked together on this assessment and management is working to complete analysis.





# Questions?

We greatly appreciate the opportunity to serve you!



# Contact Information:

Jean Young, CPA

Engagement Partner

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517.336.7458

Amanda Cronk, CPA

Senior Manager

[Amanda.Cronk@plantemoran.com](mailto:Amanda.Cronk@plantemoran.com)

810.766.6045



April 22, 2022

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

Audit Committee Consultant  
Robert H. Griffin

FROM: Leisha E. Collins   
Principal Internal Auditor

FOR: May 9, 2022 Audit Committee Meeting

**SUBJECT: Audit Plan Status Report**

## **BACKGROUND**

According to the Institute of Internal Auditor's Standard 2010 (Standard) on audit planning<sup>1</sup>, the Chief Audit Executive (CAE) must establish risk-based plans to determine the priorities of the internal audit activity and ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization. To remain in compliance with the Standard, Internal Audit developed the FYE 2022 Audit Plan (Audit Plan) which the Committee approved at the June 2021 Meeting. Due to emerging work and changing priorities, Internal Audit amended the FYE 2022 Audit Plan, which the Committee also approved at the February 2022 meeting.

The Audit Plan currently consists of 46 assurance, consulting, advisory and other operational projects. Refer to the Audit Plan Status report on page 2 of this memorandum. As of this reporting period, staff have completed 15 projects (marked as "Completed on the report) and completed current work on 10 ongoing projects (marked as "Ongoing" on the report). In addition to these 25 projects, staff are on track towards completing an additional 12 projects by fiscal year end. The completion of these 36 projects aligns with Internal Audit Division goal of achieving at least 80% of the Audit Plan by June 30, 2022. Due to shifts in priorities and some delays beyond Internal Audit's control, the remaining 9 projects may remain on the Audit Plan past June 30, 2022. Staff will continue to provide the Committee status updates on these projects until they are completed and closed.

Staff has also prepared the attached presentation to highlight progress made on the Audit Plan and will make this presentation to the Committee at the May 9, 2022, meeting.

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<sup>1</sup> For IIA 2010 Standard, refer to website at [www.globaliia.org/standards-guidance](http://www.globaliia.org/standards-guidance) or [www.theiia.org/guidance](http://www.theiia.org/guidance).

Audit Plan Status Report

April 22, 2022

Page 2 of 4

Audit Plan Status Report As of April 15, 2022 (Refer to table below for description of each project)

	Project Name	Budgeted Hrs	Actual Hrs	Variance	Status
<b>EXECUTIVE/LEGAL/ORGANIZATION</b>					
1	Organizational Governance Review	400	246	155	In Progress
2	Oversight of SOC-1 Type 2 (FYE 21)	200	144	57	Completed
3	Oversight of SOC-1 Type 2 (FYE 22)	200	128	72	In Progress
4	Business Continuity Plan & Disaster Recovery	150	3	147	Ongoing
5	Privacy Policy / Access to Confidential Data	200	10	191	In Progress
6	Organizational Check Management Policy Review	300	27	273	In Progress
7	Ethics Hotline & Investigations	200	76	124	Ongoing
8	Board Vantage Security Settings Audit	100	61	39	In Progress
<b>ADMINISTRATION - Admin Services, HR, Systems</b>					
9	Reco Follow-Up ADMINISTRATION	400	264	137	Ongoing
10	Review of HR Recruiting & Hiring Process	100	107	-7	Completed
11	Employee Bonuses Audit	150	526	-376	Completed
12	Pen & Social Engineering Audit (External)	150	203	-53	Completed
13	Review of IT Policies	100	2	99	Completed
14	IT Risk Assessment	100	55	45	In Progress
15	Privilege Access Audit	100	0	100	Start in Q4
<b>INVESTMENTS &amp; FASD</b>					
16	Oversight RE THC Financial Audits (FYE 21)	100	70	30	Completed
17	Oversight RE THC Financial Audits (FYE 22)	100	34	66	In Progress
18	Oversight RE Manager Reviews	100	10	90	Completed
19	Oversight Actuarial Services	100	40	60	Ongoing
20	Oversight Financial Audit (FYE 21)	225	225	1	Completed
21	Oversight Financial Audit (FYE 22)	225	88	137	In Progress
22	Investments Due Diligence RFP	250	136	115	In Progress
23	Wire Transfers Audit	200	0	200	Start in Q4
<b>OPERATIONS - Benefits, DRS, RHC, Member Services, QA</b>					
24	CAP	700	217	483	Completed
25	Reco Follow-Up OPERATIONS	400	251	149	Ongoing
26	LA County 960 (Rehired Retirees)	250	249	1	In Progress
27	LACERA Rehired Retirees Audit	250	275	-25	In Progress
28	DLU Death Claim Processing	300	199	102	In Progress
29	Member Communications Audit	150	4	146	In Progress
30	RHC Governance, Risk, & Compliance	250	295	-45	In Progress
<b>INTERNAL AUDIT OPERATIONS</b>					
31	QAIP	280	129	152	Ongoing
32	Professional Development (CPE)	300	348	-48	Ongoing
33	Audit Committee Support	700	691	9	Ongoing
34	Risk Assessment	700	151	550	In Progress
35	KPMG Recommendation Follow-Up	250	41	209	In Progress
36	External Quality Assessment	250	253	-3	Completed
37	Teammate	300	256	44	Ongoing
<b>ADDED PROJECTS</b>					
38	Advisory Participation on Org. Fiduciary Assessment	120	231	-111	Completed
39	Review of Executive Credit Card Expenditures	100	146	-46	Completed
40	State Street Bank Monitoring Audit Work	160	43	118	Completed
41	Accounts Payables Audit	200	242	-42	Completed
42	Advisory Participation Systems and InfoSec Projects	75	42	33	Completed
43	Macintosh Data Back-Up (Follow-Up Audit)	40	0	40	Start in Q4
44	Termination of Access	150	143	8	In Progress
45	Census Testing	120	33	87	In Progress
46	Audit Pool Planning&Oversight	225	195	30	Ongoing
	<b>TOTAL</b>	<b>10420</b>	<b>6880</b>	<b>3540</b>	

Audit Projects		Description of Project
<b>EXECUTIVE / LEGAL / ORGANIZATION</b>		
1	Organizational Governance Review	High-level assessment of LACERA's maturity in key organizational governance areas which will be reported to the Audit Committee.
2	Oversight Systems Org. Change -1 (SOC 1) - Type 2 (FYE 21)	Plante Moran (PM) will perform a SOC audit over the controls related to OPEB data. Due to complexity of this engagement, IA is project manager. This project includes oversight of FY 2021.
3	Oversight Systems Org. Change -1 (SOC 1) - Type 2 (FYE 22)	Plante Moran (PM) will perform a SOC audit over the controls related to OPEB data. Due to complexity of this engagement, IA is project manager. This project includes oversight of engagement and prelim phase of FY 2022.
4	Business Continuity / DR	Audit of BC plans to ensure they are complete, reviewed and approved, and staff has been trained on them. Participation in Disaster Recovery (DR) testing.
5	Review of Prior Privacy Audit	Follow-up on prior Privacy Audit recommendations to assess if changes have adequately addressed areas of concern from the audit.
6	Organizational Check Management Policy Review	Audit of the organizational-wide check management and processes to identify areas to strengthen controls and establish formal organizational procedures.
7	Ethics Hotline Investigation	Monitor and administer the Ethics Hotline. Provide AC status report on cases.
8	Board Vantage Audit	Audit of access rights and credentials to Board Vantage System
<b>ADMINISTRATION</b> ( <i>Admin, HR, Systems</i> )		
9	Recommendation Follow Up	Ongoing follow-up recommendation status and reporting to Committee.
10	Review of HR Recruiting and Hiring Practices	Comprehensive review of HR Recruiting processes and practices to assess areas for improvement for talent management and filling vacancies timely.
11	Employee Salary Bonus Audit	Audit of employee bonuses since management recently revised its process based on recommendations from the LA County's audit.
12	Penetration & Social Engineering Audit	Evaluation of the information security of the network from an external perspective to determine any risks posed from an uncredentialed attacker.
13	Review of IT Policies	Review of the updates to IT Policy Manual implemented in prior year.
14	IT Risk Assessment	IT Risk Assessment to identify areas of highest risk for future audits. During FY 22, IA will identify scope and issue bid to hire external firm for the audit.
15	Privilege Access Audit	Review the creation, monitoring, and maintenance of privileged access credentials for compliance with best practice guidelines.
<b>INVESTMENTS &amp; FASD</b>		
16	Oversight of THC RE Financial Audits (FYE 2021)	Internal Audit manages the relationship with the real estate external auditors who perform the real estate THC financial audits. This project includes oversight of FY 2021.
17	Oversight of THC RE Financial Audits (FYE 2022)	Internal Audit manages the relationship with the real estate external auditors who perform the real estate THC financial audits. This project includes oversight of engagement and prelim phase of FY 2022.
18	Oversight of Real Estate Manager Reviews	Internal Audit oversees external audit firms that conduct real estate manager contract compliance and operational reviews.
19	Oversight of Actuarial Services	Internal Audit manages the relationship with the Actuarial Consultant and Auditor for services relating to actuarial projects.
20	Oversight of Financial Audit (FYE 2021)	Internal Audit manages the relationship with LACERA's external financial auditors for the annual financial statement audit. This project includes oversight of FY 2021.
21	Oversight of Financial Audit (FYE 2022)	Internal Audit manages the relationship with LACERA's external financial auditors for the annual financial statement audit. . This project includes oversight of engagement and prelim phase of FY 2022.
22	Investment Due Diligence RFP	Consulting engagement to review the Investment Office due diligence operations.
23	Wire Transfer Audit	Audit of operational updates and improvements to the wire transfer process; assess appropriateness of levels of review and approval.

	<b>Audit Projects</b>	<b>Description of Project</b>
<b>OPERATIONS - Benefits, DRS, RHC, Member Services, QA</b>		
24	Continuous Auditing Program (CAP)	CAP is testing transactions and information systems, provides continuous assurance in key areas of compliance; includes fraud detection audits.
25	Recommendation Follow Up	Ongoing follow-up on the status of recommendations and reporting to Committee.
26	LA County Rehired Retirees	Audit of LA County's rehired retirees to ensure compliance with PEPRA.
27	LACERA Rehired Retirees	Audit of LACERA rehired retirees to ensure compliance with PEPRA.
28	DLU Death Claims Processing Audit	Review Benefits, Member Services, and Legal divisions' processes for tracking and processing member death and legal split cases.
29	Member Communications Audit	Audit to assess the quality of communication and service provided to members from Member Services and Retirement Health Care Divisions.
30	Governance, Risk, and Controls RHC	Assessment of RHC to gain a deeper understanding of its governance, risks, and controls.
<b>IA ADMINISTRATION PROJECTS</b>		
31	Quality Assurance Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA's performance through internal assessments, client surveys, and communication of results to key stakeholders.
32	Professional Development	Annual self-assessment, developing self-development program, and allocating for 30 hours of annual training per staff.
33	Audit Committee Support	Preparation of Audit Committee materials and attendance at meetings.
34	Risk Assessment/Audit Plan	Updating Audit Universe, Risk Assessments, and develop Audit Plan.
35	KPMG Reco Follow-up	Internal Audit continues to implement action plans to address recommendations from KPMG Audit and provides periodical updates to Audit Committee.
36	External Quality Assessment Review	Working with an external independent reviewer for the required Quality Assessment Review.
37	TeamMate	Planning and implementation of TeamMate tools for improved efficiency and effectiveness of audit work and reporting.
<b>ADDITIONAL PROJECTS</b>		
38	Advisory Participation on Org Fiduciary Assessment	IA led a cross-functional team assigned by the Exec office to assess the scope and objectives for future fiduciary review.
39	Review of CEO Credit Card Expenditures	Review of CEO Credit Card purchase for compliance with Credit Card Policy.
40	State Street Monitoring Test	Review and testing of authorization to State Street System.
41	Accounts Payable Audit	Completion of audit from prior fiscal year.
42	Participation Info Sec Projects	IA participates in the InfoSec project meetings.
43	Macintosh Data Backup (Reco Follow-Up Review)	Review of updates made to the backup systems as a result of the recommendations from prior audit.
44	Termination of Access	Review of access rights and termination to systems.
45	Census Testing	Testing of census data for financial audit.
46	Audit Pool Planning & Oversight	Planning and coordination of audits conducted by external firms.

LEC

Attachment

Noted and Reviewed:

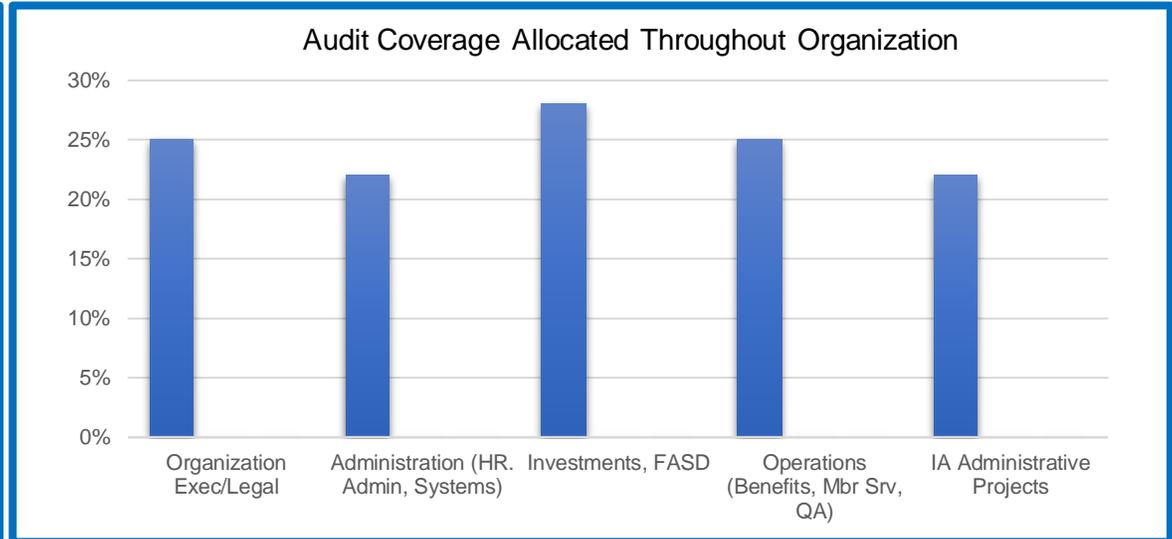
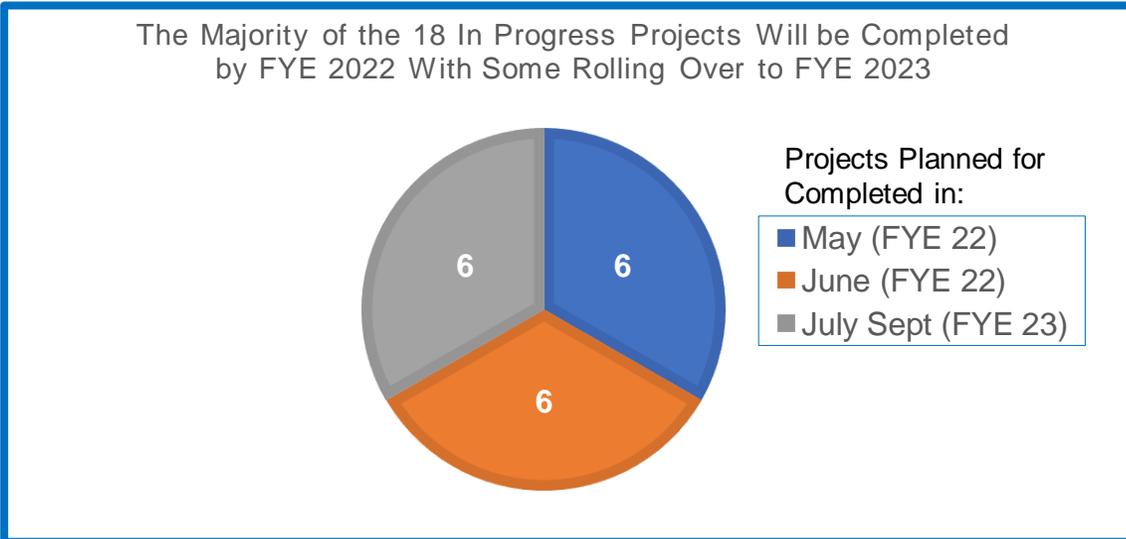
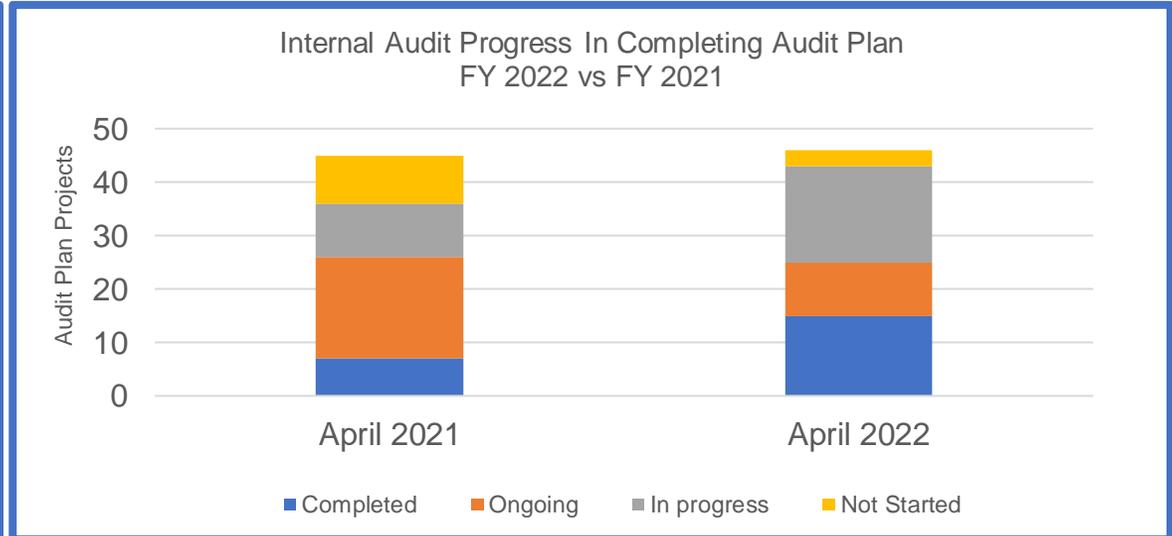
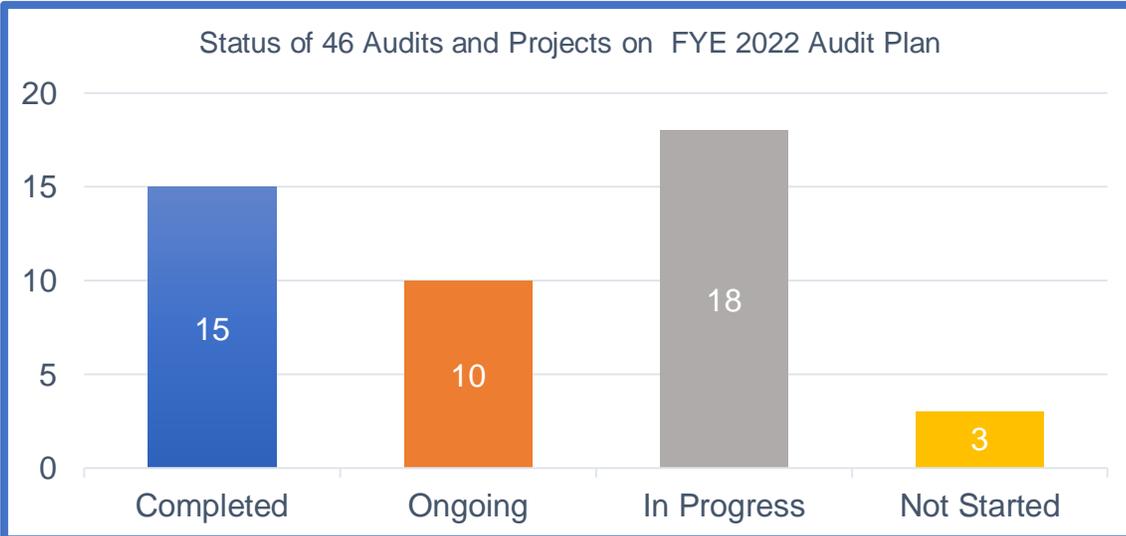


Richard P. Bendall  
 Chief Audit Executive

FYE 2022  
Audit Plan  
Status Report  
*As of 4/15/2022*



# FYE 2022 Audit Plan Dashboard



# Completed Audit Engagements & Projects



Audit Engagement	Audit Assignment	Report
THC Financial Audits (FYE 21)	THC Audit Pool	09/15/21
CEO Credit Card Expenditures Audit	Internal Audit	10/11/21
LACERA Financial Audit (FYE 21)	Plante Moran	10/13/21
SOC-1 Type 2 Audit (FYE 21)	Plante Moran	10/21/21
Employee Bonuses Audit	Internal Audit	02/14/22
State Street Bank Monitoring	Internal Audit	Internal Memo 02/18/22
External Quality Assessment	IIA Services	02/18/22
Accounts Payables Audit	Internal Audit	04/15/22
Review of HR Recruiting & Hiring Process	Eide Baily	04/15/22
Pen & Social Engineering Audit	Moss Adams	04/15/22
Continuous Audit Process Testing	Internal Audit	Internal Reporting Various Dates
Review of IT Policies	Internal Audit	-----
Oversight Real Estate Manager Compliance Audits	RE Audit Pool	-----
Advisory Participation on Organizational Fiduciary Assessment	Internal Audit	-----
Advisory Participation on Systems and Info Sec Projects	Internal Audit	-----

# In Progress Audit Engagements & Projects



Audit Engagement/Project	Audit Assignment	Estimated Completion	planning Scope	Prelim Audit Work	Audit Field Work	Draft Report	Exit Meeting
RHC Governance, Risk, & Compliance Review	Internal Audit	May 2022					
LACERA Rehired Retirees Audit	Internal Audit	May 2022					
LA County 960 (Rehired Retirees)	Internal Audit	May 2022					
Organizational Governance Review	Weaver	May 2022					
Board Vantage Security Settings Audit	Internal Audit	May 2022					
Death Claim Processing	Internal Audit	August 2022	<i>Delayed due to IA staffing priorities</i>				
Termination of Access	Internal Audit	July 2022	<i>Delayed due to Systems availability</i>				
Oversight Soc 1 Type 2 Audit	Plante Moran	June 2022					
KPMG Recommendation Follow Up	Internal Audit	May 2022					
Risk Assessment Audit Planning	Internal Audit	June 2022					
Census Testing	Internal Audit	June 2022					
IT Risk Assessment	Audit Pool	June 2022					
Oversight THC Financial Audits	THC Audit Pool	June 2022					
Oversight LACERA Financial Audit	Plante Moran	June 2022					
Organizational Check Management Policy Review	Internal Audit	August 2022					
Member Communication	Internal Audit	August 2022					
Privacy Policy/Access to Confidential Data	Internal Audit	August 2022					
Investment Due Diligence RFP	External Audit Pool	August 2022					

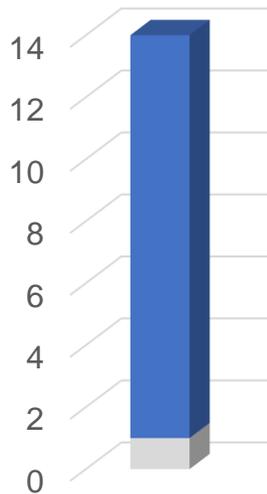
# Progress Implementing IA Recommendations



Internal Audit has made good progress in implementing recommendations specific to Internal Audit operations. These recommendations were included in two audit reports: 1) The KPMG Review of IA Recommendation Follow Up Process and 2) IIA Quality Services External Assessment of Internal Audit, as noted below:

## KPMG Audit

- Status of Recommendation
- 14 Recommendations
- 13 Implemented
- 1 Open Recommendation:



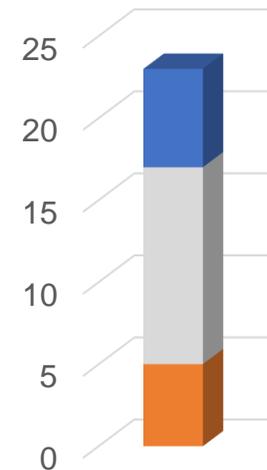
- Completed
- In Progress

Open Recommendation: 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 - At the February 2022 Audit Committee meeting, Internal Audit provided the Committee with a high-level of 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 meeting in May 2022.

## IIA Quality Service Audit

- Status of Recommendation
- 23 Recommendations
- 6 Implemented
- 17 Open Recommendations



- Completed
- In Progress
- Not Started

Open Recommendations: During this reporting period, staff has worked on 12 open recommendations which are in various stages of completion. The remaining 5 recommendations are more complex requiring a longer time period for implementation. Staff plan to implement all action plans on schedule.

# Status of Significant Projects



Internal Audit has deployed a significant amount of resources towards Ongoing Projects as noted, but not limited to the following:

- ✓ Oversight Projects: Staff oversee significant audits engagements such as the THC Financial Audits, LACERA's Financial audit engagement, Actuarial projects, and SOC1 Type 2 audit engagements.
- ✓ QAIP: The team continues to meet on a monthly basis to discuss IIA Standards to enhance knowledge of audit practices and application of Standards when conducting audit work.
- ✓ Recommendation Follow Up: Auditors review and verify the status of audit recommendations on a monthly basis and report the status of recommendations to the Committee on a quarterly basis.
- ✓ Risk Assessment: IA Senior Management assesses risk on a continuous basis and more formally using a structured process in Q4 of the fiscal year for audit planning. The team also meets biweekly with the Exec office to discuss organizational areas of risks and concerns.
- ✓ Continuing Professional Education (CPE): 100% of the IA team has at least one professional designation that requires CPE. As of this reporting, staff had completed over 300 hours of CPE including most recently attending a two-day training on audit engagement best practices, communication and reporting. Past CPE has included a series of training courses on IT auditing.
- ✓ Development and Enhancements to IA Process and Procedures: During this reporting period, IA has worked on the following internal procedures to improve operations: 1) expanded and enhanced procedures relating to audit engagement planning, 2) developed framework for assessment of fraud risk for preliminary phase of audit engagements, 3) formalized procedures for Audit Committee Meeting materials, and 4) developed internal procedures for IA Request for Procedures (RFP).

# Questions

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April 27, 2022

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

Audit Committee Consultant  
Robert H. Griffin

FROM: Richard P. Bendall   
Chief Audit Executive

FOR: May 9, 2022 Audit Committee Meeting

SUBJECT: **Annual Audit Planning for Fiscal Year 2022-2023**

According to The Institute of Internal Auditor's (IIA) International Standard 2010 for Planning<sup>1</sup>, the Chief Audit Executive (CAE) must establish a risk-based plan to determine the priorities of the internal audit activity and ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization. Generally, audit plans are developed in three phases: define and refine the audit universe, assess the risks, and develop the plan.

We will be presenting our Audit Planning Process, including a discussion on current risks identified by The IIA's 2022 OnRisk report (attached).

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<sup>1</sup> For IIA Standard 2010, refer to website at [www.globaliia.org/standards-guidance](http://www.globaliia.org/standards-guidance) or [www.theiia.org/guidance](http://www.theiia.org/guidance).

# Audit Planning for Fiscal Year 2022-2023



# Today's Agenda



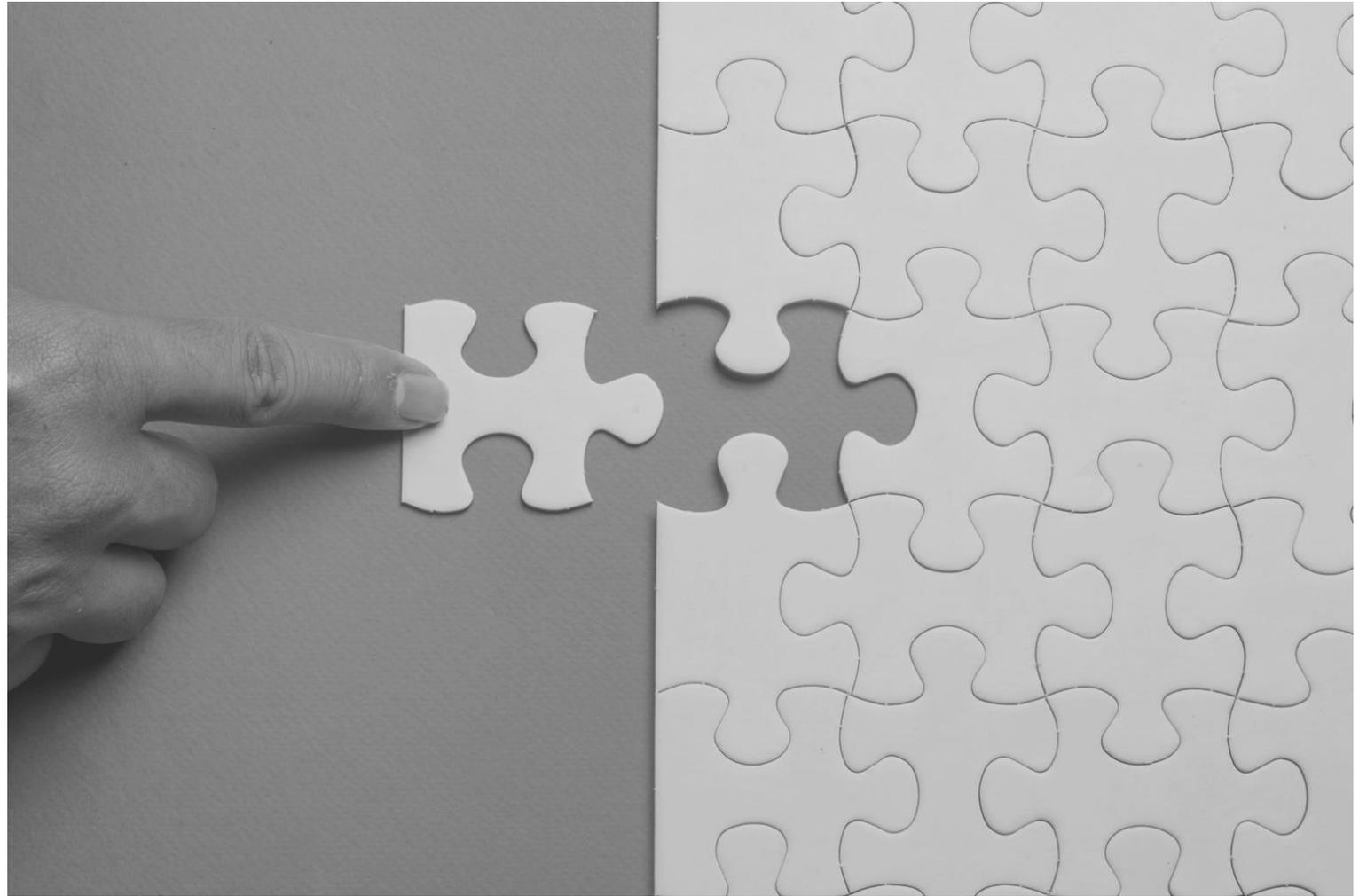
**Overview of  
Audit Planning**



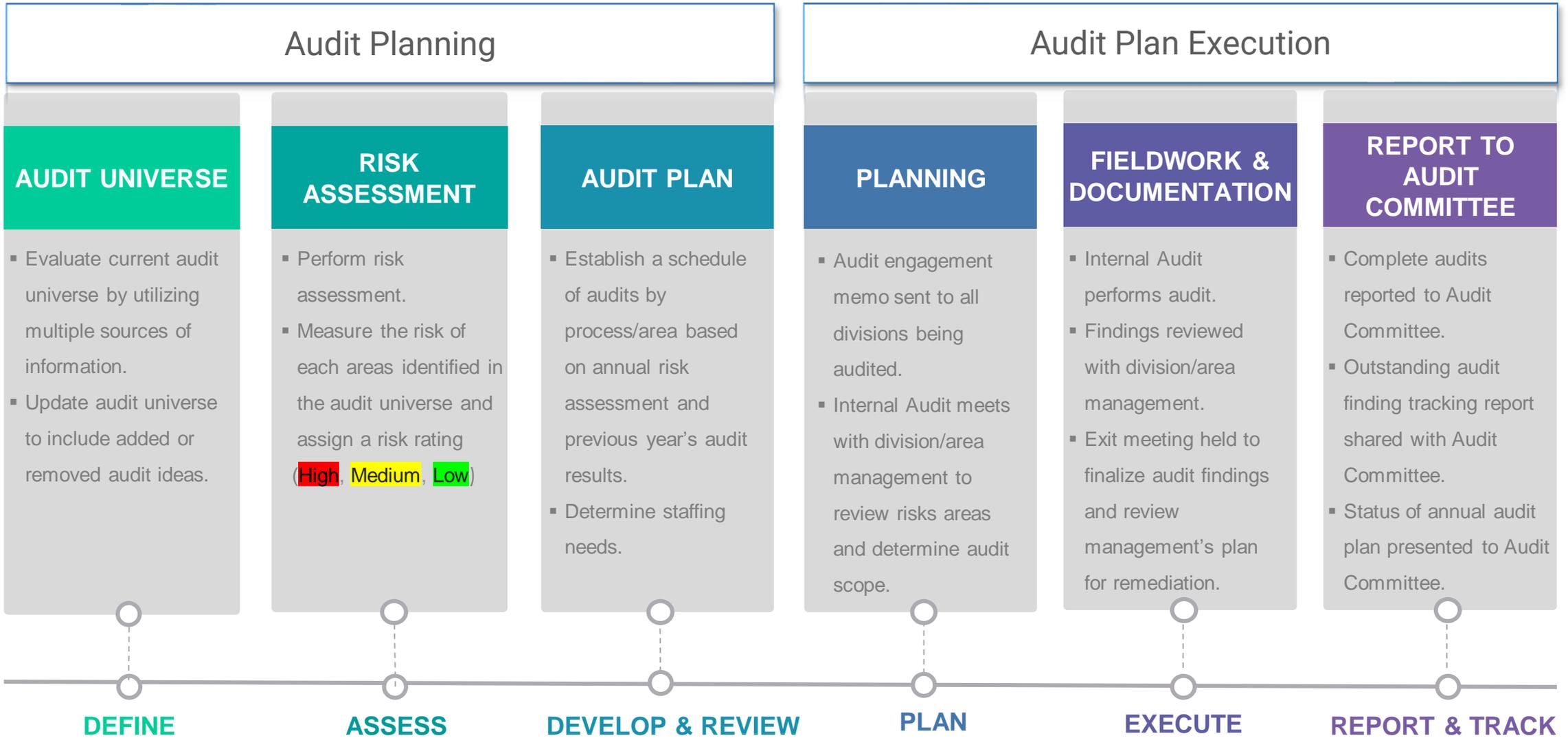
**Current Risks**



# Overview of Audit Planning



# Overview of Internal Audit Process



# Annual Audit Planning Timeline for FYE 2023



February/March  
Meetings



## Propose Audit Plan & Budget

Based on:

- Cyclical / known risk areas
- Review AC & IA Charters
- Review past audit findings & recommendations

May  
Meeting



## Define/Refine Audit Universe

Based on:

- Evaluate current risks in industry
- Evaluate recent organizational changes
- Evaluate if needed to update universe

August  
Meeting



## Complete Audit Universe & FYE 2023 Audit Plan

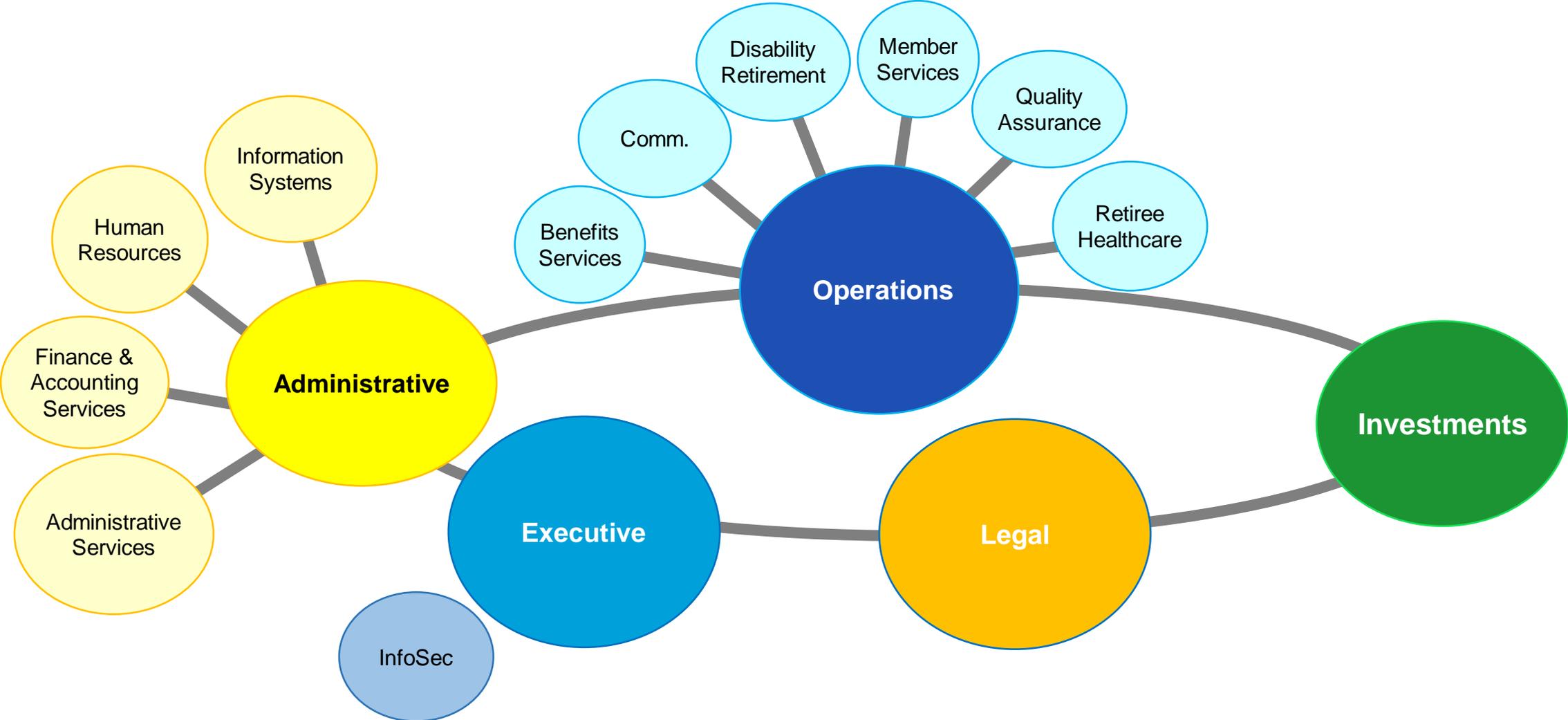
- With input from Executive Office and Audit Committee
- Committee Approval of Audit Plan

## Assess Risk

Based on:

- Understand the organization's risk areas
- Input from Audit Committee
- Review Division Budget Highlights
- Update divisional risk surveys
- Interview Division Managers and staff
- Measure the risk of each area identified in the audit universe

# Audit Universe by Organization Structure



# Sample Risk Assessment + Draft Multi-Year Audit Plan



Division / Sub-Division	Process	Audit Cycle	Last Audit Rating & Date	Inherent Risk	Residual Risk	Risk Addressed By	Current FY 2022 Project	DRAFT Plan FY 2023 Project	DRAFT Projected FY 2024 Project
FASD Overall									Governance, Risk, Controls - FASD
	Financial Statement Reporting	Annual	Unqualified			External Audit	Oversight of Financial Audit	Oversight of Financial Audit	Oversight of Financial Audit
	GASB Implementation	Ongoing				Actuarial Work			
General Accounting									
	Child Support Payments	Risk-Based				G,R,C			Governance, Risk, Controls - FASD
	Member Payroll & Tax Payment	Risk-Based				G,R,C			Governance, Risk, Controls - FASD
	Member Healthcare	Risk-Based				G,R,C			Governance, Risk, Controls - FASD
	Treasury Bank Accounts Recon	Risk-Based				G,R,C			Governance, Risk, Controls - FASD
	Member Special Payments	Risk-Based				G,R,C			Governance, Risk, Controls - FASD
	Accounts Payable	Periodic	04/2022			Internal Audit	Audit: Accounts Payable		Governance, Risk, Controls - FASD
	Corporate Credit Cards	Periodic	06/2020			Internal Audit		Audit: Corporate Credit Cards	
	Corporate Credit Cards - CEO	Annual	10/2021			Internal Audit	Audit: Corporate CC- CEO	Audit: Corporate CC- CEO	
	Travel Training Expenses & Reporting	Periodic	06/2019			Internal Audit		Audit: Travel Software	
	Recon Reimbursable Cost (OPEB County Trust Fund)	Risk-Based				G,R,C			Governance, Risk, Controls - FASD
Reporting & Compliance									
	Actuarial Projects & Reporting	Annual				Actuaries	Oversight of Auditing Actuary CAP Test = Census	Oversight of Auditing Actuary Audit: Census Data	Oversight of Auditing Actuary CAP Test = Census
Investment Accounting									
	Wire Transfers - Cash Management	Periodic	02/2022			Internal Audit	CAP Test = SSB Audit: Wire Transfers	CAP Test = SSB	CAP Test = SSB
	Custodial / Treasury Bank Services	Periodic				Internal Audit		Advisory: Custodial Bank Search	
	Public Market Accounting Functions	-	Unqualified			External Audit			
	Private Equity Accounting Functions	-	Unqualified			External Audit			
	Hedge Funds Accounting Functions	-	Unqualified			External Audit			
	Real Estate/Assets Accounting Functions	Annual Annual				External Audit	Oversight of THC Financial Audit Oversight of R/E manager reviews	Oversight of THC Financial Audit	Oversight of THC Financial Audit

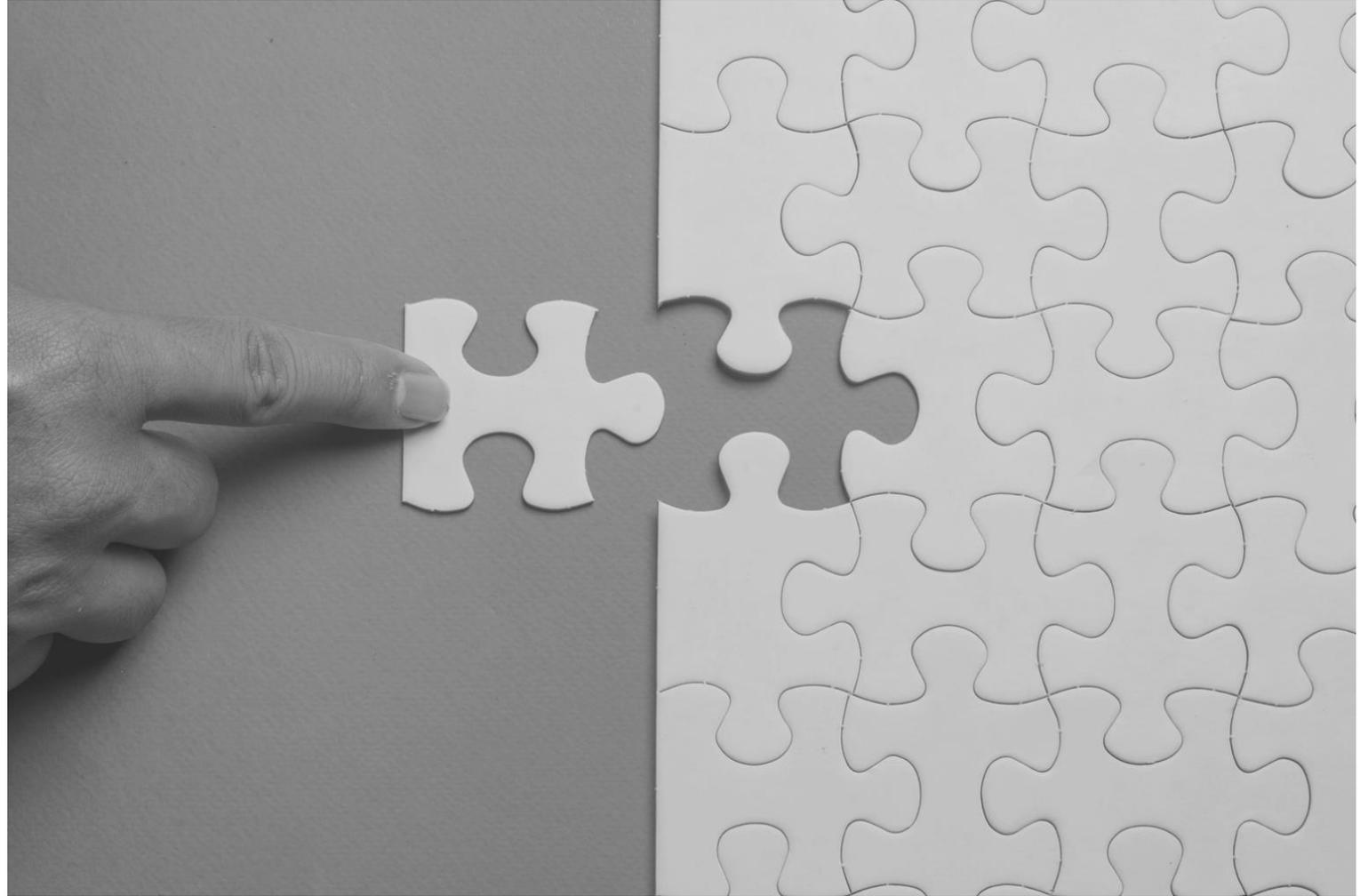
# Divisional Risk Assessment Survey - Update



For this year's risk assessment:  
Division Managers were provided their prior year survey and asked to update them and provide information on these additional specific areas.

<b>General Items to consider</b>
Significant changes in personnel (hiring, change in management, termination, vacancies)
Changes to laws, LACERA policies, industry which affect division
Changes / issues with systems used for any key processes, new software
Significant incidents, including fraud, data breaches, in division or within LACERA
Changes or concerns about cybersecurity
Changes or concerns about data privacy
Changes or concerns about division's culture (return to work)
Changes or concerns in vendor management / supply chain issues
Changes or concerns in headline risk
Change in scope of division's work

# Current Risks



# OnRisk and Our Current Audit Plan



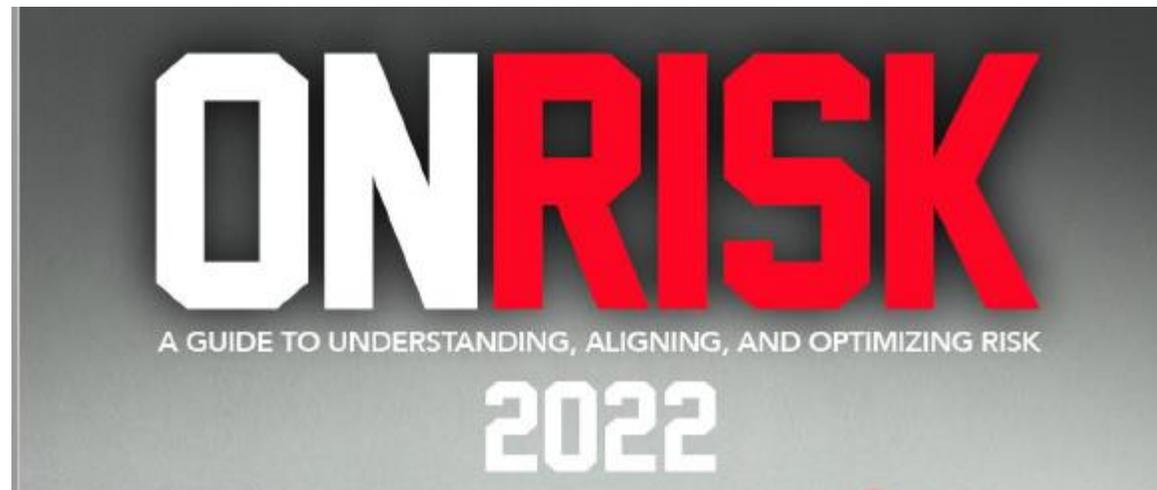
Last year, Internal Audit included the OnRisk 2021 report as part of Risk Assessment process

The review and input received from Trustees and Executive Office made an impact on our Audit Plan:

Top Relevance Rating for Trustees, Exec Office, and Internal Audit	Audit Project
Cybersecurity	2022 External Network Penetration Test by Moss Adams
Organizational Governance	2022 Organizational Governance Review by Weaver
Talent Management	2022 Review of HR Recruiting by Eide Bailey
Business Continuity & Crisis Management	2023 Project

Published by the Institute of Internal Auditors (IIA) in December 2022

- Identified 12 key risks organizations face for 2022 and beyond
- Brought together key risk management players: Management/C-Suite, and Chief Audit Executives (CAEs)
- Focused on organizational knowledge, capability, and relevance related to each risk



# Top Risks for 2022 Per OnRisk Report



Risk	OnRisk's description of what the risk examines
Cybersecurity	Are organizations sufficiently prepared to manage cyber threats that could cause disruption & reputational harm
Talent Management	The challenges organizations face in identifying, acquiring, upskilling, and retaining the right talent to achieve their objectives.
Organizational Governance	Whether organizations' governance assists or hinders achievement of objectives.
Data Privacy	How organizations protect sensitive data in their care and ensure compliance to all applicable laws and regulations.
Culture	Do organizations understand, monitor, and manage the tone, incentives, and actions that drive the desired behavior.
Economic & Political Volatility	The challenges and uncertainties organizations face in a dynamic and potentially volatile economic and political environment.
Change in Regulatory Environment	The challenges organizations face in a dynamic and ambiguous regulatory environment.
Supplier & Vendor Management	Organizations' abilities to select and monitor third-party relationships.
Disruptive Innovation	Whether organizations are prepared to adapt to and/or capitalize on disruption.
Social Sustainability	The ability of organizations to understand and manage the direct and indirect impacts their actions have on individuals and communities.
Supply Chain Disruption	Whether organizations have built the flexibility to adapt to current and future supply chain disruptions.
Environmental Sustainability	Organizations' ability to reliably measure, evaluate, and accurately report on their environmental impacts.

# Top Risks for 2022 & Beyond



	OnRisk Survey	Executive Office	Internal Audit
Cybersecurity	✓	✓	✓
Talent Management	✓	✓	✓
Organizational Governance		✓	✓
Data Privacy		✓	✓
Culture	✓	✓	✓
Economic & Political Volatility	✓		
Change in Regulatory Environment			
Supplier & Vendor Management		✓	✓
Disruptive Innovation	✓		
Social Sustainability			
Supply Chain Disruption			
Environmental Sustainability			

OnRisk survey respondents, Executive Office, and Internal Audit identified the same three as top relevant risks:

- Cybersecurity
- Talent Management
- Culture

Additionally, Executive Office and Internal Audit both identified Organizational Governance, Data Privacy, Supplier & Vendor Management as top risks.

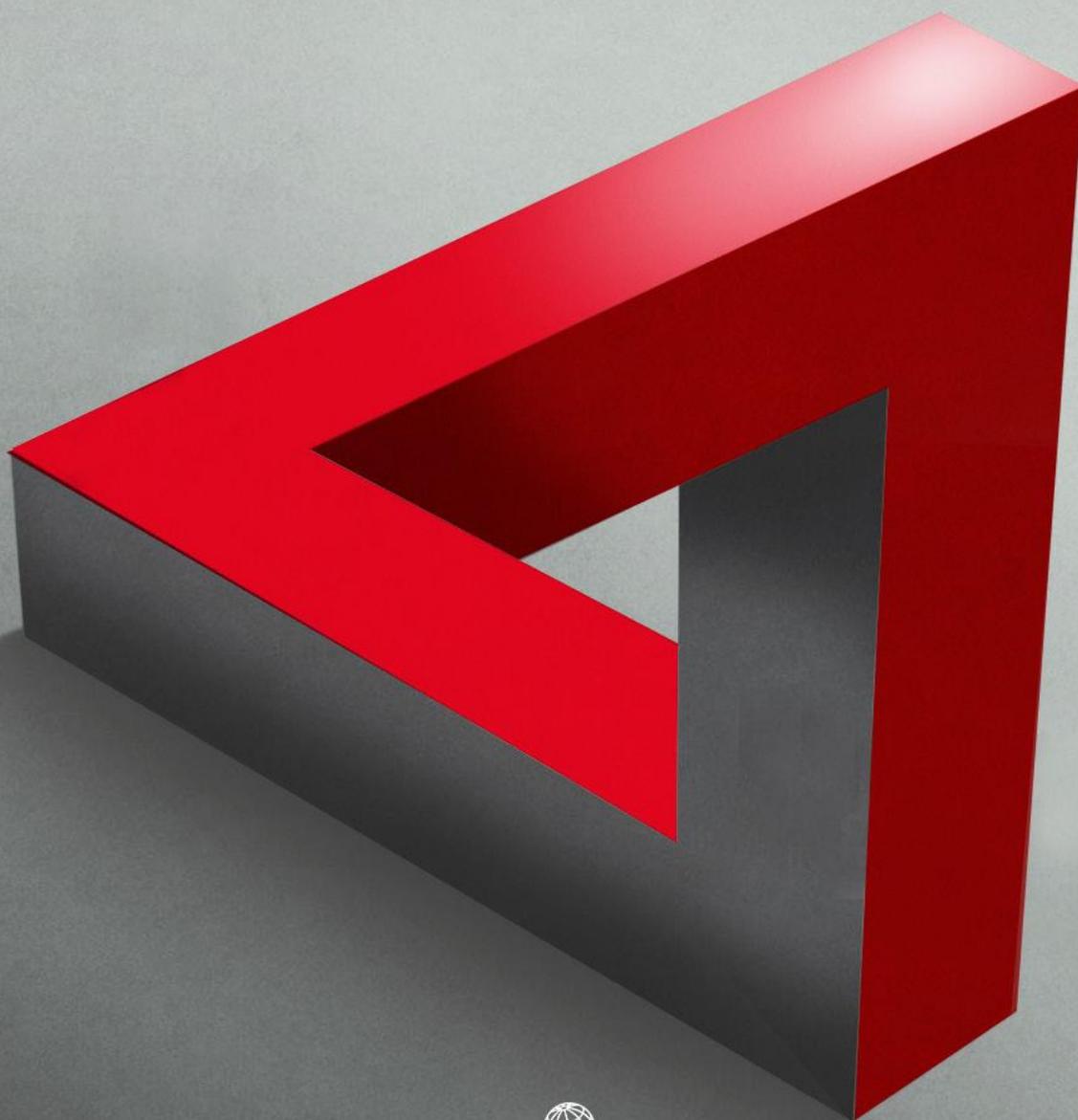
# Questions

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# ON RISK

A GUIDE TO UNDERSTANDING, ALIGNING, AND OPTIMIZING RISK

2022



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# INTRODUCTION

*“How complicated and unpredictable the machinery of life really is.”*

— Kurt Vonnegut

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**In the 18 months since the COVID-19 pandemic first shuttered the world,** organizations have learned to embrace the unexpected. Board members, C-suite executives, and chief audit executives — the key players in risk management — now know that low likelihood/high impact risks must be given greater consideration. This realization has jolted boards into greater awareness of risk management weaknesses, energized senior management to build more nimble and resilient organizations, and positioned internal audit to deliver broader value.

Indeed, the pandemic has spawned changes in how we see our trusted institutions, the value and priorities we place on our time, and our commitments to long-held social contracts about work, diversity, and the health of the world around us. It is too early for definitive answers to which of these changes will be fleeting or permanent. However, one thing is certain. This once-in-a-century test of core social, business, political, and economic beliefs will forge changes both subtle and profound.

While historic, the lingering pandemic and its related fallout is not the only factor likely to influence risk in 2022. Growth in social upheaval, a significant shift in regulatory attitudes at the federal level, continuing economic and political volatility, continuing effects of climate change, and the marked acceleration of environmental-, social-, and governance-related issues will combine to make the coming year one filled with unpredictability and opportunity.

*“COVID-19 has been a wake-up call for organizations to create a plan for the unexpected. These ‘Hollywood type’ risk scenarios are now something that should be discussed to some extent within organizations.”*

– C-suite, Technology

*“Risk today has become very volatile and random. You see these things occurring globally in the news and there seems to be less correlation between the cause and effect.”*

– Board, Retail

# THE ONRISK APPROACH

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**The *OnRisk* approach is grounded in an innovative methodology** that uniquely brings together the perspectives of the major stakeholders in organizational governance — the board, executive management, and chief audit executives. Alignment of these stakeholders' views on personal knowledge, organizational capability, and risk relevance is a significant step toward achieving strong risk management in support of effective governance.

The methodology employs qualitative interviews of 30 board members, 30 C-suite executives, and 30 CAEs from 90 different organizations. The research provides a robust look at risks facing organizations and allows for both objective data analysis and subjective insights based on responses from risk management leaders.

Collective ratings for each group are assigned a value based on the percentage of respondents who rate particular aspects of each risk at a 6 or 7 on a 7-point scale. For example, if 7 in 10 board members rated their organizations' risk management capability on data privacy at a 6 or 7, the score would be 70%.

Further details regarding the *OnRisk* methodology, how to use and leverage this report, and explanations of the Stages of Risk developed in conjunction with the *OnRisk* approach can be found later in this report.

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# TOP RISKS, 2022

The 12 risks below, carefully selected from a wide assortment of risks likely to affect organizations in 2022, were vetted through in-depth interviews with board members, executive management, and CAEs. Some of the risks included are unchanged from *OnRisk 2021*, some have been updated, while others have been added. For example, the 2021 risk for sustainability is broken out in 2022 to include Environmental Sustainability, Social Sustainability, and Organizational Governance. All of the risks in *OnRisk 2022* should have universal applicability to organizations, regardless of size, industry, or type. Risks not included in this analysis may have particular relevance to some organizations, depending on their specific circumstances. The risks are presented in order of relevance, as rated by *OnRisk 2022* respondents.

**CYBERSECURITY:** The growing sophistication and variety of cyberattacks continue to wreak havoc on organizations' brands and reputations, often resulting in disastrous financial impacts. This risk examines whether organizations are sufficiently prepared to manage cyber threats that could cause disruption and reputational harm.

**TALENT MANAGEMENT:** The increased need for and acceptance of remote operations, including working from home, as well as continued dynamic labor conditions, are redefining how work gets done. This risk examines the challenges organizations face in identifying, acquiring, upskilling, and retaining the right talent to achieve their objectives.

**ORGANIZATIONAL GOVERNANCE:** Governance encompasses all aspects of how an organization is directed and managed — the system of rules, practices, processes, and controls by which it operates. This risk examines whether organizations' governance assists or hinders achievement of objectives.

**DATA PRIVACY:** The growing list of regulations from jurisdictions around the world is making data privacy increasingly complex and dynamic. This risk examines how organizations protect sensitive data in their care and ensure compliance to all applicable laws and regulations.

**CULTURE:** With an increasing percentage of professional employees working remotely full or part time, organizations are challenged to maintain, enhance, or control their organizational culture. This risk examines whether organizations understand, monitor, and manage the tone, incentives, and actions that drive the desired behavior.

**ECONOMIC AND POLITICAL VOLATILITY:** The potential permanent impacts of the pandemic and the normal dynamics of macroeconomic cycles have the potential to create volatility in the markets in which organizations operate. This risk examines the challenges and uncertainties organizations face in a dynamic and potentially volatile economic and political environment.

**CHANGE IN REGULATORY ENVIRONMENT:** Fundamental changes in government appetite for regulation can have a significant impact on organizations, including those not considered heavily regulated. This risk examines the challenges organizations face in a dynamic and ambiguous regulatory environment.

**SUPPLIER AND VENDOR MANAGEMENT:** For an organization to be successful, it has to maintain healthy and fruitful relationships with its external business partners and vendors. This risk examines organizations' abilities to select and monitor third-party relationships.

**DISRUPTIVE INNOVATION:** We are in an era of innovative business models, fueled by disruptive technologies. This risk examines whether organizations are prepared to adapt to and/or capitalize on disruption.

**SOCIAL SUSTAINABILITY:** Increasingly, there is a recognition that organizations have significant influence on individuals who they employ, who work in their value chain, who consume their products and services, and who live in their communities. This risk examines the ability of organizations to understand and manage the direct and indirect impacts their actions have on individuals and communities.

**SUPPLY CHAIN DISRUPTION:** The disruption to business-as-usual operations globally, rooted in the global pandemic, has highlighted the need for resilience in supply chains in support of organizations' achievement of strategic objectives. This risk examines whether organizations have built in the flexibility to adapt to current and future supply chain disruptions.

**ENVIRONMENTAL SUSTAINABILITY:** Organizations are facing increased pressure from stakeholders, including shareholders, regulators, customers, and employees, to evaluate and disclose how they are impacting the environment in which they operate. This risk examines the ability of organizations to reliably measure, evaluate, and accurately report on their environmental impacts.

# KEY OBSERVATIONS

The qualitative interviews for *OnRisk 2022* provide a snapshot of how the principal drivers of risk management interact, which risks pose the greatest challenges to their organizations, and how alignment on risk management efforts impacts success. Analysis of the results identified six key observations that shed light not only into how risks are understood, but also how the ability to manage risk is perceived. In-depth examinations of these observations are found later in this report.

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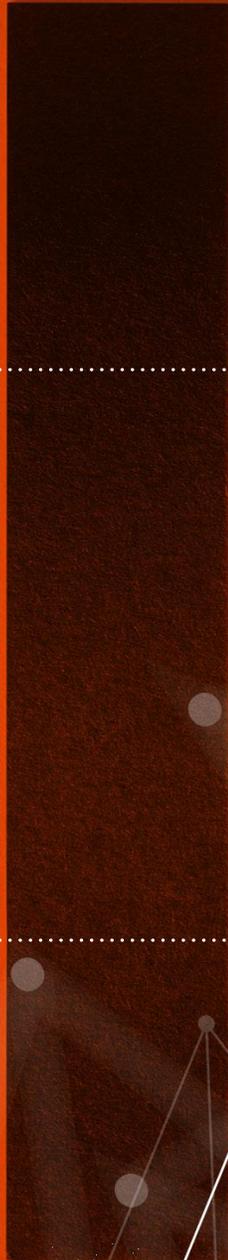
- **There are notable variations among risk management players on certain risks.** Overall, there is general alignment on organizational capability, risk relevance, and personal knowledge. However, there are noteworthy variations in several key risk areas.
  - **Significant gaps exist between risk relevance and organizational capability ratings on several risks.** The gap between how risk management players rate risk relevance versus organizational capabilities is alarmingly wide for Talent Management, Disruptive Innovation, Data Privacy, Cybersecurity, and Culture.
  - **Risks to pay attention to going forward.** Five risk areas emerged as top of mind for respondents: Cybersecurity, Talent Management, Culture, Disruptive Innovation, and Economic and Political Volatility. Of note, four of the five also had the largest gaps between risk relevance and organizational capabilities, suggesting risk players know where work needs to be done.
  - **Perceptions of risk relevance vary greatly across ESG components.** While alignment among the three groups is relatively strong on these risks, Organizational Governance holds far greater relevance for respondents than do Social Sustainability and Environmental Sustainability.
  - **The pandemic revealed opportunities to improve organizational risk management.** COVID-19 may not have improved the ability to predict risks, but it increased confidence for many in reacting to risks. For others, it provided a wake-up call on how they manage risk and the added challenges associated with managing risk in decentralized or siloed conditions.
  - **Senior executives and boards desire broader scope for internal audit services.** Respondents feel that their current assurance services are adequate but suggest some improvements in assurance reporting. This offers an opportunity to demonstrate the value of independent assurance across a wider spectrum of risks.
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# KEY OBSERVATIONS EXPLAINED

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**The six key observations are examined in depth in the following pages.** As noted previously, the qualitative interviews for *OnRisk 2022* were designed to elicit candid perspectives on the nature and understanding of risk management through the eyes of its three principal drivers. The analysis and examination of those views reveal important insights into interactions and alignment among respondents and informative conclusions about how those interactions and alignments impact risk management.

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# NOTABLE VARIATIONS IN CAPABILITY AND RELEVANCE FOR CERTAIN RISKS

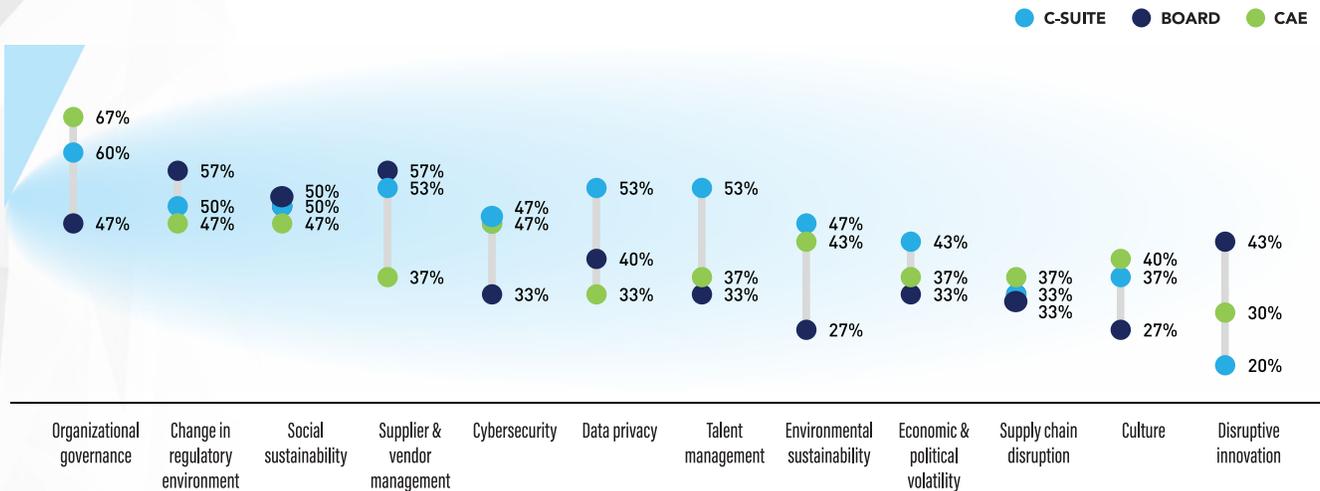
While overall ratings from the three respondent groups appear to reflect general alignment, deeper analysis of organizational capability and risk relevance ratings for each group finds noteworthy variations in several risk areas, particularly Disruptive Innovation.

Senior executives tended to be more confident about organizational capability for most risk areas examined except for Disruptive Innovation, where just 2 in 10 respondents rated capability as high (Figure 1). This created the largest variation between two respondent groups on capability — 23 percentage points between the C-suite and the board.

Boards are not as confident as senior executives on their organization’s capability to manage certain risks. For Talent Management and Environmental Sustainability, the capability rating was 20 points lower for board respondents compared to their C-suite counterparts. It was 13 points lower for Organizational Governance.

Meanwhile, CAEs were less confident in their organization’s ability to address Supplier and Vendor Management risk. Their ratings were 20 points lower than board respondents and 16 points lower than the C-suite.

**Figure 1:**  
**ORGANIZATIONAL CAPABILITY RATINGS BY ROLE PER RISK AREA**  
Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



**Note:** OnRisk 2022 interview question: Overall, how capable is your company when it comes to handling enterprisewide risk? Respondents could choose a rating from a scale of 1 to 7, with 1 being the lowest (“not at all”) and 7 being the highest (“extremely”). Risk areas were sorted from highest to lowest average scores. n = 90.

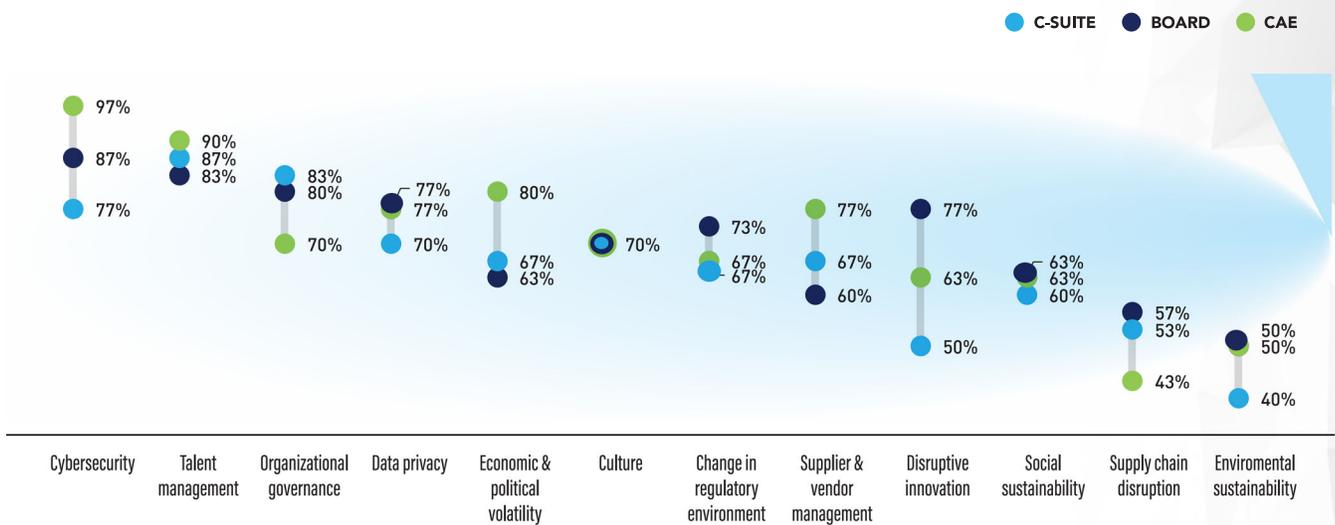
Similar variations were noted in risk relevance ratings (Figure 2). Boards were significantly more likely to rate Disruptive Innovation as a highly relevant risk (77%) than were senior executives (50%). This 27-point variance was the greatest between any two respondent groups in the risk relevance ratings.

Nearly every CAE (97%) rated cybersecurity as a highly relevant risk to their organization, but board respondents lagged by 10 percentage points (87%) and the C-suite lagged by 20 percentage points (77%). CAEs also were more likely to describe Supplier and Vendor Management as highly relevant — 17 points higher than the board and 10 points higher than the C-suite. A similar 17-point difference is noted between CAE and board ratings for Economic and Political Volatility.

**Figure 2:**

**RISK RELEVANCE RATINGS BY ROLE PER RISK AREA**

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



**Note:** OnRisk 2022 interview question: How relevant are each of the following risks to your current organization? Respondents could choose a rating from a scale of 1 to 7, with 1 being the lowest (“not at all”) and 7 being the highest (“extremely”). Risk areas were sorted from highest to lowest average scores. n = 90.

# SIGNIFICANT GAP IN RELEVANCE AND CAPABILITY RATINGS ON SEVERAL RISKS

While some ratings variation among individual respondent groups was expected, an analysis of the combined ratings for the three respondent groups uncovered additional insights. The analysis identified large gaps between higher risk relevance and lower organizational capability in several areas. This Relevance-Capability Gap reflects potentially significant risk management vulnerabilities.

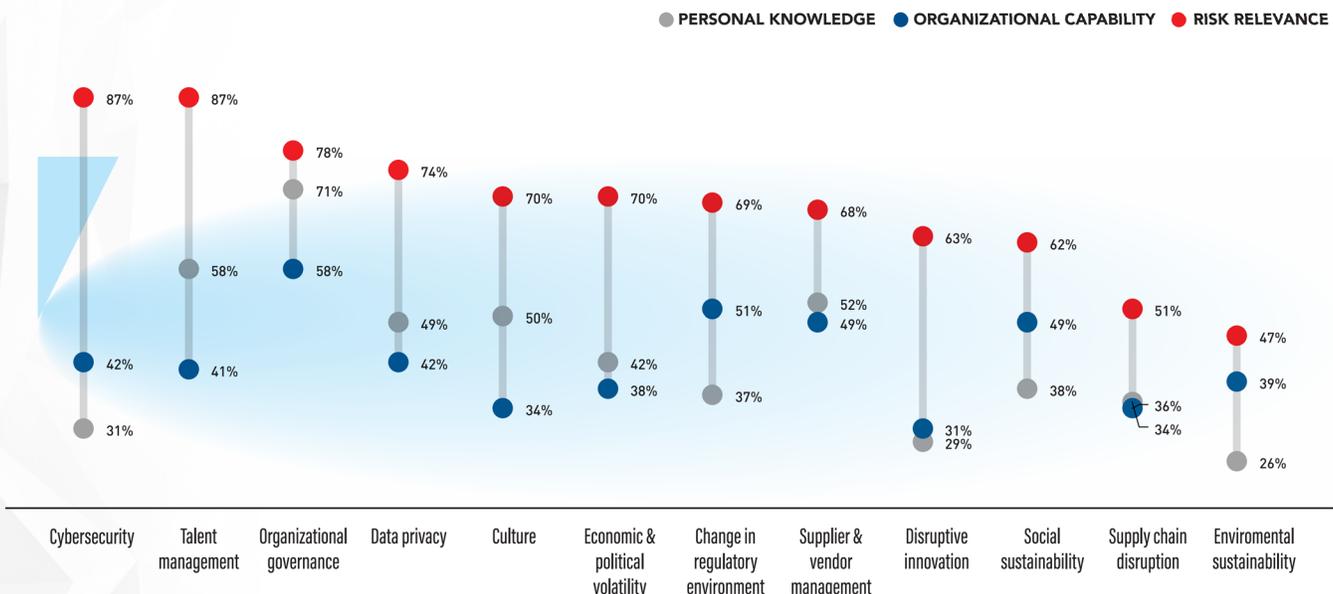
Chief among these is Cybersecurity, which continues to exasperate organizations large and small, public and private, for-profit and nonprofit. This ubiquitous and dynamic risk was rated as the most relevant by respondents, along with Talent Management (Figure 3). Yet, on average, organizational capability lagged significantly. Large disparities also are noted for Talent Management, Disruptive Innovation, Culture, Data Privacy, and Economic and Political Volatility.

For these risks, the relationship between relevance and capability varies. A highly relevant risk may be more difficult to manage because it is unpredictable and not easily controllable, due to, for example, external factors that may augment risk velocity. This appears to be the case for three of the six risks with the largest disparities: Cybersecurity, Disruptive Innovation, and Economic and Political Volatility. However, for Talent Management, Culture, and Data Privacy — risks that can be managed internally through controls and processes — the gaps may reflect more uncertainty coming out of the pandemic rather than a lack of control.

*“As we have witnessed with the pipeline hack this year, these cybersecurity attacks can have a huge trickle-down effect. All industries are susceptible to cybersecurity risk to some extent.”*

– Board, Manufacturing

**Figure 3:**  
**AVERAGE RATINGS PER RISK AREA**  
Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



**Note:** OnRisk 2022 interview questions: How knowledgeable are you about each of the following risks? How relevant are each of the following risks to your current organization? Overall, how capable is your company when it comes to handling enterprisewide risk? Respondents could choose a rating from a scale of 1 to 7, with 1 being the lowest (“not at all”) and 7 being the highest (“extremely”). All respondents. n = 90.

For example, the Relevance-Capability Gap for Talent Management may reflect uncertainty as organizations emerge from nearly 18 months of pandemic-induced isolation. This unease about workforce management ranges from the challenge of devising effective return-to-work strategies to more profound changes in the employer/employee social contract.

One healthcare C-suite executive credited the pandemic for an epiphany in this area. “The biggest thing on our minds right now is dealing with remote work and getting some of our employees back into the office, getting vaccinated, etc. The pandemic has definitely shown me that I was too rigid in my thought process in terms of remote work risk.”

Respondents expressed different approaches to managing risks that they cannot directly influence. For example, one financial company board member noted regulatory change is one that is relevant and carefully monitored, but largely out of the organization’s control. “Change in regulatory environment, for example, is very important to us. We’re very careful about the way that regulations affect us. It’s hard to do, and it’s not something anyone can really control.”

Meanwhile, a board member at a different financial services company said the firm chooses to focus on what can be governed. “We pay attention to risks that we can control. There is an importance of understanding your market and competitors when considering relevant risks that we might have less control over.”

As noted earlier, there is general alignment in personal knowledge, organizational capability, and risk relevance ratings among the respondent groups. However, the variance between relevance and capability is clearly evident in average ratings assigned by each respondent group (Figure 3).

## RISKS TO PAY ATTENTION TO GOING FORWARD

**Respondents identified five risks they expect to increase in relevance** in the next three to five years: Cybersecurity, Talent Management, Disruptive Innovation, Culture, and Economic and Political Volatility. Each of these fall into risk areas identified as having large Relevance-Capability Gaps. This concurrence could be viewed as troubling — organizations have fallen far behind on their capabilities to manage future risks — or encouraging — risk players intuitively recognize capability weaknesses and understand they must act to correct them.

**CYBERSECURITY:** The 45-point Relevance-Capability Gap for Cybersecurity (see Figure 3) reflects the near-constant struggle to keep up with the evolving and vexing nature of cyber risks. Cyber hackers are constantly looking for new weaknesses to exploit and novel ways to cash in on their criminal behavior. Ransomware and other denial-of-service type attacks are growing in number and sophistication, and the consequences are having broader impacts, as reflected in the cyberattack that temporarily halted operations of a major U.S. oil distribution system in May of 2021.

**TALENT MANAGEMENT:** Talent Management is expected to remain a top risk for the foreseeable future. At 46 points, this risk had the largest Relevance-Capability Gap of all risks examined this year, edging out Cybersecurity. Concerns about the pandemic’s impacts on the labor market and the traditional employer/employee social contract continue to keep this risk front and center in the minds of risk managers.

As noted in *OnRisk 2021*, “This significant disruption to talent management, as well as its impact on morale, productivity, and workplace culture, will have both short- and long-term implications for organizations.” Two areas offered as evidence of potential disruption have quickly come to fruition.

The work-from-home phenomenon fundamentally changed how organizations recruit and manage talent. While having a majority of the workforce operating in remote settings posed significant immediate challenges in technology, cybersecurity, and logistics, it all but eliminated the limitation of geographic considerations when identifying and hiring the right talent. As one manufacturing C-suite executive noted, “Talent management might become more challenging with the different generational gaps now becoming emphasized in the workforce. Where are we going to find the best talent?”

# RISKS TO PAY ATTENTION TO GOING FORWARD

(Continued)

Yet, the work-from-home experiment also appears to have had a profound impact on attitudes about work/life balance among various parts of the labor force. According to a June 2021 article in *Forbes* magazine<sup>1</sup>, expectations for many have changed in the year spent working from home. For instance, the article notes evidence that many are reconsidering career paths, citing increases in law and medical school applications jumping 20% and 18%, respectively.

A growing number of employees are leaving their jobs voluntarily. Dubbed “The Great Resignation,” this fallout from the pandemic promises to have long-term effects on the workforce. The United States saw nearly 4 million people quit their jobs in April 2021 alone, according to U.S. Bureau of Labor Statistics data, the largest single-month spike on record. Another 3.6 million left their jobs voluntarily in May. The phenomenon is not limited to the United States.<sup>2</sup>

According to the BBC<sup>3</sup>, a Microsoft survey of more than 30,000 global workers showed that 41% of workers were considering quitting or changing professions this year. The same report found a five-fold increase in remote job postings on LinkedIn since the start of the pandemic and that more than 46% of workers say they plan to move because they feel they can now work remotely.<sup>4</sup>

As organizations focus on getting workers back into office settings, they should carefully weigh the tightening labor market and how it relates to worker expectations in salaries, benefits, and work/life balance.

**CULTURE:** The distributed workforce created by the pandemic is feeding significant concern about workplace culture. The Relevance-Capability Gap for this risk is 36 points.

Building or sustaining a company culture virtually poses significant challenges, and organizations now face the question of whether to return to pre-pandemic work arrangements or find ways to adapt to greater percentages of offsite workers. The work-from-home experience has led to positive changes, including organizations witnessing increased trust, a flattening of hierarchies, and more rapid and agile decision-making. Yet, logistical challenges with communication, worker interaction, collaboration, fostering relationships, and consensus-building remain. Fundamental shifts in the employee/employer social contract (see section on talent management) further complicate this vexing risk.

**ECONOMIC AND POLITICAL VOLATILITY:** The continuing political and economic fallout from the pandemic drives this risk, pushing its Relevance-Capability Gap to 32 points.

According to a July 2021 U.S. Congressional Research Service report, emergence from the pandemic will be uneven globally, meaning continued economic volatility, particularly in developing countries.

“The economic impact of the pandemic is expected to lessen in developed economies where vaccinations are facilitating a return to pre-pandemic levels of activity. In developing countries, however, outbreaks of new viral variants could prolong the pandemic and dampen prospects of a recovery,” according to the report.

What’s more, a resurgence of COVID-19 cases brought on by new virus variants could prolong or create temporary setbacks in the recovery.<sup>5</sup>

*“We all ‘live’ culture, but understanding how to manage it and change it is a different beast altogether.”*

– CAE, Finance

*“Things were a breeze until 2008-2009. Now 2020-2021 into 2022, we’re expecting a lot of volatility...I don’t have strong feelings about where the economy is going, but we’re planning more now for major impacts like product shortages, delays, disruptions like that.”*

– C-suite, Finance

1: Kreznar, Christian, “Employers, Don’t Fear The ‘Great Resignation’—It’s Already Here,” *Forbes*, June 3, 2021.

2: Economic News Release, “Table 4. Quits levels and rates by industry and region, seasonally adjusted,” U.S. Bureau of Labor Statistics, Washington, D.C., <https://www.bls.gov/news.release/jolts.t04.htm>

3: Morgan, Kate, “The Great Resignation: How employers drove workers to quit,” BBC, July 1, 2021.

4: Microsoft 2021 Work Trend Index, <https://www.microsoft.com/en-us/worklab/work-trend-index/hybrid-work>

5: “Global Economic Effects of COVID-19,” U.S. Congressional Research Service, July 9, 2021, Washington, D.C.

Historically, political volatility has followed economic shocks, most recently in the wake of the 2007-2008 international financial crisis. In April, International Monetary Fund Managing Director Kristalina Georgieva warned that preexisting inequalities that have been exacerbated by the pandemic might lead not only to macroeconomic instability, but also greater polarization, the erosion of trust in governments, and growing social unrest.<sup>6</sup>

**DISRUPTIVE INNOVATION:** Disruptive Innovation presents one of the greatest risk management challenges for organizations, which is reflected in the considerable misalignment between boards and the C-suite as it relates to risk relevance and organizational capability. This also contributes greatly to the overall 32-point gap between risk relevance and organizational capability for the combined respondent ratings. Frustration at the board level is evident. Some respondents recognize they are not prepared for managing such challenges, including one healthcare board member who said, “We’re not innovative, change is very slow to happen. Everything is about bandaging... a preparedness and ability to adapt is not there.”

A retail board member expressed frustration relating to not being able to see beyond the risk horizon. “If we knew what [the disruptive innovation] would be, we would be working on it. But we don’t know what is coming.” However, the movement among senior executives toward building organizations that are more nimble and responsive to fast-moving and emerging risks could contribute to improvements in this risk area. The Netflix vs Blockbuster story provides a stark example of how recognizing and leveraging disruption can mean the difference between spectacular success and stunning failure.

Blockbuster pioneered and dominated video rental services through a vast network of brick-and-mortar stores. Indeed, it dismissed an offer to merge with the Netflix mail-order video service in 2000. However, just six years later, Netflix dominated online video rentals, with 6.3 million subscribers compared to 2 million subscribers for Blockbuster. In 2008, Netflix leadership again showed that it recognized how technology could disrupt its business model significantly and responded. It signed a deal to stream movies for Starz, and by 2010, it held a 20% share of North American viewing traffic after signing additional deals with Sony, Paramount, Lionsgate, and Disney. That same year, Blockbuster filed for bankruptcy.

<sup>6</sup>: Hammond, Andrew, “The world is facing even greater political upheaval in post-pandemic world,” *Arab News*, April 8, 2021.

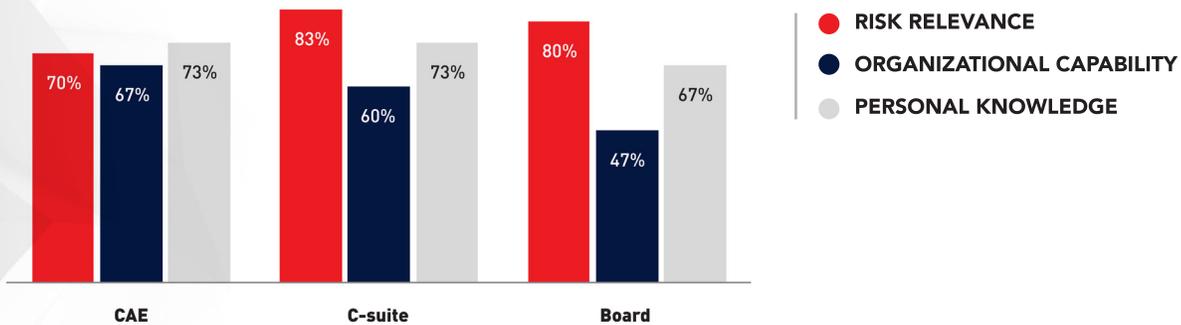


# PERCEPTIONS OF RISK RELEVANCE VARY GREATLY ACROSS ESG COMPONENTS

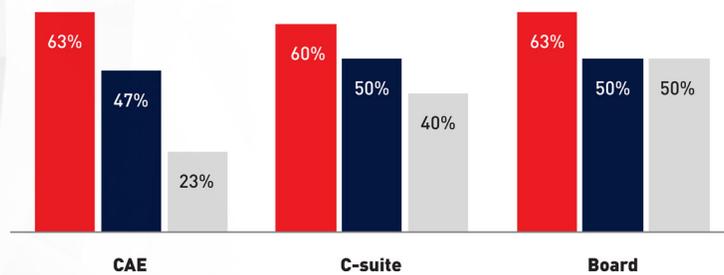
**OnRisk 2022 breaks out the three risk areas associated with ESG** — Environmental Sustainability, Social Sustainability, and Organizational Governance. Respondent ratings and responses clearly indicate Organizational Governance dominates over Social Sustainability and Environmental Sustainability in the minds of survey participants (Figure 4). In all three *OnRisk* measures — personal knowledge, organizational capability, and risk relevance — respondents rank Organizational Governance among the highest of all risks examined and well ahead of Social Sustainability and Environmental Sustainability risks.

**Figure 4:**  
**ESG MEASURES – COMPARING RELEVANCE, KNOWLEDGE, AND CAPABILITY TO ROLE**  
 Percentage who gave a rating of 6 or 7 on a scale of 1 to 7

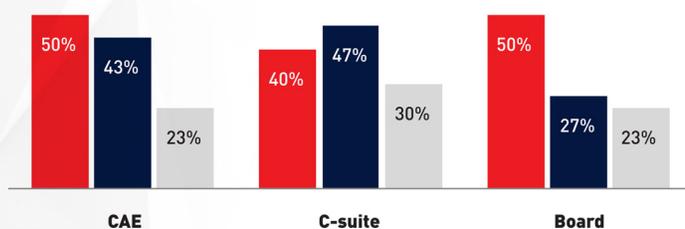
## ORGANIZATIONAL GOVERNANCE



## SOCIAL SUSTAINABILITY



## ENVIRONMENTAL SUSTAINABILITY



**Note:** *OnRisk 2022* interview questions: How knowledgeable are you about each of the following risks? How relevant are each of the following risks to your current organization? Overall, how capable is your company when it comes to handling enterprisewide risk? Respondents could choose a rating from a scale of 1 to 7, with 1 being the lowest (“not at all”) and 7 being the highest (“extremely”). n = 90.

This high ranking may be influenced by the broad relevance of Organizational Governance. Indeed, most organizations recognize the need and value of having strong risk controls across a spectrum of risks that affect the achievement of goals. It also may reflect often heroic and aligned efforts to respond to governance challenges created by the pandemic and the need for strong leadership to overcome those challenges. Further, it indicates a growing awareness of the benefits of risk alignment among key risk management players, which supports stronger organizational governance.

One manufacturing C-suite executive linked alignment with success. “We came to the conclusion that we were aligned... It showed how we are in line with most things, which I think helps us be successful.” Other comments reflect a growing awareness of the value of strong organizational governance and the dangers of weak governance:

*“For a lot of public companies, capability could be higher. Just look at some of the issues that arise...if everyone was really good at it, we wouldn’t be seeing so much breakdown in the structures at public companies.”*

– Board, Finance

*“We’ve now created a separate risk committee amongst our board. This has helped us to end up with some great documents regarding our organization’s handle on different risks.”*

– Board, Finance

*“How you plan for all of the other risks can be [attributed] to organizational governance... it’s extremely important and covers everything.”*

– Board, Finance

(See additional analysis of how the pandemic revealed opportunities to improve organizational risk management on page 19)

Advocates of corporate sustainability are quick to point to social and environmental sustainability being critical components to overall sound organizational governance. However, risk relevance rankings by *OnRisk* respondents did not reflect such clear associations. Indeed, Social Sustainability and Environmental Sustainability ranked in the bottom quartile in risk relevance. Despite widespread concern about climate change, fewer than half of respondents identified Environmental Sustainability as a highly relevant risk within their organizations. To be sure, comments from some respondents reflected a narrow scope of context relating to environmental sustainability.

*“People at our work eat, drink, use the bathroom, but we’re not producing toxins that they have to dump somewhere, so it’s not something that enters the conversation.”*

– C-suite, Technology

There has been growing awareness of ESG risks — as reflected in the growing number of organizations producing ESG reports and growing investor pressure for such reporting — but changes appear as likely to be driven by short-term considerations versus fundamental recognition of sustainability’s value. For example, Social Sustainability has become a focal point in the last 18 months due to global events and growing social activism, but Environmental Sustainability still lags.

Respondents believe a mix of real and artificial change is occurring and most think their organization is driving real change. However, comments from some respondents reflect a mix of short-term consideration and parochial mindsets.

One manufacturing C-suite executive associated the ESG movement more with marketing than with overall sustainability. “We have to have enough awareness to get through the door, get this bid, and get the job, but so far it seems like more of a gimmick for customers than a real market driven desire.”

However, others understand the value of managing environmental impacts, including a healthcare industry board member who lamented that such considerations must compete with other risks. “Most organizations want to have good environmental sustainability policies, procedures, and programs, but it is not always front and center when dealing with all these other risks.”

# PERCEPTIONS OF RISK RELEVANCE VARY GREATLY ACROSS ESG COMPONENTS

(Continued)

Other respondents expressed a more expansive view and understanding of how ESG components can work in concert within an organization.

*“Sustainability is going to be an absolute imperative in order to preserve, maintain, and grow wealth. This is like any other investment in business. These investments need to be made in order to protect and sustain the value that’s being created.”*

– Board, Finance

*“We need to have leaders that are open-minded to social sustainability change, that are willing to change and put in the work, or else change isn’t going to happen.”*

– CAE, Education

Organization size and maturity also were cited as potential limits to managing ESG risks. Limited resources make ESG risks — particularly those relating to E and S — lower priorities.

One C-suite executive from a nonprofit lamented, “I wish that we could be better with ESG, but it’s just not a priority. We’re a small business, so things like cybersecurity, organizational governance take precedence and environmental and social sustainability take the backseat. Some organizations are fortunate enough to have a team dedicated to ESG or even an employee working on it, but we’re stretched too thin as it is.”

The lack of clear direction or standards for measuring and reporting ESG also was cited as a deterrent. According to one finance CAE, “Having some sort of measurement for ESG would help to drive real change. You need to be taken accountable and show that real things are happening, and then also document and report on what is happening.”

However, a manufacturing industry CAE believes that companies that focus too much on reporting are missing the real benefit of ESG risk management. “The problem is that companies focused on reporting could be more artificial... they could be just checking the box, putting out reports to say they did it so that their stakeholders are happy. There needs to be more initiatives and actual activity occurring.”

## PANDEMIC REVEALED OPPORTUNITIES TO IMPROVE ORGANIZATIONAL RISK MANAGEMENT

**COVID-19 forced most organizations to focus to some degree** on how risk management efforts are aligned across their organizations. The pandemic may not have improved their ability to predict risks, but it increased confidence for many in reacting to risks. For some, it provided an opportunity to assess or reassess resilience. For others, it provided a wake-up call on how they manage risk and the dangers of decentralized or siloed conditions.

One nonprofit board member described how the pandemic proved to be eye-opening. “It has made us aware that there are scenarios that might happen in the future that we have to manage, and now we’re hyper aware of shortfalls of our risk approach.”

A retail industry board member, meanwhile, saw the good and bad in the pandemic-induced introspection. “It showed us that we weren’t really good at predicting risk, but I think we reacted very well. It made us aware of scenarios that might happen in the future and how we will handle them.”



# PANDEMIC REVEALED OPPORTUNITIES TO IMPROVE ORGANIZATIONAL RISK MANAGEMENT

(Continued)

*OnRisk* respondents also expressed concerns about alignment with third-party providers and partners. According to one education CAE, “There is the concern that third parties are not aligned on objectives, reporting, especially with risks like cybersecurity. Organizations should improve how they monitor third-party agreements, contract management, relationship building...a lot of time they’re just ‘getting it done,’ and not reflecting.”

As the world slowly emerges from more than a year of shuttered economies, homebound workforces, strained or disrupted supply lines, and sobering death tolls that top 4 million globally, early focus on post-COVID-19 risk management appears to be primarily short-term concerns.

“It definitely has impacted our perspective when it comes to risk. But I don’t think we have any concrete plans in place to change our risk strategy or anything long term yet. We’re focusing on getting our hybrid system set up and maintaining the health and safety of our employees,” said one government sector CAE.

Meanwhile, one technology C-suite executive described the struggle to simply keep the doors open. “We’re still in survival mode...we haven’t thought about permanent impacts of the pandemic. We never thought this would happen, so we’re just trying to get by.” For some, the pandemic offered a valuable lesson about how risks manifest across the organization. “COVID has taught us that we need to be more centralized and have an overarching strategy and guidance in place when it comes to risk management,” said one education sector CAE.

The complexity and dynamics of post-COVID-19 employer/employee relationships ranked high for many *OnRisk* respondents. The pandemic highlighted the importance of managing talent and culture. According to one real estate senior executive, “Our worry is about losing the culture with the new people. They never really got to experience [culture] because they go right from being hired to working from home.”

Long-term planning sessions are not top of mind for many, but respondents say they will focus more on contingency plans down the line.

“The reality is that most companies don’t have contingency plans at all. Now companies are going to have to work toward understanding contingency plans and the importance of assigning teams and positions to handle unexpected risk,” said one municipal board member.

## SENIOR EXECUTIVES AND BOARDS DESIRE BROADER SCOPE FOR INTERNAL AUDIT SERVICES

**For many organizations,** the COVID-19 experience raised awareness of not just the value of risk management alignment among key players, but also of the potential to leverage risk assurance beyond financial and compliance risks. *OnRisk* respondents expressed growing interest in expanded assurance over operational and enterprise risk, as well as the need to proactively address risks. These developments point to opportunities to leverage internal audit services even more, particularly in highly relevant risk areas such as Cybersecurity, Talent Management, and Organizational Governance. Overall, respondents feel that their current assurance services are adequate but suggest some improvements in assurance reporting.

“There was a time where we were misaligned because the auditor was focused on financial risks and not enterprise risk. An organization needs to cover both.”

– C-suite, Healthcare

As understanding and appreciation of enterprise risk management grows, so do demands on internal audit to expand its scope, identify shortfalls in risk coverage, monitor emerging risks, report clearly and concisely to stakeholders, and employ greater use of technology to provide robust risk management assurance.

One retail industry board member said it's time to broaden how internal audit is viewed within organizations. "Some people think that internal audit is too reactive and just dependent on the current needs at the moment. I think it's good to have internal audit thinking about the process, getting ahead, and identifying gaps."

A technology C-suite executive called on internal audit to expand its services to cover emerging risk areas. "Currently, our internal audit doesn't hit on some of these risks like environmental sustainability and change in regulatory environment."

Not all respondents feel internal audit is critical to adequate risk management assurance. According to one information technology C-suite executive, "We don't have internal audit, but we have external audit, and I believe it is adequate for what we need." While some organizations rely exclusively on external audit for risk management assurance, there are inherent risks in this myopic approach.

Relying on risk management assurance from external audit, which historically primarily focuses on financial reporting and compliance, is in itself risky. One technology C-suite executive articulated a more sophisticated approach to risk management, which adds needed perspective:

"We have a formal ERM process, with a person that leads annual reviews for the entire organization. Risks get rated, gaps get identified, and then the likelihood and significance as well as tolerance is determined. Two hundred risks are assessed and grouped together in different categories. I think because we have this process and our audit function is so tuned-in to risk, we have sufficient assurance."

*OnRisk* respondents said they want to see more consistency in assurance reporting, as well as better ways to communicate findings, including more data and analysis and tailored detail based on audience. One financial industry board member stressed the need to effectively present relevant and actionable risk information, "Some risk reports are maybe too detailed, which makes it difficult for extracting insights. Detail is good, but there should be summaries of relevant info for stakeholders, board members, etc."

Additionally, internal audit must demonstrate its ability to execute and add value during crises. According to one manufacturing C-suite executive, "I think of the fire drill analogy. It's easy to walk out calmly, single file, when you know there's no fire. Would we behave exactly as we did in real life?"

**CAE respondents to the OnRisk survey recognize the opportunity and need for internal audit to improve:**

*"You cannot do things alone...you have to have partnerships, that is how everybody succeeds. Rather than reporting and managing in silos, you should be consistent across the organization."*

–CAE, Government

*"We need to determine key risk indicators, measure those, reflect, re-address, re-report...it's a cycle."*

– CAE, Technology

*"There's always room for improvement in building more data analytics and assessing risk with more factual data."*

– CAE, Finance

# INSIGHTS AND ACTIONS – BOARD

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**The wisdom of board members expanding their personal knowledge** of risks beyond financial and compliance issues has never been more evident. Swift technological changes, disruptive innovation, dynamics of organizational governance, the pandemic, and its resulting economic and political shocks provide ample impetus for board members to expand how they view their risk management role.

**In the coming year, boards should:**

**IMPROVE THEIR KNOWLEDGE OF ECONOMIC AND POLITICAL VOLATILITY.** As noted earlier, this risk area could have profound long-term impacts that could reshape how business is done. (See “Risks to pay attention to going forward – Economic and Political Volatility” on page 12).

- *Board members should develop an understanding of how volatility in both the economy and politics could impact how their organizations operate.*
- *Boards should consider directing executive management to include volatility scenarios in crisis management plans and test such scenarios and responses.*

**PUSH EXECUTIVE MANAGEMENT AND INTERNAL AUDIT ON ESG RISK MANAGEMENT.** Organizations should prepare for enhanced regulatory requirements and/or investor expectations on ESG reporting. The U.S. Securities and Exchange Commission and other regulators have clearly signaled interest in greater regulation in this area. Beyond ESG reporting, boards should push for an enterprisewide approach to managing ESG risks.

- *Request an ESG risk assessment for the organization.*
- *Ask executive management what frameworks are used to determine adequacy of the organization’s ESG reporting.*
- *Ask internal audit to perform assurance or advisory services such as those relating to assessing the design and operating effectiveness of supporting ESG controls.*

**PUSH FOR MORE INFORMATION ABOUT CULTURE AND TALENT MANAGEMENT.**

- *Consider asking for an independent assessment of the organizational culture.*
- *Demand that executive management keep the board apprised of relevant talent management decisions and changes resulting from the pandemic.*

**EMPHASIZE THE IMPORTANCE OF ORGANIZATIONAL GOVERNANCE.**

- *Continually and consistently emphasize the importance of risk alignment among key risk management players.*
  - *Reject siloed or decentralized approaches to risk management.*
  - *Promote internal audit’s role in providing independent assurance over this risk area.*
-



# INSIGHTS AND ACTIONS – C-SUITE

---

**Executive management faces a myriad of risk management challenges** complicated by the 18-month battle against COVID-19. From business continuity and crisis management to long-term implications on talent management and culture, the impacts of the pandemic will have long, lingering effects on risks and risk management.

**In the coming year, executive management should:**

**BEEF UP ITS KNOWLEDGE OF ECONOMIC AND POLITICAL VOLATILITY.** As noted earlier, this risk area could have profound long-term impacts that could reshape how business is done. (See “Risks to pay attention to going forward – Economic and Political Volatility” on page 12).

## **BUILD AND PLAN TO MATURE PROCESSES AND CONTROLS AROUND ESG REPORTING.**

- *Leverage internal audit’s understanding of enterprise risk management and proven risk frameworks to help build effective ESG internal controls.*
- *Don’t wait for external auditors to give guidance or wait for regulators to establish rules.*
- *Direct internal audit to provide assurance on the effectiveness of existing ESG controls, particularly as they relate to ESG reporting.*

## **PROACTIVELY EDUCATE BOARDS ON TALENT MANAGEMENT AND CULTURE.**

- *Carefully implement and measure relevant talent management decisions, such as work arrangement preferences, and their effect on employee morale, productivity, and retention efforts.*
  - *Obtain internal audit’s input on return-to-workplace plans and related range of risks, including impact to culture.*
-

# INSIGHTS AND ACTIONS – CAEs

---

**In the midst of one of the most volatile and dynamic periods in a century**, stakeholders are signaling the need for greater assurance on risk management. Internal audit must respond.

In the coming year, CAEs should:

## **ANTICIPATE EMERGING ESG REPORTING REQUIREMENTS.**

- *Get ahead of any new requirements by understanding processes and controls in their own organization.*
- *Advocate for adoption of established sustainability frameworks.*
- *Leverage COSO's Internal Control – Integrated Framework to begin evaluation of controls around non-financial reporting.*

## **IMPROVE THEIR KNOWLEDGE OF ORGANIZATIONAL RISK AREAS WITH HIGH RELEVANCE-CAPABILITY GAPS.**

- *Identify any risk on the OnRisk list or company list where personal knowledge falls below a HIGH rating.*

## **ACT AS A CONDUIT BETWEEN BOARD AND EXECUTIVE MANAGEMENT WHEREVER MISALIGNMENT EXISTS.**

- *Perform organizational risk analysis, leveraging the OnRisk methodology.*
- *Determine alignment on risk areas that are most relevant for the organization.*
- *Concisely share relevant highlights from OnRisk 2022 with the board and executive management to foster dialogue on how the examined risks relate to their organization.*

## **SUPPORT GREATER FOCUS ON CULTURE AND TALENT MANAGEMENT RISKS.**

- *Be cognizant of potential misalignment as the organization transitions to a post-pandemic world.*
  - *Provide assurance or advisory services related to Culture or Talent Management. For example, support board or executive management in the analysis of data resulting from employee surveys, exit interviews, or diversity and inclusion initiatives.*
-

# METHODOLOGY

## Qualitative surveys measure organization alignment

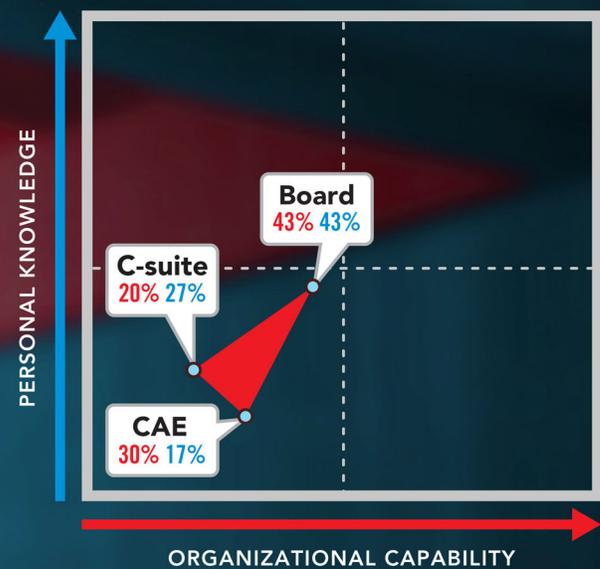
The *OnRisk 2022* report continues The IIA's groundbreaking approach in collecting stakeholder perspectives on risk and risk management in support of good governance and organizational success. The qualitative research provides a robust look at the top risks facing organizations in 2022. The report presents both objective data analysis and subjective insights based on responses from risk management leaders.

The qualitative survey is based on a total of 90 in-depth interviews with professionals in North American (U.S. and Canada) boardrooms, C-suites, and internal audit functions. The respondents came from 90 different organizations. As part of the interviews, respondents were asked to evaluate 12 key risks on three scales: Their personal awareness and knowledge of each risk, their perception of their organization's capability to address each risk, and their views of the relevance of each risk to their organization. The ratings were based on a seven-point scale, with "Not at all knowledgeable," "Extremely incapable" and "Not at all relevant" being the lowest ratings (1) and "Extremely knowledgeable," "Extremely capable" and "Extremely relevant" being the highest ratings (7).

The combined responses for the knowledge and capability ratings were then used to plot the position of each respondent group for each risk, where the X axis delineates perceived organizational capability, and the Y axis delineates personal knowledge of the risk (Figure 5). The triangle created by connecting each plot point offers a graphical depiction of alignment for each risk.

Figure 5:  
KNOWLEDGE AND CAPABILITY ALIGNMENT

Percentage who gave a rating of 6 or 7 on a scale 1 to 7

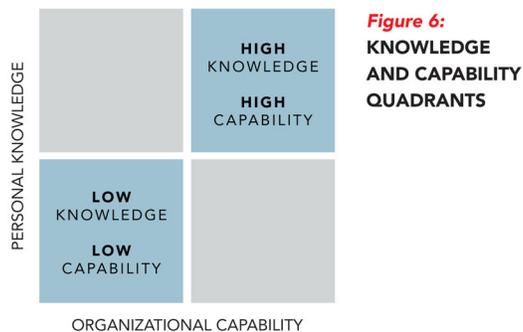


# HOW TO USE THIS REPORT

## Explanation of graphics

Based on in-depth interviews with 90 professionals, the personal knowledge and organizational capabilities of each of the three respondent groups were measured and plotted for each risk. The simple quadrant mapping provides an effective and consistent tool to reflect those views (Figure 6).

The four quadrants of the graph correspond to the magnitude of each of the two measures. For example, responses with a high average in knowledge and capability would be plotted in the top right quadrant. Conversely, responses with a low average for knowledge and capability would be plotted in the lower left quadrant. As described earlier, the averages are determined based on the percentage of respondents who provided a top 2 answer for each rating. (See “The OnRisk Approach” on page 4).



**Figure 6:**  
**KNOWLEDGE AND CAPABILITY QUADRANTS**

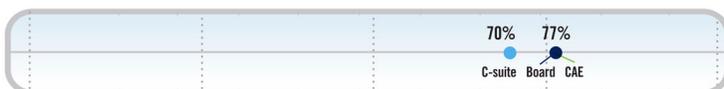
## Position plotting

Positions for each of the three respondent groups are plotted on the quadrant map not only to identify the relative knowledge and capability on each risk, but also to graphically illustrate any misalignment among the groups that may exist. The resulting triangles — referred to simply as alignment triangles in this report — provide a strong indicator of how well a risk is understood and managed. The size, shape, and location of each triangle also provides insights on what is driving any misalignment (See related sidebar).

## Risk Relevance graphic

Each respondent group’s rating on risk relevance is plotted on a single axis, providing a clear depiction of variations in the risk relevance rankings by board members, C-suite, and CAEs (Figure 7).

**Figure 7: RISK RELEVANCE RATING** Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



## Alignment Triangles: What do they mean?

The alignment triangles created by plotting each respondent group’s perspectives on each risk offer insights into how the risk is currently being managed. The shape of each triangle can provide valuable information, as well.



### SHORT AND NARROW

Triangles with this basic shape suggest strong alignment on what each group knows about a risk, but significant disagreement by one respondent group about the organization’s capability for addressing the risk.

### TALL AND NARROW

Conversely, triangles with this basic shape suggest significant range of knowledge among respondent groups, but strong alignment on their views on organizational capability.



### SHORT AND BROAD

This basic shape suggests disagreement by more than one respondent group, with the most significant disagreement relating to the organization’s capability to address the risk.



### TALL AND BROAD

This basic shape suggests misalignment by more than one respondent group, with significant disagreement on both knowledge and capability.



### SMALL AND SYMMETRICAL

This shape suggests strong alignment of all three respondent groups on knowledge and capability. Depending on the location of the triangle, this could reflect a risk that is well understood and managed (top right quadrant) or one that is not well understood or managed (lower left quadrant).

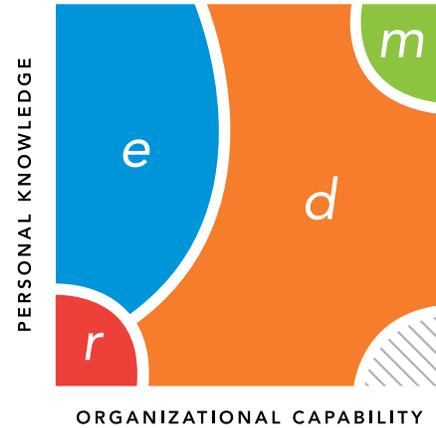


# RISK STAGES MODEL

In today's dynamic, technology-driven world, risks can emerge and mature, sometimes at breakneck speeds. The risks discussed in this report are grouped into one of four stages — Recognize, Explore, Develop, or Maintain — as they relate to the potential impact on organizations and what actions organizations should be taking to address them. The Risk Stages Model (Figure 8) reflects how risk management evolves within the organization on the same scale as the risk rankings — Personal Knowledge and Organizational Capability.

Additionally, the relevance of each risk should be understood as unique to each organization. Where each risk ranks in relevance depends on various factors, including the organization's size, industry, and type, as well as competition, maturity, position in the marketplace, supply chain, liquidity, and others. As noted earlier, there are likely risks not included in this analysis that have particular relevance to some organizations depending on their specific circumstances. Because of this unique aspect, risk relevance is not depicted in the Stages of Risk.

Figure 8:  
RISK STAGES MODEL

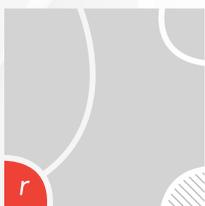


## Stages of Risk Explanation

### RECOGNIZE

A risk is perceived as emerging and knowledge of the risk among stakeholders is low. Risk response strategies are not implemented or are not assumed to be effectively designed given the low understanding of the underlying risk. Monitoring processes have not been contemplated. Inherent risk levels are not well understood.

Personal Knowledge - Low  
Organizational Capability - Low



### EXPLORE

Knowledge of the risk is growing among some stakeholders, but not by all. The risk may be perceived as emerging or dynamic. Risk response strategies have been contemplated, but not fully implemented. Monitoring processes have not been contemplated or are not implemented. Inherent risk levels are generally understood.

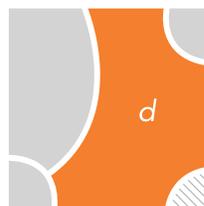
Personal Knowledge - Mid to High  
Organizational Capability - Low



### DEVELOP

Risk knowledge is high, at least with executive management teams. Risk response strategies may be developed or in process of being implemented. Monitoring processes may be in contemplation but are not likely to have been fully implemented. Residual risk is generally understood.

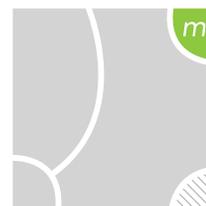
Personal Knowledge - Mid to High  
Organizational Capability - Low to High



### MAINTAIN

Risk is well understood by all relevant stakeholders and is not perceived to be changing significantly. Risk response strategies have been developed and implemented consistent with the perceived relevance of the risk. Monitoring processes are utilized to ensure risk response strategies are operating effectively as designed. Residual risk levels are understood and believed to be at an acceptable level for the organization.

Personal Knowledge - High  
Organizational Capability - High





The background features several large, textured, rectangular blocks in shades of blue, green, and yellow, arranged in a perspective view. A network diagram with white lines and red dots is overlaid on the right side. The overall aesthetic is modern and digital.

# THE

# RISKS

**This section examines key observations** related to individual risks. Each risk page provides a risk definition and brief overview based on the qualitative interviews; maps alignment among key risk management players on personal knowledge, organizational capability, and relevance; shares insightful quotes from interviewees on the risk; and identifies changes in the developmental stages of each risk from the previous year, where applicable.



# THE RISKS

## CYBERSECURITY

### Definition:

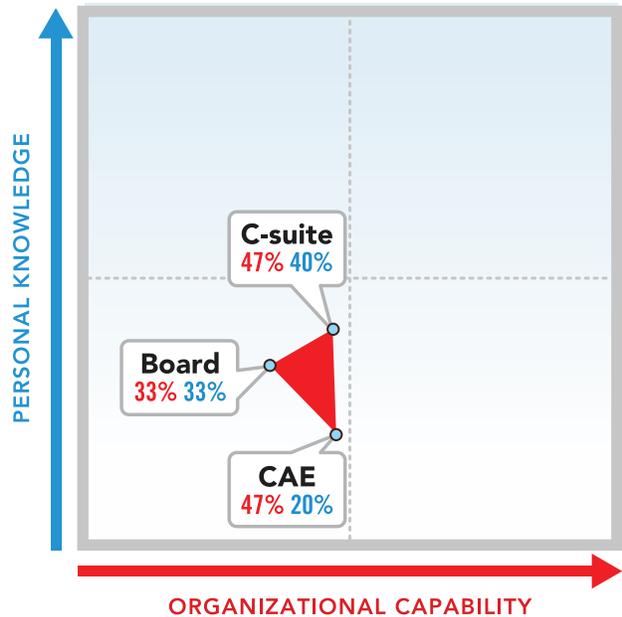
The growing sophistication and variety of cyberattacks continue to wreak havoc on organizations' brands and reputations, often resulting in disastrous financial impacts. This risk examines whether organizations are sufficiently prepared to manage cyber threats that could cause disruption and reputational harm.

### Analysis:

Nearly every member of executive management sees Cybersecurity as being highly relevant to their organization. However, personal knowledge of this highly impactful risk remains particularly low amongst all players, particularly CAEs. This low level of knowledge likely stems from the ever-evolving nature of cyber threats. Overall, a low percentage of respondents across all groups rated the capability of their organizations to manage Cybersecurity as high. In particular, few board members perceive their organization as being highly capable of managing Cybersecurity.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



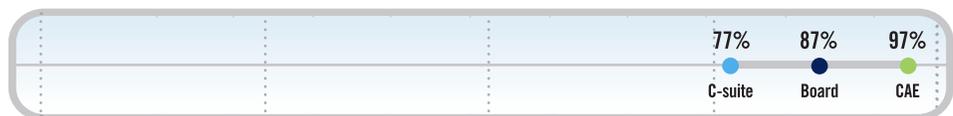
### Quotes:

"Cybersecurity risk is an ever-evolving risk. The architecture and planning processes that have been used to deal with [cybersecurity] have become more complex as technology has become more prevalent." –Board, Finance

"As we have witnessed with the pipeline hack this year, these cybersecurity attacks can have a huge trickle-down effect. All industries are susceptible to cybersecurity risk to some extent." –Board, Manufacturing

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Cybersecurity



# THE RISKS

# TALENT MANAGEMENT

## Definition:

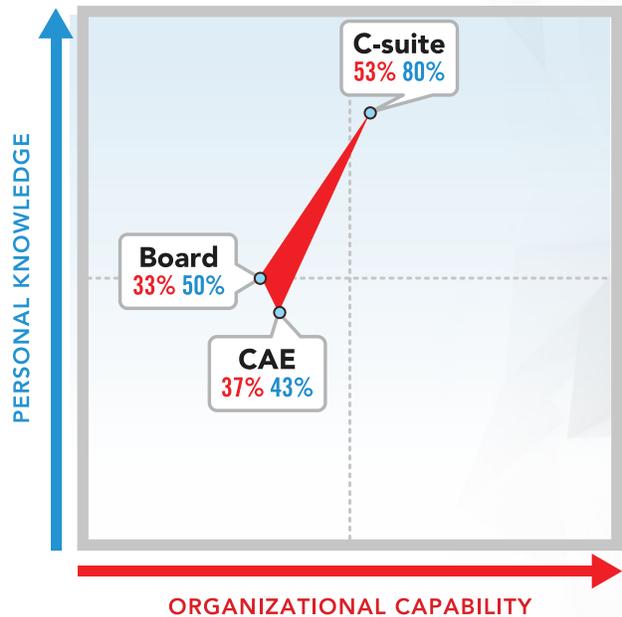
The increased need for and acceptance of remote operations, including working from home, as well as continued dynamic labor conditions are redefining how work gets done. This risk examines the challenges organizations face in identifying, acquiring, upskilling, and retaining the right talent to achieve their objectives.

## Analysis:

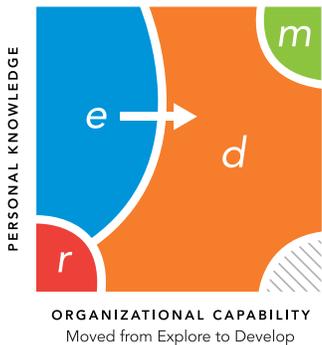
Despite all key management players seeing Talent Management as one of the most relevant risks to their organizations, perceptions of both personal knowledge and organizational capability remain relatively low for board members and CAEs. Senior executive perceptions of their personal knowledge and their organizations' capabilities in this space are much higher.

## KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



## RISK STAGE



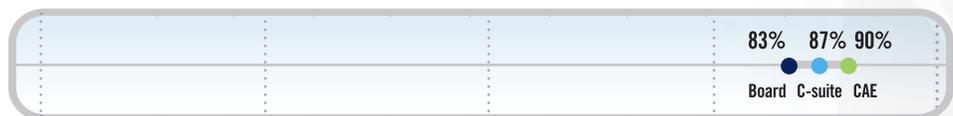
## Quotes:

"Companies are working so hard to survive...all strategies are out the window. When you don't get to see employees face-to-face, it's challenging."  
-Board, Government

"Hiring in this remote environment has allowed us to consider hiring without a geographic limitation. The question we are now asking ourselves is; do we hire a higher quality candidate to work fully remote, or do we hire a lesser candidate who is able to come into the office?" -CAE, Automotive

## RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
- Talent Management



# THE RISKS

## ORGANIZATIONAL GOVERNANCE

### Definition:

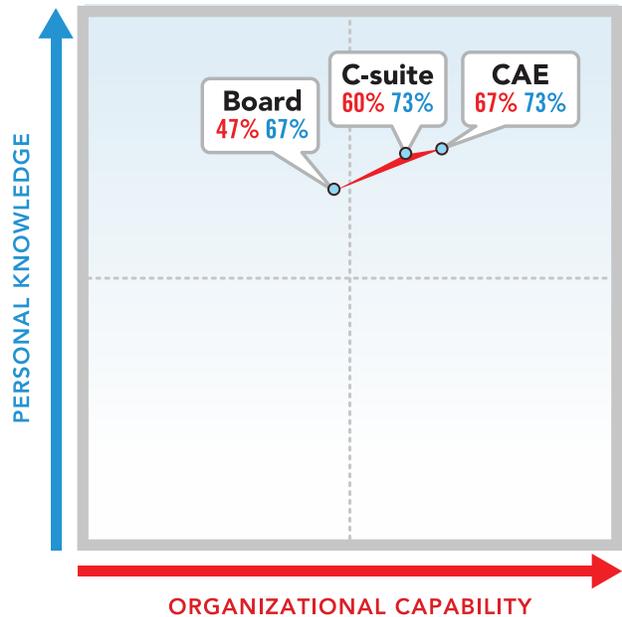
**Governance encompasses all aspects** of how an organization is directed and managed and the system of rules, practices, processes, and controls by which it operates. This risk examines whether organizations' governance assists or hinders achievement of objectives.

### Analysis:

**Personal knowledge** is high across all three risk management players of this relatively mature risk, which is widely regarded as highly relevant. However, significant misalignment exists on organizational capability to manage this important component of ESG. Fewer board members than senior executives rated their organizations as having high organizational capability for this risk area.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE

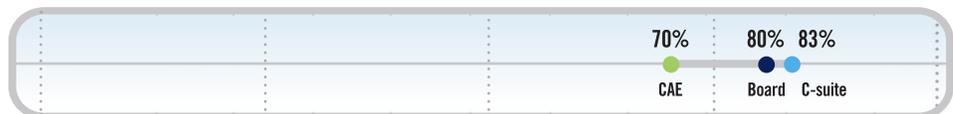


### Quotes:

- "How you plan for all of the other risks can be [attributed] to organizational governance... it's extremely important and covers everything." –C-suite, Manufacturing
- "For a lot of public companies, capability could be higher. Just look at some of the issues that arise...if everyone was really good at it, we wouldn't be seeing so much breakdown in the structures at public companies." –Board, Finance

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Organizational Governance



# THE RISKS

## DATA PRIVACY

### Definition:

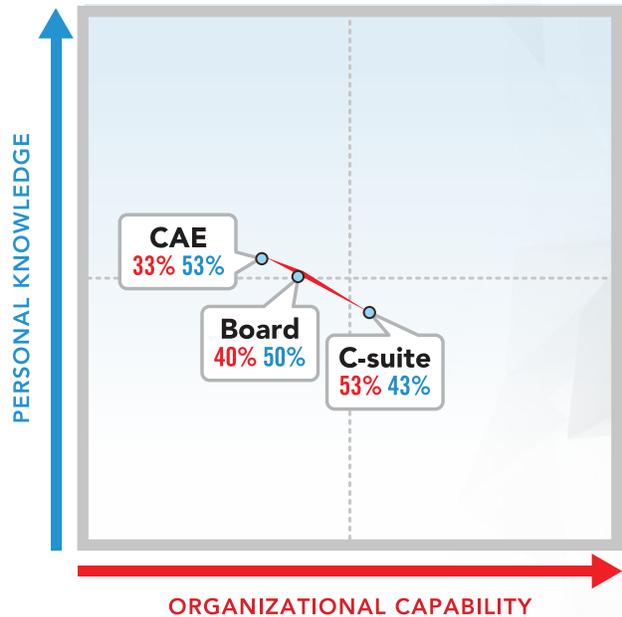
The growing list of regulations from jurisdictions around the world is making Data Privacy increasingly complex and dynamic. This risk examines how organizations protect sensitive data in their care and ensure compliance to all applicable laws and regulations.

### Analysis:

Despite having lower personal knowledge and lower perceptions of organizational relevance of this increasingly regulated risk, members of the C-suite have a higher perception of organizational capability than do either board members or CAEs.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



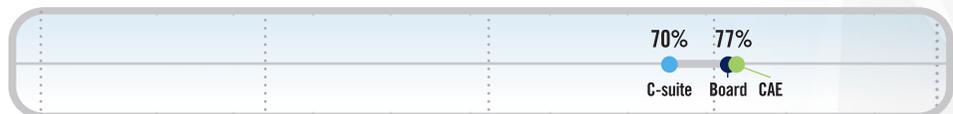
### Quotes:

"It's critical to have procedures in place to analyze, collect, and store data that are common practices throughout the organization." –CAE, Government

"I hear a ton about data privacy compared to 10 years ago, and I think it will grow in importance." –C-suite, Healthcare

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Data Privacy





# THE RISKS

## CULTURE

### Definition:

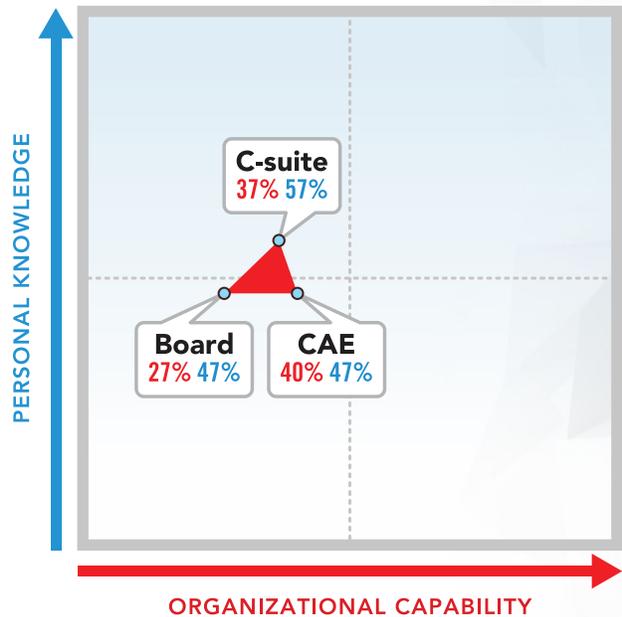
With an increasing percentage of professional employees working remotely full or part-time, organizations are challenged to maintain, enhance, or control their organizational culture. This risk examines whether organizations understand, monitor, and manage the tone, incentives, and actions that drive the desired behavior.

### Analysis:

There is strong alignment across all key risk management players regarding the relevance of Culture to organizational success. However, a gap exists between the number of board members who have high personal knowledge of this risk and senior executives who do. Similarly, fewer board members perceive their organizations as having a high capability to manage this risk, which is increasingly important to organizations as they emerge from the global pandemic.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



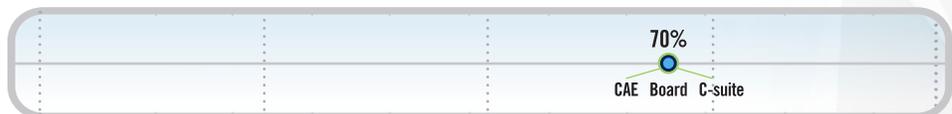
### Quotes:

"We all 'live' culture, but understanding how to manage it and change it is a different beast altogether." –CAE, Finance

"Our worry is about losing the culture with the new people. They never really got to experience [culture] because they go right from being hired to working from home." –C-suite, Real Estate

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Culture



# THE RISKS

## ECONOMIC AND POLITICAL VOLATILITY

### Definition:

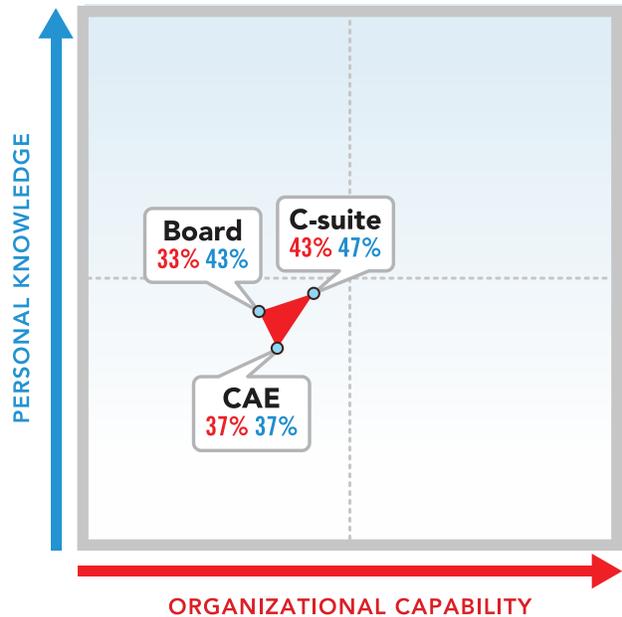
The ongoing impacts of the pandemic combined with the normal dynamics of macroeconomic cycles have the potential to create volatility in the markets in which organizations operate. This risk examines the challenges and uncertainties organizations face in a dynamic and potentially volatile economic and political environment.

### Analysis:

Overall, there is fairly strong alignment among executive management, board members, and chief audit executives across risk relevance, personal knowledge, and organizational capability. However, while more than two-thirds of all respondents saw the potential effects resulting from Economic and Political Volatility as having a high impact on their organizations, personal knowledge surrounding this risk and perceptions of organizational capability remain relatively low.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE

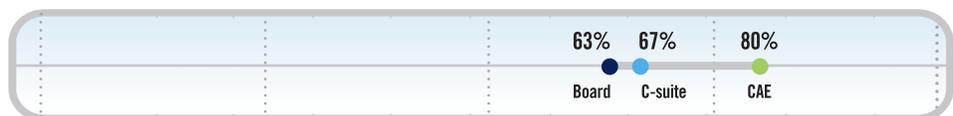


### Quote:

"Things were a breeze until 2008-2009. Now 2020-2021 into 2022, we're expecting a lot of volatility...I don't have strong feelings about where the economy is going, but we're planning more now for major impacts like product shortages, delays, disruptions like that." –C-suite, Finance

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– *Economical and Political Volatility*



## CHANGE IN REGULATORY ENVIRONMENT

### Definition:

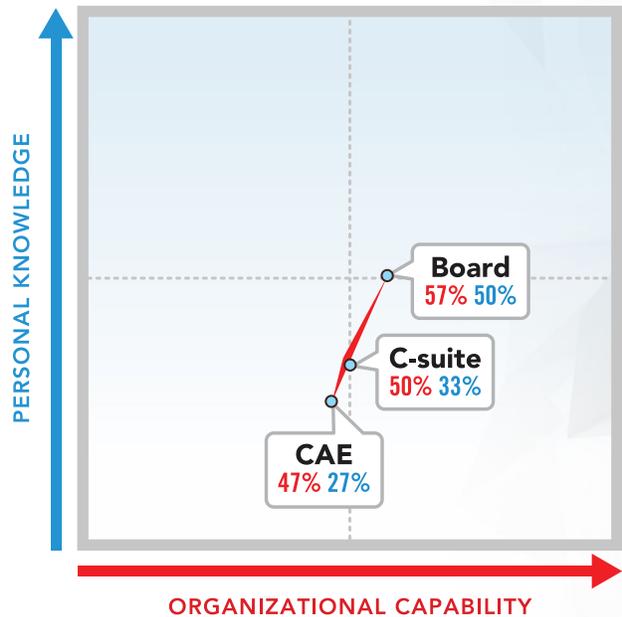
**Fundamental changes** in government appetite for regulation can have a significant impact on organizations, including those not considered heavily regulated. This risk examines the challenges organizations face in a dynamic and ambiguous regulatory environment.

### Analysis:

**Despite general alignment** on the increasing risk relevance of a changing regulatory environment, personal knowledge related to this risk is low, particularly for chief audit executives and C-suite. While personal knowledge is higher for this risk among board members, it is still lower than several other risks. Board members are somewhat more confident in the ability of their organizations to manage this important risk.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



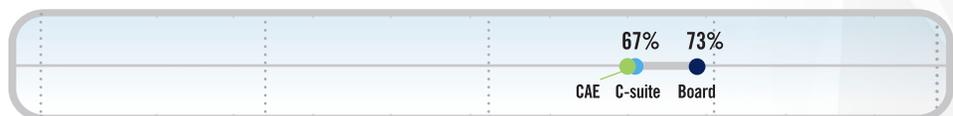
### Quotes:

"This could be a big issue for us and there is a real risk here. It is important for folks to keep their eyes on changing regulations." –CAE, Finance

"A lot of companies are reluctant to take a step forward unless forced to." –C-suite, Healthcare

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Change in Regulatory Environment



## SUPPLIER AND VENDOR MANAGEMENT

### Definition:

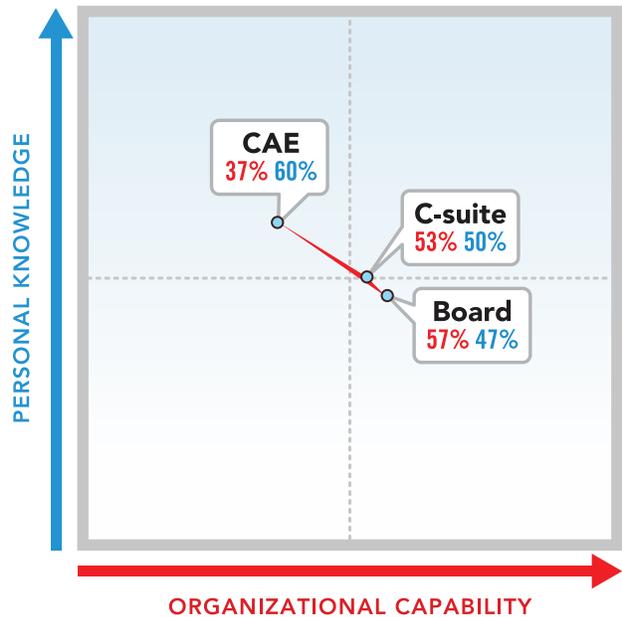
For an organization to be successful, it has to maintain healthy and fruitful relationships with its external business partners and vendors. This risk examines organizations' abilities to select and monitor third-party relationships.

### Analysis:

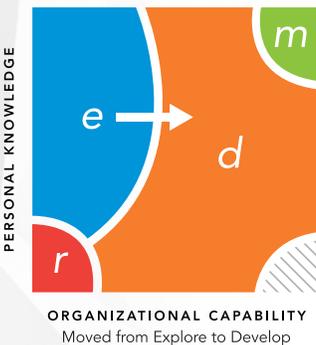
While more CAEs have high personal knowledge of this critical risk in an increasingly interconnected business environment, fewer perceive their organizations as having a high capability to manage this risk. This gap between CAEs and their stakeholders may be driven by a higher percentage of CAEs viewing this risk as being highly relevant to their organizations, likely stemming from publicly reported cyber threats, compliance-related issues, and other disruptive events arising from third-party relationships.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



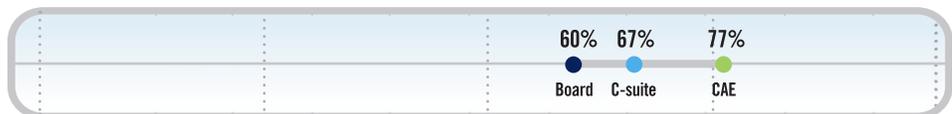
### Quotes:

"The challenge is how do we keep this relationship with these long-time vendors, and at the same time how do we go out and find what we need if that vendor cannot provide it." –C-suite, Manufacturing

"Our organization has really strong relationships...but I gave it a lower capability score because data privacy, protection, cybersecurity...those things are harder to manage with our suppliers." –CAE, Technology

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Supplier and Vendor Management



## DISRUPTIVE INNOVATION

### Definition:

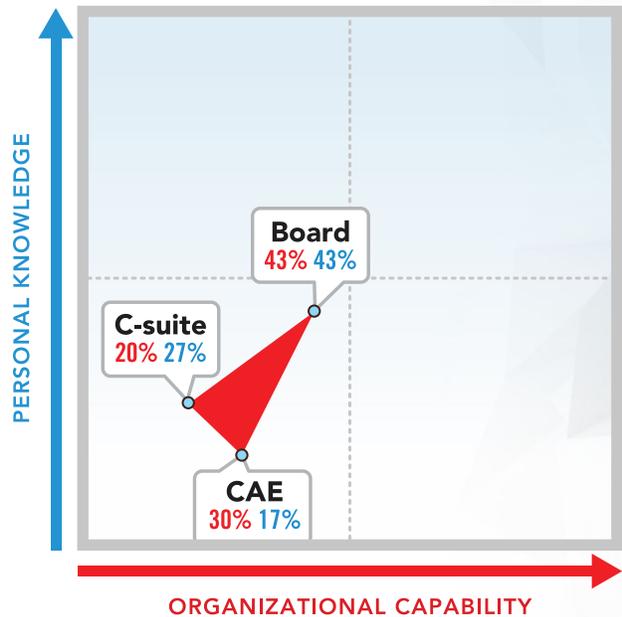
We are in an era of innovative business models, fueled by disruptive technologies. This risk examines whether organizations are prepared to adapt to and/or capitalize on disruption.

### Analysis:

There is a fairly wide gap between the percentage of board members who see this risk as highly relevant compared to C-suite executives who do. Further, more board members perceive their personal knowledge of this very important risk as being high. However, board members may be overconfident in organizations' capability to manage Disruptive Innovation as more board members see their organizations as having high capability to manage this risk than do members of the C-suite.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



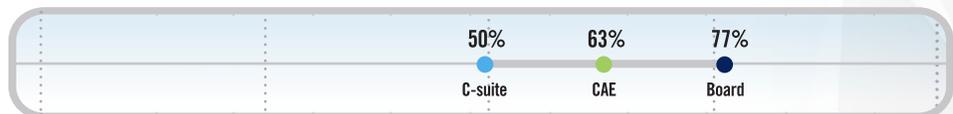
### Quotes:

"It's a matter of awareness and research...some [innovations] come and go but others hang around, like cryptocurrency." –C-suite, Nonprofit

"We're not innovative, change is very slow to happen. Everything is about bandaging... a preparedness and ability to adapt is not there." –Board, Healthcare

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Disruptive Innovation



# THE RISKS

## SOCIAL SUSTAINABILITY

### Definition:

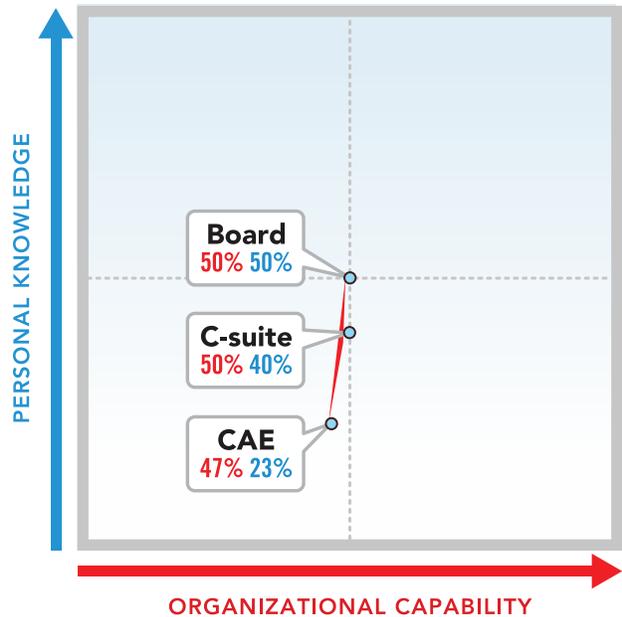
**Increasingly**, there is a recognition that organizations have significant influence on individuals who they employ, who work in their value chain, who consume their products and services, and who live in their communities. This risk examines the ability of organizations to understand and manage the direct and indirect impacts their actions have on individuals and communities.

### Analysis:

**Among the key risk management players**, there is very strong alignment on the risk relevance and perception of organizational capability for this fast-emerging risk that touches all industries. However, the CAE group significantly lags behind its stakeholder groups related to personal knowledge of this risk.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



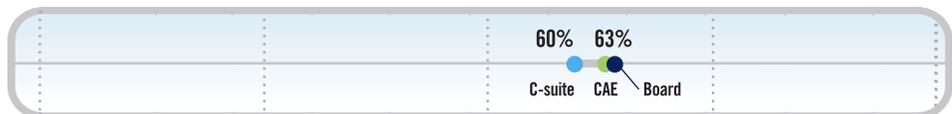
### Quote:

*"Sustainability is going to be an absolute imperative in order to preserve, maintain, and grow wealth. This is like any other investment in business. These investments need to be made in order to protect and sustain the value that's being created."*

–Board, Finance

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– *Social Sustainability*



## SUPPLY CHAIN DISRUPTION

### Definition:

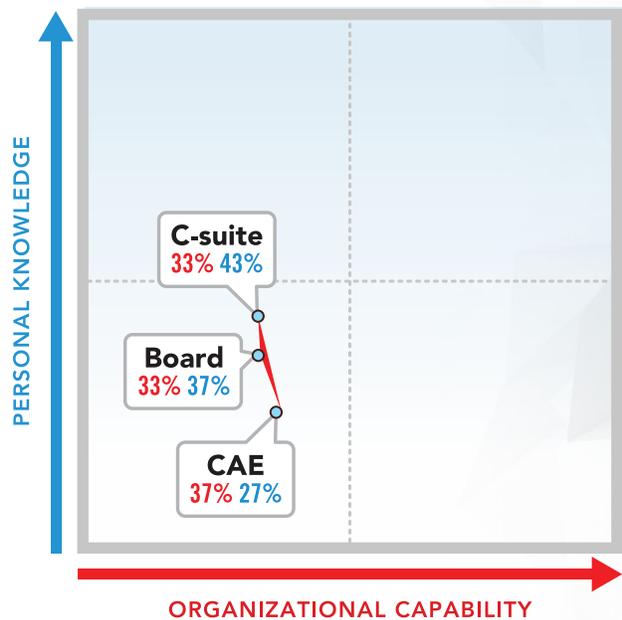
The disruption to business-as-usual operations globally, rooted in the global pandemic, has highlighted the need for resilience in supply chains in support of organizations' achievement of strategic objectives. This risk examines whether organizations have built in the flexibility to adapt to current and future supply chain disruptions.

### Analysis:

There is strong alignment among board members and senior executives with regard to the risk relevance of Supply Chain Disruption, with slightly more than half of these stakeholders seeing it as a highly relevant risk to their organizations. The CAE group lags behind in personal knowledge of this increasingly important risk in the global economy, which may be a result of fewer CAEs seeing this risk as highly relevant to their organizations.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



### Quotes:

"Borders closing down, and things like the Suez Canal getting plugged up have made us more in tune with supply chain issues."

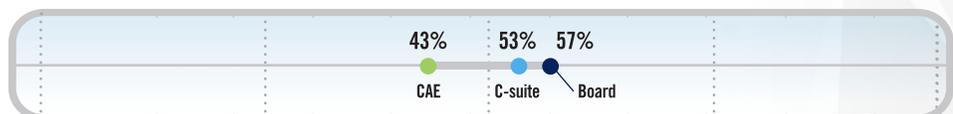
–CAE, Finance

"It used to just be what we thought about when we pulled up to the gas pump... now it's of importance across many industries."

–Board, Finance

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Supply Chain Disruption



# THE RISKS

## ENVIRONMENTAL SUSTAINABILITY

### Definition:

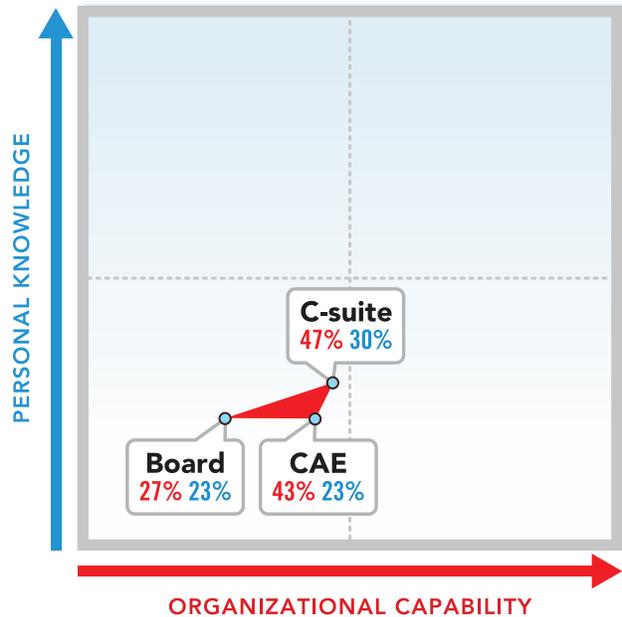
**Organizations are facing increased pressure** from stakeholders, including shareholders, regulators, customers, and employees, to evaluate and disclose how they are impacting the environment in which they operate. This risk examines the ability of organizations to reliably measure, evaluate, and accurately report on their environmental impacts.

### Analysis:

**While there is fairly strong alignment in this area,** relatively few respondents, particularly senior executives, see this quickly emerging risk as one that could be highly relevant to their organizations. Personal knowledge across all groups was also quite low. Fewer board members believe that their organizations have high capability to manage Environmental Sustainability risks.

### KNOWLEDGE AND CAPABILITY

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7



### RISK STAGE



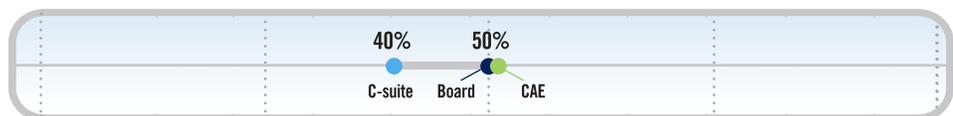
### Quotes:

*“There is the issue of measurement for every organization. There’s a lack of standardized measurement and reporting in this area which creates confusion.”*  
–CAE, Healthcare

*“Most organizations want to have good environmental sustainability policies, procedures, and programs, but it is not always front and center when dealing with all these other risks.”* –Board, Healthcare

### RISK RELEVANCE

Percentage who gave a rating of 6 or 7 on a scale of 1 to 7  
– Environmental Sustainability







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#### **About The IIA**

The Institute of Internal Auditors (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 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit [www.globaliia.org](http://www.globaliia.org).

#### **Disclaimer**

The IIA publishes this document for informational and educational purposes. This 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 seeking independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this material.

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**The Institute of  
Internal Auditors**

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April 15, 2022

To: LACERA Audit Committee

CC: Richard Bendall, CAE

From: Robert Griffin, Audit Committee Consultant

Re: Overview of survey of retirement systems results

I was charged by the Audit Committee at its February 17, 2022 meeting to conduct an informal survey of some similar retirement systems to provide information to the committee members on the various system internal audit functions. I am providing this report on the results.

Please note that only two systems, CALPERS and NYSTRS, responded to our inquiries. I used email and telephone to contact the responsible audit executive to request the data without much success. I also used each system's website to glean available information. Current financial info was available on each website. This allowed us to obtain asset and members statistics. Information on the number and type of auditors were obtained using available data, which was primarily from the system, from the Association of Public Pension Fund Auditors (APPFA) or from public info available on their respective websites. I have made every effort to provide accurate and the most current data available.

There are factors that may impact some of the data. For example, some agencies appear to have larger audit staffs because they have a number of employer auditors. Additionally, the internal audit function may have additional roles and responsibilities beyond internal audit.

The chart provides a snapshot of the audit functions in very large public employee pension systems. It does not disclose other issues that impact the size of the staff and budget of an audit function, such as the internal control environment or the amount of internal audit work outsourced to third parties.

I believe this high-level view provides some perspective as to the nature of the internal audit functions in other large peer plans.

I plan to provide comments regarding this information at the upcoming Audit Committee meeting.

---

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Email: [rgriffin@wacllp.com](mailto:rgriffin@wacllp.com)**

# SURVEY OF INTERNAL AUDIT FUNCTIONS OF PENSION FUNDS

(BASED ON AVAILABLE DATA)

Pension Fund	Total Assets	Total members	Total Internal Audit Staff	Employer auditors included in total	Specialized IA staff	Total fund employees
LACERA	\$77.9 billion	186,000	10	-	no	450
CALSTRS	\$353 billion	981,000	33	22	no	1,094
CALPERS	\$494 billion	2.1 million	65	Yes ( thought to be 35)	yes	2,872
CO Public Employees	\$61 billion	631,000	6	unknown	unknown	292
NY State Teachers	\$149 billion	435,000	10	unknown	unknown	370
Illinois Retirement	\$24 billion	167,000	8	unknown	unknown	191
Florida Bd. of Admin	\$210 billion	1.1 million	7	-	yes	200
Texas Teachers	\$223 billion	220,000	14	unknown	yes	600
	Note- Please refer to the attached transmittal memo for source of data and conclusions.					



April 15, 2022

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

Audit Committee Consultant  
Robert H. Griffin

FROM: Leisha E. Collins   
Principal Internal Auditor

FOR: May 9, 2022 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up of Internal Audit's External Quality Assessment**

#### **BACKGROUND**

At the March 2022 Audit Committee meeting, the Institute of Internal Auditors Quality Services (Quality Services) presented its report (Attachment A) of Internal Audit's External Quality Assessment (EQA). The primary objectives of the EQA included the following:

- Assessing Internal Audit's conformance to the Institute of Internal Audit (IIA) International Standards for the Professional Practice of Internal Auditing (Standards)
- Evaluating Internal Audit's effectiveness in carrying out its mission
- Identifying leading practices and opportunities to enhance Internal Audit's management and work processes

Quality Services found that Internal Audit generally conforms to the Standards. This opinion, which is the highest of three possible ratings, means that policies, procedures, and practices are in place to implement the Standards and other requirements necessary for ensuring a professional Internal Audit activity.

As part of the EQA, the Quality Services team also identified opportunities for improvements and reported twenty-three recommendations to assist Internal Audit in more fully complying with the Standards and providing enhanced services to LACERA. Staff provided action plans to address each of the recommendations which were included in the EQA Report. Staff will provide the Committee quarterly updates on implementation until all recommendations have been addressed.

**STATUS OF RECOMMENDATIONS**

As of March 31, 2022, Internal Audit has implemented six of the twenty-three recommendations, as indicated in Table 1 below. Staff are currently on track to address the remaining seventeen recommendations by their target due dates. Refer to Attachment B for a listing of all twenty-three recommendations and the status of each.

Table 1 – Completed Recommendations

Reco Ref.	Observation	Recommendation	Implementation
1.2	Internal Audit (IA) did conduct a periodic internal assessment and reported the results to the Audit Committee. However, workpapers to support the assessment were not maintained and available for review.	Adequately document the work performed for the Internal Periodic Assessment.	IA developed formal Internal Periodic Assessment procedures and established due dates for completion and required documentation in Teammate (TM).
2.	IA's most recent EQA was completed in 2016. With the completion of this assessment, Internal Audit comes into conformance with this Standards.	Assure an EQA is conducted at least every 5 years	IA has developed a plan and timeline to ensure the next EQA is conducted within 5 years.
3.	Internal Audit continued to use the statement even though an external QA as not conducted at least once every five years	Refrain from using Conformance Statement without external quality assessment confirming conformance.	IA refrained from using the Conformance Statement until the EQA Report was issued. Audit Reports issued after 2/18/22 include the statement.
4.2	Engagement documentation reviewed for this assessment was limited due to: 1) the structure of engagement files that were converted into TM, 2) the changing and maturing of IA procedures during the period of review, and 3) lack of centralized and complete procedures to outline the intended documentation practices.	Align the end of audit quality review checklist to the IIA's QAIP's Internal Audit Process Program Guide.	IA has developed internal procedures that align the post-audit quality review checklist with the IIA QAIP Program Guide.
4.3	Same as 4.2	Continue to reinforce intended procedural standards in the monthly IA quality team meetings.	IA continues to reinforce standards in monthly QAIP meetings. The most recent meeting was in March 2022.
9	We reviewed a limited number of audit workpapers and queried IA management on their engagement-level planning process. IA management demonstrated an awareness for the potential of fraud and outlined the steps they follow to evaluate the potential for fraud in the engagement. However, evidence of conclusions could be more fully documented in the work papers	Move forward with enhancing policies and procedures to better document and support engagement-level fraud risk assessment.	IA has enhanced audit process procedures to more effectively document and support engagement-level fraud risk assessment. The updated processes are included in the IA Operations Guide.

LEC

Attachments

- A. IIA Quality Services' Quality Assessment Report
- B. Status of All Recommendations

Noted and Reviewed:



Richard P. Bendall  
Chief Audit Executive



A REPORT PRESENTED TO  
LOS ANGELES COUNTY  
EMPLOYEES RETIREMENT  
ASSOCIATION (LACERA)

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# QUALITY ASSESSMENT REPORT

Prepared February 18, 2022

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## Los Angeles County Employees Retirement Association

This Internal Audit Department **Generally Conforms** to the *International Standards for the Professional Practices of Internal Auditing* and the IIA Code of Ethics.

A Generally Conforms rating means the internal audit activity conforms to the requirements of the Standards and elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects. This rating does not imply full conformance and is achievable even when some areas of the Standards are determined to be in partial conformance.

GOVERNANCE		STAFF		MANAGEMENT		PROCESS	
Standard	Rating	Standard	Rating	Standard	Rating	Standard	Rating
1000	GC	1200	GC	2000	GC	2200	GC
1100	GC			2100	GC	2300	GC
1300	GC			2450	GC	2400	GC
Code of Ethics	GC			2600	GC	2500	GC



*Steve Goodson*  
Steve Goodson, CIA  
Team Leader  
IIA Quality Services, LLC

Team Members:  
Anne Etter  
Hardy Patton

*Bill Radish*  
Bill Radish  
Director, IIA Quality Services  
IIA Quality Services, LLC

# List of Acronyms

ACRONYM	DESCRIPTION
CAATs	Computer-Assisted Audit Techniques
CAE	Chief Audit Executive
CPE	Continuing Professional Education
EQA	External Quality Assessment
IA	Internal Audit
IIA	The Institute of Internal Auditors
Internal Audit	Internal Audit Department
IPPF	International Professional Practices Framework
IT	Information Technology
QAIP	Quality Assurance and Improvement Program
<i>Quality Assessment Manual</i>	<i>Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition</i>
<i>Standards</i>	<i>International Standards for the Professional Practice of Internal Auditing</i>
SWOT	Strengths, Weaknesses, Opportunities, and Threats

# Executive Summary

# Conformance Summary

## STANDARDS AND THE IIA CODE OF ETHICS

		GC	PC	DNC
<b>ATTRIBUTE STANDARDS</b>				
<b>1000 - Purpose, Authority, and Responsibility</b>		X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
<b>1100 - Independence and Objectivity</b>		X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
<b>1200 - Proficiency and Due Professional Care</b>		X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
<b>1300 - Quality Assurance and Improvement Program (QAIP)</b>		X		
1310	Requirements of the QAIP	X		
1311	Internal Assessments		X	
1312	External Assessments		X	
1320	Reporting on the QAIP	X		
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Statement		X	
1322	Disclosure of Nonconformance	X		
<b>PERFORMANCE STANDARDS</b>				
<b>2000 - Managing the Internal Audit Activity</b>		X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		

		GC	PC	DNC
<b>PERFORMANCE STANDARDS (CONTINUED)</b>				
<b>2100 - Nature of Work</b>		X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
<b>2200 - Engagement Planning</b>		X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Programs	X		
<b>2300 - Performing the Engagement</b>		X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information		X	
2340	Engagement Supervision		X	
<b>2400 - Communicating Results</b>		X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"		X	
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
<b>2500 - Monitoring Progress</b>		X		
<b>2600 - Communicating the Acceptance of Risks</b>		X		
<b>IIA CODE OF ETHICS</b>				
Code of Ethics		X		
<b>OVERALL CONFORMANCE RATING</b>		X		

# Overall Opinion

## OPINION AS TO CONFORMANCE WITH THE *STANDARDS* AND THE IIA CODE OF ETHICS

**The internal audit activity at Los Angeles County Employees Retirement Association (LACERA) Generally Conforms with the Standards and the IIA Code of Ethics. A Generally Conforms rating means the internal audit activity conforms to the requirements of the Standards and elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects. This rating does not imply full conformance and is achievable even when some areas of the Standards are determined to be in partial conformance.**

A summary of conformance with individual *Standards* and the IIA Code of Ethics is provided within the “Conformance Summary” section of this report. Upon issuance of this report, Internal Audit may use the phrases “Conforms with the *International Standards for the Professional Practice of Internal Auditing*” and “Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” within its practice materials and/or audit reports.

The IIA *Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition (Quality Assessment Manual)* suggests a scale of three ratings, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” Detailed rating definitions and criteria associated with “Generally Conforms,” “Partially Conforms,” and “Does Not Conform” are described within Appendix A of this report and are consistent with IIA guidance stated in its *Quality Assessment Manual*.

Under the *Standards*, an External Quality Assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or an independent assessment team from outside the organization. IIA Quality Services, LLC was selected to lead this assessment. This engagement’s Assessment Team demonstrated competence in both the professional practice of internal auditing and the EQA process as required by the *Standards*. The External Quality Assessment was conducted virtually primarily during the week of February 7, 2022. Conclusions were as of February 11, 2022.

Future changes in external factors and actions taken by personnel, including actions taken to address our recommendations, may have an impact upon the operation of Internal Audit in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the observations and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions. All information included in this report is proprietary and confidential and is intended for internal use only. This report may not be distributed to any other third-party (other than your regulator, Audit Committee, or external auditor) without the prior written consent of IIA Quality Services, LLC.

# Objectives, Scope, and Methodology

## OBJECTIVES

The primary objective of this assessment was to evaluate conformance to the *Standards*, which require an EQA of an internal audit activity at least every five years. In addition, the Assessment Team:

- Assessed conformance with the IIA Code of Ethics
- Assessed Internal Audit's effectiveness in providing assurance and advisory services to stakeholders and other interested parties
- Identified opportunities, offered recommendations for improvement, and provided counsel to Internal Audit for improving its performance and services, as well as promoting its image and credibility throughout the organization

## SCOPE

The scope of this assessment included an evaluation of Internal Audit's efficiency and effectiveness in executing its mission, as set forth by the Internal Audit Charter, which defines the purpose, authority, responsibilities, and accountabilities of Internal Audit.

## METHODOLOGY

To accomplish the aforementioned objectives, the Assessment Team:

- Reviewed information prepared by Internal Audit at the Assessment Team's request
- Conducted interviews with key stakeholders of Internal Audit including board members, senior executives, the external auditors, the Chief Audit Executive (CAE), and members of the Internal Audit function
- Reviewed a limited sample of audit projects and associated work papers and reports
- Reviewed survey data received from Internal Audit stakeholders resulting from IIA Quality Services' survey process
- Reviewed benchmark data
- Prepared diagnostic tools consistent with the methodology established for an EQA as stated in the *Quality Assessment Manual*

# Observations Specific to Internal Audit

## OVERALL SUMMARY

The internal audit activity at Los Angeles County Employees Retirement Association (LACERA) Generally Conforms with the Standards and the IIA Code of Ethics. A conformance rating of Generally Conforms (GC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity conforms to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual *Standards* and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

While LACERA Internal Audit Generally Conforms with the Standards and the IIA Code of Ethics, Internal Audit received a rating of Partially Conforms for six Standards resulting in five Conformance Gaps:

1311	Internal Assessments
1312 -	External Assessments
1321/2430 -	Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”
2330 -	Documenting Information
2340 -	Engagement Supervision

These Conformance Gaps are discussed in the Detailed Observations section of this report along with six leading practices and eight opportunities to improvement. Of note, Internal Audit has recently implemented a comprehensive follow-up process that provides the Audit Committee and management valuable insight into efforts to implement internal audit recommendations. Lastly, multiple additional opportunities to improve the audit activity that did not raise to the level of reporting were discussed with the Chief Audit Executive and his management team.

# Detailed Observations

# Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

#	STANDARD	SUCCESSFUL PRACTICE
SP01	1220 – Due Professional Care 1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.	LACERA IA has well-credentialed staff. Many staff members hold multiple certifications in the areas of internal auditing, fraud, accounting, data analytics, and information technology.  Internal Audit has employed data analytics tool to assist with engagements.  LACERA supports staff continuing professional development and provides an annual bonus for certified staff.
SP02	1312 External Assessments	A commitment to quality is demonstrated by engaging this external assessment.  See separate conformance gap 1312 External Assessments.
SP03	2330 - Documenting Information Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.	The department is making good use of TeamMate for Audit Planning and Working Papers.  See separate opportunities related to: 2330 - Documenting Information 2340 - Engagement Supervision
SP04	2120 – Risk Management The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.	Internal audit conducts a robust annual risk assessment and planning effort prior to developing their annual plan. The effort includes interviews and discussions with key stakeholders and an evaluation of external leadership using the IIA's "On Risk" annual report.  See separate opportunity related to: 2010 – Planning 2030 – Resource Management



# Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

#	STANDARD	SUCCESSFUL PRACTICE
SP05	Leading Practice – Management and Audit Committee Relations	Management and the Audit Committee are engaged with Internal Audit. Overall, Internal Audit is commonly viewed as value adding and as having positive relationships with management.
SP06	Leading Practice – Thought Leadership	LACERA IA shares risk intelligence and benchmarking thought-leadership with the board audit committee using the IIA's report "On Risk." This annual report offers boardroom, C-suite, and internal audit annual perspectives on risk to challenge and extend management and the board's view on risk, see <a href="https://www.theiaa.org/OnRisk">https://www.theiaa.org/OnRisk</a> . LACERA IA could consider including views of risk sourced from industry publications, public accounting firms, and other internal auditing service providers to broaden the landscape of thought-leadership presented to the board audit committee during IA's annual risk assessment.



# Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG01	<p>1311 Internal Assessments</p> <p>Internal assessments must include:</p> <ul style="list-style-type: none"> <li>• Ongoing monitoring of the performance of the internal audit activity.</li> <li>• Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices</li> </ul>	<p>Ongoing monitoring of engagements is conducted, but can be improved. Ongoing monitoring of performance is discussed under the opportunity for 2340 - Engagement Supervision</p> <p>Internal Audit did conduct a periodic internal assessment and reported the results to the Audit Committee. However, workpapers to support the assessment were not maintained and available for review.</p> <p>Key Performance Indicators (KPI) are vital for monitoring the performance of the overall internal audit activity. Several indicators are routinely tracked and communicated to the Audit Committee such as:</p> <ul style="list-style-type: none"> <li>• Audit Plan Completion</li> <li>• Internal Audit Coverage of the Organization</li> <li>• Engagement-level audit cycle time</li> </ul> <p>Internal Audit has an opportunity, working with the Audit Committee and Executive Management, to establish KPIs that will be meaningful to these stakeholders. Establishing goals for each KPI will help Internal Audit target their efforts to accomplish the metrics.</p>	<p>Recommendation #1:</p> <ol style="list-style-type: none"> <li>Work with the Committee and Executive Management to establish meaningful KPIs and measurable goals related to each.</li> <li>Adequately document the work performed for the Internal Periodic Assessment.</li> <li>This effort could be included in Internal Audit's to be developed Strategic Plan, see IO05.</li> </ol>	<p>Recommendation #1 – Management Responses and Action Plans:</p> <ol style="list-style-type: none"> <li>Internal Audit (IA) management agrees with the recommendation and will discuss KPIs with the Executive Office and Audit Committee (AC) Chair in developing meaningful and measurable KPIs. We will then establish KPIs which we will report in the Audit Plan Status Report presented at AC meetings. Due Date: 8/30/22</li> <li>IA management agrees with the recommendation and will develop formalized Internal Periodic Assessment and establish due dates for completion. Due Date: 3/31/22</li> <li>IA management agrees with the recommendation and will include these efforts in our Strategic Plan. Due Date 10/31/22</li> </ol>

# Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG02	1312 External Assessments External assessments must be conducted at least once every five years.	Internal Audit's most recent external quality assessment was completed in 2016. With the completion of this assessment, Internal Audit comes into conformance with this Standard	Recommendation #2:  Assure an EQA is conducted at least every 5 years.	Management Response and Action Plan Recommendation #2:  IA management agrees with the recommendation and will ensure that the next EQA is conducted within 5 years.  Due Date: Implemented
CG03	1321 & 2430 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"  Indicating that engagements and the internal audit activity are "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.	Internal Audit continued to use the statement even though an external QA as not conducted at least once every five years.	Recommendation #3:  Refrain from using Conformance Statement without external quality assessment confirming conformance.	Management Response and Action Plan Recommendation #3:  IA management agrees with the recommendation and will not use the Conformance Statement until the Final EQA Report is issued.  Due Date: Implemented



# Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG04	2330 - Documenting Information Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.	<p>Engagement documentation reviewed for this assessment was limited due to:</p> <ul style="list-style-type: none"> <li>a) The structure of engagement files that were converted into TeamMate+ (TM),</li> <li>b) The changing and maturing of departmental procedures during the period of review, and</li> <li>c) A lack of centralized and complete procedures to outline the intended documentation practices.</li> </ul> <p>Our review primarily focused on a limited sample of one engagement that had followed current and intended departmental practice and which was fully completed within the new TM file structure.</p> <p>We also reviewed additional historical files to assess and confirm observations related to the 2200 series performance standards gaps and opportunities that are noted in this report.</p>	<p>Recommendation# 4:</p> <p>Improve the quality and consistency of engagement working papers.</p> <p>In addition to the new file structure and process templates warehoused in TeamMate+, we strongly recommend the following actions be taken by Internal Audit to improve the quality and consistency of working paper documentation:</p> <ul style="list-style-type: none"> <li>a. Document the intended work paper practices in the departmental manual.</li> <li>b. Align the end of audit quality review checklist to the steps in the IIA's QAIP's Internal Audit Process Program Guide.</li> <li>c. Continue to reinforce intended procedural standards in the monthly departmental quality team meetings.</li> <li>d. For a period of time, evaluate every engagement for compliance with documentation standards and once procedures and quality results are satisfactory, then mature your periodic internal quality reviews to a sample of audits.</li> <li>e. Once departmental procedures have been firmly established and operating for a period of time (at least six months) consider performing another external quality assessment (either a full assessment / independent assessment with external review, or a readiness assessment) more frequent than the suggested five-year requirement to ensure that the department processes are working as intended and are following good practice.</li> </ul>	<p>Recommendation #4 Management Response and Action Plan:</p> <ul style="list-style-type: none"> <li>a. IA management agrees with the recommendation and will update Operation Guide and include this practice in the Guide. Due Date: 6/30/2022</li> <li>b. IA management agrees with the recommendation and will align audit quality review checklist with the IIA QAIP Program Guide. Due Date: 3/31/2022</li> <li>c. IA Management agrees with the recommendation and will continue to reinforce standards in monthly QAIP meetings. Due Date: Implemented</li> <li>d. IA Management agrees with the recommendation and in connection with recommendation #4b above, will perform a post audit evaluation of audit engagements for compliance with documentation Standards until FYE 2023 and subsequently will be perform the post audits on a sample basis. Due Date: 6/30/2023</li> <li>e. Will work on refining and improving IA operations and after one year of doing so, will consider a readiness assessment. Due Date: 6/30/2023</li> </ul>

# Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG05	2340 - Engagement Supervision Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.	<p>Internal audit management and staff reported a high degree of interaction and discussion during the conduct of audits. What has been a greater challenge is the timely documentation of supervisory approvals or “sign-off” in the automated workpaper tool TeamMate (TM).</p> <p>IA migrated to a new version of TM during the pandemic and prior to fully assessing and solidifying their internal working practices. Thus, IA management disclosed, and we observed, that supervisory sign-off during audit engagements was not always timely documented in the official working papers. The new TM file structure, that was recently implemented, reflected an improved level of timely supervision as observed in the TM tool.</p>	<p>Recommendation #5: We recommend IA management:</p> <ul style="list-style-type: none"> <li>a) establish timelines for what constitutes timely supervisory review in the Internal Audit operating manual,</li> <li>b) ensure supervision is timely and contemporaneously documented in TM during audits, and</li> <li>c) include an evaluation of timely supervisory sign-off in their periodic internal quality assessments.</li> </ul>	<p>Recommendation #5 Management Response and Action Plan:</p> <ul style="list-style-type: none"> <li>a) IA Management agrees with the recommendations and will establish timelines for audit engagements and will address them in our operating manual. Due Date 6/30/2022</li> <li>b) IA Management agrees with the recommendations and will ensure Supervisory review is timely and documented based on our continuous QC reviews as noted in recommendation # 4d. Due Date 6/30/2022</li> <li>c) IA Management agrees with the recommendations and will include an evaluation of timely supervisory sign-off in our periodic internal quality assessments. Due Date 6/30/2022</li> </ul>

# Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO01	<p>1110 – Organizational Independence Organizational independence is effectively achieved when the chief audit executive reports functionally to the board.</p>	<p>IA clearly reports functionally to the LACERA Audit Committee,  However, the LACERA organizational chart on the organization's external website does not show the Internal Audit Activity's functional reporting relationship to the Audit Committee of the Boards.</p>	<p>Recommendation #6:  Strengthen internal audit's independence by updating the LACERA organization chart that is publicly facing to reflect a solid (functional) reporting line to the Audit Committee.  Review all public and internally facing organization charts to ensure the reporting lines are appropriately reflected.</p>	<p>Recommendation #6 Management Response and Action Plan:  IA Management agrees with the recommendations and will work with Exec Office and Communications Division to update the org charts accordingly. Due Date 3/31/22</p>
IO02	<p>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.</p> <p>1230 - Continuing Professional Development Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.</p>	<p>Internal audit has well-credentialed staff. Many staff members hold multiple certifications in the areas of internal auditing, fraud, accounting, data analytics, and information technology.</p>	<p>Recommendation #7:  In order to enhance their competencies and continue their professional development, Internal Audit can:</p> <ol style="list-style-type: none"> <li>Utilize a staff competency model similar to the IIA Internal Audit Competency Framework to self-assess staff against a formal competency framework.</li> <li>Add certification requirements to Internal Audit Job Descriptions if the practice is consistent with LACERA's internal job description methodology.</li> <li>Ensure staff receive timely finalized and formal performance appraisals on at least an annual basis.</li> </ol>	<p>Recommendation #7 Management Response and Action Plan:</p> <ol style="list-style-type: none"> <li>IA Management agrees with the recommendation and will develop a staff competency model using the IIA Internal Audit Competency Framework as a guide. We plan to discuss this at our April monthly QAIP meeting and will begin using it in FY 2023. Due Date: 6/30/2022.</li> <li>IA Management agrees with the recommendation and will review LACERA job descriptions for Internal Audit positions to align with current internal audit practices and evaluate the inclusion of certifications if feasible under LACERA job description methodology. Due Date: 6/30/2022</li> <li>IA Management agrees with the recommendation and will ensure performance appraisals are completed in a timely manner and within LACERA's PE timeline. We will also complete Competency Assessments on a fiscal year basis beginning with Fiscal Year 2023. Due Date 7/30/22</li> </ol>

# Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO03	<p>1110 - Independence and Objectivity 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.</p> <p>2400 - Communicating Results Internal auditors must communicate the results of engagements.</p>	<p>Independence is the freedom from conditions that threaten the ability of the internal auditing activity to carry out their responsibilities in an unbiased manner.</p> <p>Further, the internal audit policies and procedures manual establishes the process for documenting the support for an observation/conclusion related to the engagement and the internal audit activity may develop an engagement communication plan to provide guidance for final engagement results.</p> <p>Internal audit follows a somewhat unique procedure to provide the board audit committee directors advance copies of final audit reports for review, questions, and comment. In certain circumstances, the CAE may change the audit report as a result of this process.</p>	<p>Recommendation #8:  Creating ongoing systems and structures that ensure independence regardless of the unbiased nature of individuals, would strengthen independence and potentially mitigate any undue influence that might present itself in the future, either in perception or fact.</p> <p>Consider providing guidance in the Internal Audit operating manual and the audit charter to describe the nature and intended purpose of this preliminary board review and the safeguards in place to ensure this review and comment period does not create a perceived challenge to the internal audit function's independence.</p>	<p>Recommendation #8 Management Response and Action Plan:  IA Management agrees with the recommendation. As part our strategic planning and review of our processes, we will reevaluate and document our process of issuing audit reports in our operations guide, as well as consider the necessity of changes to the Internal Audit and Audit Committee charters, to ensure Internal Audit's independence is maintained.</p> <p>Due Date: 10/31/2022</p>
IO04	<p>2120.A1 – Fraud Risk The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk</p> <p>2240 - Engagement Work Program Internal auditors must develop and document work programs that achieve the engagement objectives..</p>	<p>We reviewed a limited number of audit workpapers and queried IA management on their engagement-level planning process. IA management demonstrated an awareness for the potential of fraud and outlined the steps they follow to evaluate the potential for fraud in the engagement. However, evidence of conclusions could be more fully documented in the work papers.</p>	<p>Recommendation #9:  Documentation of the engagement process followed, and the conclusions reached, could be enhanced so an independent reviewer would reach the same conclusion and to better support the agreed upon engagement-level scope and objectives.</p> <p>We recommend IA move forward with enhancing policies and procedures to better document and support their engagement-level fraud risk assessment including an assessment of the specific fraud red flags considered.</p>	<p>Recommendation #9 Management Response and Action Plan:  IA Management agrees with the recommendation. We are in the process of enhancing our audit engagement process and to more effectively document and support engagement-level fraud risk assessment. The updates will be incorporated into our operations guide. Due Date 3/31/22.</p>

# Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO05	<p>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.</p>	<p>Developing and documenting a formalized strategic plan for Internal Audit is an emerging and evolving successful practice that supports internal audit activities operating in dynamic environments. A multi-year Internal Audit strategic plan can help Internal Audit improve their support to LACERA in a proactive, thoughtful, systematic, and practical manner.</p> <p>Additionally, strategic planning can help with Internal Audit leadership development and succession planning.</p> <p>The strategic plan might have a three-year horizon that is adjusted on an annual basis and presented to senior management and the Audit Committee in conjunction with the annual risk assessment and audit plan for review and approval. Strategic plans and related initiatives are generally supported by a “Strengths, Weaknesses, Opportunities, Threats” analysis.</p>	<p>Recommendation #10: Create a strategic plan to identify and address strategic initiatives going forward.</p>	<p>Recommendation #10 Management Response and Action Plan: IA Management agrees with the recommendation. IA management plans to develop a Strategic Plan to support internal audit activities and LACERA. The Plan will also address initiatives for succession planning.  Due Date: 10/31/2022</p>
IO06	<p>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.</p> <p>2030 – Resource Management The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.</p>	<p>Stakeholder feedback indicates the annual audit planning process currently in place results in more work on the annual audit plan than Internal Audit can accomplish. This, as well as auditor vacancies and a maturing audit process, resulted in Internal Audit completing only 64% of their most recent annual plan.</p>	<p>Recommendation #11: Establish a realistic and achievable risk-based annual audit plan. Seek additional resources if the risk assessment indicates more risk than can be covered by Internal Audit’s current resources (staff and out-sourcing.).  See also related opportunity IO08 Coordination and Reliance</p>	<p>Recommendation #11 Management Response and Action Plan: IA Management agrees with the recommendation. We will refine our risk assessment process to include 1) risks mapped to proposed projects based on available Internal Audit resources (staff and Audit Pool), 2) other risks areas that are being addressed by the organization or were recently addressed by Internal Audit, and 3) risks mapped to proposed projects if additional resources were available. We will provide the Audit Committee our updated risk assessment at the May 2022 AC meeting and final FY 2022/23 Audit Plan at the August 2022 meeting.  Due Date 8/31/22</p>

# Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO07	<p>2040 - Policies and Procedures</p> <p>The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>	<p>IA operating practices matured and evolved over the period under our review and we noted that the department policies and procedures (operating manual) in minor areas are not fully aligned with the current IPPF.</p> <p>In addition, the operating manual has limited details on how internal audits are conducted at LACERA and specific procedures are outlined in multiple documents that are decentralized.</p> <p>A good practice is to centralize and detail the intended process staff should follow in the conduct of audits and perform a quality assessment of completed audits against the detailed process. The operating manual may take many forms, e.g., a MS Word document, an automated working paper file structure, instructions, and templates, and/or flowcharts and checklists. Detailing the intended practice staff are to follow also supports staff feedback, development, and performance accountability.</p>	<p>Recommendation #12:</p> <p>a. Stabilize Internal Audit process changes, update and fully centralize departmental policies and procedures, and develop a sustainable cadence for guidance updates and the related training of staff on those updates.</p> <p>b. Move forward with the planned update of departmental policies and procedures (operating manual), align this guidance with the current 2017 IPPF, and incorporate the following elements in the manual:</p> <ul style="list-style-type: none"> <li>• The criteria and process for selection of third-party service providers.</li> <li>• Criteria used to evaluate and support reliance on the work of any LACERA internal second line functions, e.g., information security, quality assurance, and the proposed compliance division.</li> <li>• IA departmental Data Analytics expectations and procedures for ensuring data accuracy, requirements associated with handling data, standards and conventions for documentation data analytics in working papers, and standards for reporting data in audit reports.</li> <li>• Include the requirement for annual ethics training for Certified Internal Auditors (CIAs).</li> <li>• The frequency of operating manual updates and the process to ensure the manual remains current with IPPF guidance.</li> <li>• Consider moving the detailed IPPF standards to in an appendix to not distract from specific departmental policies and procedures.</li> </ul>	<p>Recommendation #12 Management Response and Action Plan:</p> <p>IA Management agrees with the recommendations 12a and 12b. We are in the process of updating our Operation Guide and will incorporate elements of the 2017 IPPF and other suggested inclusions, some we of which are already our practice, such as the annual ethics training for all staff, noted in the audit recommendations.</p> <p>Due Date: 6/30/2022</p>

# Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO08	2050 –Coordination and Reliance The chief audit executive should share information, coordinate activities, and consider relying on the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts. The goal is to provide management and the board with a comprehensive view of risk, including associated management accountabilities, and an assessment of where independent assurance is provided or warranted.	Internal audit directly coordinates the work of the external financial auditor, in addition they include discussions with operating and second line management in their annual risk assessment. IA has also recently assessed the second line Quality Operations department. However, IA has not established a consistent process for any basis of reliance, including an assessment of the competency, objectivity, and due professional care of the other assurance and consulting service providers nor has internal audit or management developed a comprehensive map of key risks and assurance coverage.	<p>Recommendation #13:</p> <p>We recommend Internal Audit work with LACERA Executive Office to coordinate and create an assurance map by linking identified significant risk categories with a management owner, the relevant sources of assurance, and rating the level of assurance provided for each risk category.</p> <p>Because the map is comprehensive, it can expose gaps and duplications in assurance coverage thus minimizing duplication and maximizing the efficiency and effectiveness of assurance coverage.</p> <p>The map can take many forms and be developed and populated over time. It need not be owned by Internal Audit but Internal Audit should play a key role in its development and update and utilize the information to establish its annual Internal Audit plan and evaluate its resource requirements.</p> <p>Following this approach provides management and the board with the necessary decision-making information to ensure efficient and effective coverage of key risks faced by LACERA. A combined assurance mapping effort typically:</p> <ul style="list-style-type: none"> <li>• identifies the landscape of key corporate risks,</li> <li>• identifies the executive accountable for the risk,</li> <li>• reflects the various assurance providers responsible for management and board assurance related to these risks, and</li> <li>• ties to the annual Internal Audit plan including supporting resource needs.</li> </ul>	<p>Recommendation #13 Management Response and Action Plan:</p> <p>To address the conformance gap relating to Standard 2050 we will develop a feasible process to coordinate activities, and criteria for reliance on the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts. As part of our risk assessment process, we will provide Exec management and the Committee with a comprehensive view of risk, and an assessment of risk assurance effectiveness and efficiency and identify any gaps or deficiencies.</p> <p>Due Date: 8/30/23</p>

# Appendix A

## Conformance Rating Criteria

# Conformance Rating Criteria

**“Generally Conforms”** (GC) means the Assessment Team concluded the following:

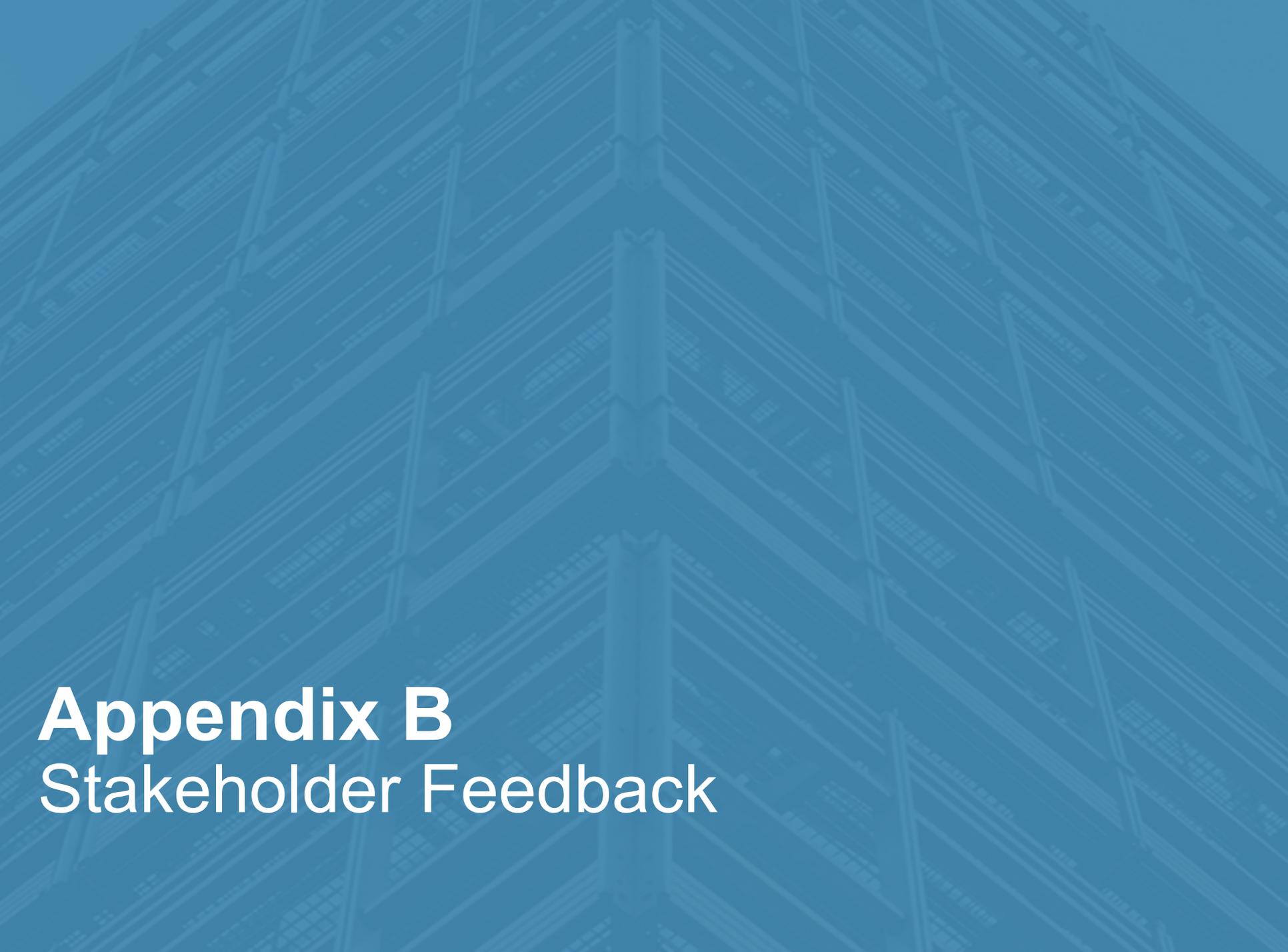
- For individual *Standards*, the internal audit activity conforms to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual *Standards* and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

**“Partially Conforms”** (PC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is making good faith efforts to conform to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or the IIA Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

**“Does Not Conform”** (DNC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.



# Appendix B

## Stakeholder Feedback

# Stakeholder Feedback

## SENIOR MANAGEMENT AND KEY STAKEHOLDERS

NAME	TITLE
Joe Kelly	Audit Committee Chair
Keith Knox	Audit Committee Member
Gina V. Sanchez	Audit Committee Member
Santos H. Kreimann	Chief Executive Officer
Luis A. Lugo	Deputy Chief Executive Officer
Laura Guglielmo	Assistant Executive Officer
JJ Popowich	Assistant Executive Officer
Carlos Barrios	Division Manager, Benefit Services
Jonathan Gabel	Chief Investment Officer
Kathy Delino	Manager, Information Systems
Ted Granger	Interim Chief Financial Officer
Steven Rice	Chief Counsel, Legal Services
Carly Ntoya	Director, Human Resources

In addition to interviews with the individuals listed above, broad-based and confidential surveys were conducted by IIA Quality Services. Surveys were sent to senior management and stakeholders throughout the organization. A separate survey was sent to Internal Audit management and staff.

# Stakeholder Feedback

## INTERNAL AUDIT MANAGEMENT AND STAFF

NAME	TITLE
Richard Bendall	Chief, Internal Audit
Christina Login	Principal Internal Auditor
Leisha Collins	Principal Internal Auditor
Kathryn Ton	Internal Auditor
Gabriel Tafoya	Internal Auditor
George Lunde	Internal Auditor

In addition to interviews with the individuals listed above, broad-based and confidential surveys were conducted by IIA Quality Services. Surveys were sent to senior management and stakeholders throughout the organization. A separate survey was sent to Internal Audit management and staff.

# Stakeholder Feedback

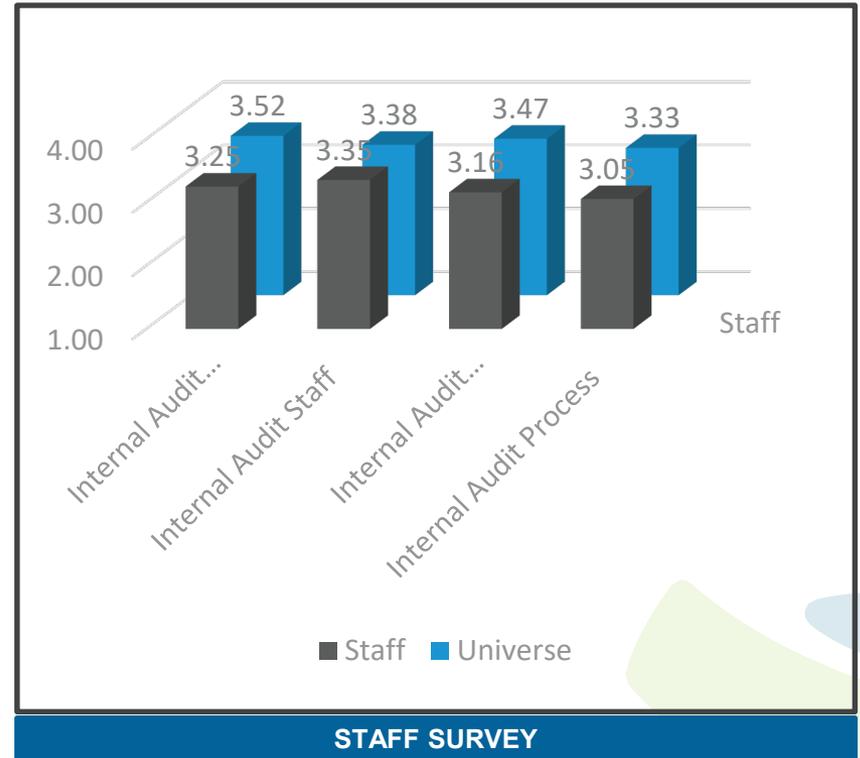
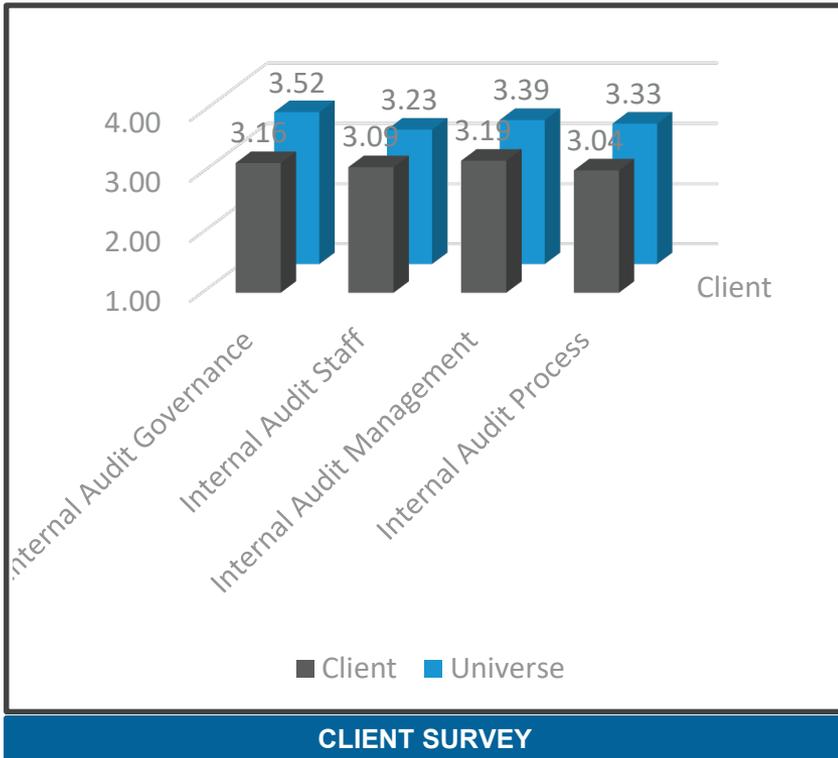
## COMMENTS RECEIVED DURING INTERVIEWS AND SURVEYS

The summary comments listed below represent general themes expressed by more than one stakeholder during stakeholder interviews and/or surveys that were validated by the Assessment Team. All stakeholder interviews were conducted privately without presence of the CAE. All surveys were conducted in a confidential manner. Statistical results of surveys are presented separately from these comments.

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none"><li>▪ Their dedication to independent controls and being independent is admirable</li><li>▪ The LACERA IA team excels at communicating.</li><li>▪ They follow up on audit findings in a systematic way, hold regular meetings with LACERA Management to identify barriers, obstacles and organizational risks, and they collaborate with management to problem solve on areas of risk that may or may not be part of an audit.</li><li>▪ Good teamwork and collegial relationships</li><li>▪ Good communication skills with AC, management, and staff</li><li>▪ Good institutional knowledge which helps them effectively perform their work</li><li>▪ We have a stronger IA team than we had in the past and I wish to convey my congratulations for their efforts.</li></ul>	<ul style="list-style-type: none"><li>▪ Focus the work plan -- current plan tackles too many subjects</li><li>▪ Training on the role of audit and audit processes for MAC would help with understanding and help reinforce IA independence</li><li>▪ Increased subject matter expertise – particularly in the Information Technology and Investment areas</li><li>▪ Audits take too long to complete</li><li>▪ Continue to help with Enterprise Risk Management</li><li>▪ Training on the role of audit and audit processes for MAC</li><li>▪ Focus on benefits processes</li><li>▪ Improve quality assurance review at the supervisory and management level is often poorly executed</li><li>▪ Provide interim status reporting when projects lag or take too long</li><li>▪ Consider teaming better with management and utilizing the new “Data Lake/Warehouse” to speed up data requests and ease the burden on management.</li></ul>

# Stakeholder Feedback

## SURVEY RESULTS (SUMMARY)



“Client” represents the weighted average of all stakeholder respondents.

“Universe” represents the weighted average of all respondents from all organizations that completed this survey since May 2013.

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

# Stakeholder Feedback

## SURVEY RESULTS (DETAIL)

Internal Audit Governance	1	2	3	4	AVG	UNV
IA activity personnel respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.	4.00	3.33	3.25	3.25	3.33	3.70
IA activity personnel exhibit the highest level of professional objectivity in performing their work, making a balanced assessment of all relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.	4.00	3.00	2.75	3.00	3.00	3.47
The IA activity is perceived as adding value and helping our organization accomplish its objectives.	3.00	3.00	3.25	3.40	3.21	3.35
The integrity of the IA activity establishes confidence, providing the basis for their role as trusted advisor within our organization.	4.00	3.33	3.25	3.00	3.23	3.43
Organizational placement of the IA activity ensures its independence and ability to fulfill its responsibilities.	4.00	3.25	3.00	3.25	3.23	3.56
IA activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	4.00	3.33	3.00	3.25	3.25	3.62

### LEGEND

- Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)
- Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)
- Group 3 = LACERA Senior Executive Team (4 of 6 respondents)
- Group 4 = LACERA Division Management (5 of 12 respondents)

“AVG” represents the weighted average of all respondents for all stakeholders.

“UNV” represents the weighted average of all respondents from all organizations that completed this survey since May 2013.

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response



# Stakeholder Feedback

## SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	3	4	AVG	UNV
IA activity staff and management communicate effectively (oral, written, and presentations).	3.00	3.00	3.50	3.20	3.21	3.34
IA activity staff and management keep up to date with changes in my business, our industry and relevant regulatory issues.	4.00	3.00	3.00	3.00	3.13	3.22
IA activity staff display adequate knowledge of my business processes including critical success factors.	3.00	3.25	2.75	3.00	3.00	3.14
IA activity staff exhibit effective problem identification and solution skills.	3.00	3.25	3.00	3.00	3.08	3.23
IA activity management demonstrate effective conflict resolution and negotiating skills.	3.00	3.33	3.25	2.50	3.10	3.27
The IA activity is viewed as viable source of talented individuals who could successfully transfer to other parts of our organization.	4.00	3.00	3.25	3.00	3.18	3.19

### LEGEND

- Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)
- Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)
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4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response



# Stakeholder Feedback

## SURVEY RESULTS (DETAIL)

Internal Audit Management	1	2	3	4	AVG	UNV
Internal audit activity management communicates effectively (oral, written, and presentations).	3.00	3.00	3.50	3.20	3.23	3.37
Internal audit activity management keeps up to date with changes in my business, our industry, and relevant regulatory issues.	4.00	3.00	3.33	2.50	3.13	3.23
The IA activity establishes annual audit plans to assess areas or topics that are significant to our organization and consistent with our organizational goals.	4.00	3.67	3.50	3.00	3.38	3.44
The IA activity sufficiently communicates its audit plans to management of areas being reviewed. This includes descriptions of audit objectives and scope of review.	4.00	3.67	3.50	3.00	3.38	3.42
The IA activity effectively promotes appropriate ethics and values within our organization.	3.00	3.33	3.50	3.20	3.31	3.55
The IA activity adequately assesses the effectiveness of risk management processes employed by management to achieve objectives.	3.00	3.00	3.00	2.80	2.92	3.33

### LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)

Group 3 = LACERA Senior Executive Team (4 of 6 respondents)

Group 4 = LACERA Division Management (5 of 12 respondents)

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# Stakeholder Feedback

## SURVEY RESULTS (DETAIL)

Internal Audit Process	1	2	3	4	AVG	UNV
The IA activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	3.33	3.25	3.00	3.15	3.37
The IA activity exhibits proficient project management and organizational skills to assure the timely completion of their audit engagements.	3.00	2.50	3.25	3.00	3.00	3.30
The IA activity demonstrates sufficient knowledge of key information technology risks and controls in performing its audit engagements.	3.00	3.00	3.25	2.80	3.00	3.28
The IA activity demonstrates sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning its audit engagements.	3.00	3.33	3.00	3.00	3.09	3.40
IA activity audit reports are accurate, objective, clear, concise, constructive, complete, and timely.	3.00	2.67	3.33	2.80	2.92	3.29

### LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)

Group 3 = LACERA Senior Executive Team (4 of 6 respondents)

Group 4 = LACERA Division Management (5 of 12 respondents)

"AVG" represents the weighted average of all respondents for all stakeholders.

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# Stakeholder Feedback

## INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Governance	1	2	AVG	UNV
Our internal audit activity is perceived as adding value and helping our organization accomplish its objectives.	3.00	3.00	3.00	3.47
Our internal audit activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	4.00	3.25	3.33	3.33
My chief audit executive effectively promotes the value of our internal audit activity within our organization.	3.00	3.00	3.00	3.64
Our internal audit activity staff is fully aware of, and completely conforms with, both the Principles and the Rules of Conduct that comprise the Code of Ethics established by The Institute of Internal Auditors (IIA).	4.00	3.38	3.44	3.59
Our internal audit activity staff is fully aware of, and completely conforms with, The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) relating to objectivity and due professional care and the Code of Ethics.	3.00	3.50	3.44	3.56
Our internal audit activity has a conflict-of-interest policy to report any perceived or actual issues that may have an influence on the independence and objectivity of the auditors.	4.00	3.38	3.44	3.53

### LEGEND

Group 1 = CAE (1 of 1 respondent)

Group 2 = Internal Audit Department (8 of 8 respondents)

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# Stakeholder Feedback

## INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
IA activity staff and management communicate effectively (oral, written, and presentations).	4.00	3.50	3.56	3.43
Our audit assignments provide internal audit activity staff with opportunities to develop adequate knowledge of key business processes, including critical success factors.	4.00	3.38	3.44	3.46
I have sufficient knowledge of key IT risks and controls to perform my audit engagements.	3.00	3.00	3.00	3.20
I have sufficient knowledge of fraud to identify “red flags” indicating possible fraud when planning my audit engagements.	3.00	3.25	3.22	3.36
Our internal audit activity management provides me with ample opportunities to develop the skills and knowledge necessary to perform all of my audit engagements.	4.00	3.50	3.56	3.41
Our internal audit activity management provides me with ample opportunities to develop skills and knowledge and acquire experience that enable me to develop professionally and advance my career.	4.00	3.38	3.44	3.38
I have ample opportunity to enhance my knowledge, skills, and competencies through in-house training sessions and/or outside seminars.	4.00	3.63	3.67	3.39
My performance is reviewed on a regular and sufficiently frequent basis, the criteria used are adequate, and the reviews are meaningful and helpful.	3.00	3.13	3.11	3.32
Our internal audit activity management encourages and supports internal audit activity staff in demonstrating its proficiency by obtaining appropriate professional certifications such as designations offered by The IIA or other designations related to internal auditing.	4.00	3.63	3.67	3.54
Our internal audit activity is viewed as a valuable developmental assignment by individuals from other parts of our organization.	4.00	3.17	3.29	3.26

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4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response



# Stakeholder Feedback

## INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
Our internal audit activity management has established policies and procedures that clearly guide the operation of our internal audit activity.	3.00	3.00	3.00	3.49
Our internal audit activity actively encourages collaborative effort between internal audit management and staff to effectively complete our engagements in a timely manner.	3.00	3.25	3.22	3.47
Our internal audit activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	3.29	3.25	3.49
Our internal audit activity adequately assesses the effectiveness of risk management processes employed by management to achieve our organization's objectives.	3.00	3.33	3.29	3.40
Our internal audit activity effectively promotes appropriate ethics and values broadly across our total organization.	3.00	3.25	3.22	3.57
Our internal audit activity adequately assesses the effectiveness of governance processes, including ethics-related programs and activities.	3.00	2.83	2.86	3.42

### LEGEND

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4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response



# Stakeholder Feedback

## INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
Our internal audit activity develops and documents a plan for each engagement based on a preliminary assessment of risks relevant to the area being reviewed (including the probability of fraud), and our engagement objectives reflect the result of this risk assessment.	3.00	3.13	3.11	3.54
Our internal audit activity uses computer-assisted audit techniques, including data mining, to facilitate data collection and analysis during completion of our engagements.	4.00	3.00	3.11	3.17
I receive appropriate, timely, and constructive feedback regarding my performance in completing engagements, enabling me to continue developing my knowledge, skills, and competencies.	3.00	3.25	3.22	3.29
Our internal audit activity management and staff exhibit proficient project management and organizational skills to assure the timely completion of our audit engagements.	3.00	2.75	2.78	3.29
Our internal audit activity management and staff demonstrate effective conflict resolution and negotiating skills.	3.00	3.14	3.13	3.35

### LEGEND

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**IIA Quality Services**

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## ATTACHMENT B

TABLE 2 – STATUS OF ALL RECOMMENDATIONS

IIA Standard	Recommendation	Management's Response / Action Plan	Target Date	Status
1311	1.1 Work with the Audit Committee (AC) and Executive Management to establish meaningful KPIs and measurable goals.	IA will work with the Executive Office and AC Chair in the development of KPIs and report them in quarterly Audit Plan Status Reports.	8/31/2022	In Progress
1311	1.2 Adequately document the work performed for the Internal Periodic Assessment (IPA).	IA will develop formalized IPAs, include due dates for completion, and required documentation in Teammate.	3/31/2022	Implemented
1311	1.3 Include efforts relating to 1.1 and 1.2 in Internal Audit's soon to be developed Strategic Plan.	IA will include efforts relating to 1.1 and 1.2 in the Strategic Plan.	10/31/2022	Not Started
1312	2. Assure an EQA is conducted at least every 5 years	IA will ensure the next EQA is conducted within 5 years.	3/31/2022	Implemented
1321 2430	3. Refrain from using Conformance Statement without external quality assessment confirming conformance.	IA will refrain from using the Conformance Statement until the Final EQA Report is issued.	3/31/2022	Implemented
2330	4.1 Improve quality and consistency of workpapers by documenting practices in the Operations Manual. Document the intended workpaper practices in the departmental manual.	IA will update the IA Operation Guide with this practice.	6/30/2022	In Progress
2330	4.2 Align the end of audit quality review checklist to the IIA's QAIP's Internal Audit Process Program Guide.	IA will align the post-audit quality review checklist with the IIA QAIP Program Guide.	3/31/2022	Implemented
2330	4.3 Continue to reinforce intended procedural standards in the monthly IA quality team meetings.	IA will continue to reinforce standards in monthly QAIP meetings.	3/31/2022	Implemented
2330	4.4 Evaluate every audit for compliance with documentation standards, then mature your reviews to a sample of audits.	IA will perform a post-audit quality review for compliance with the Standards until FYE 2023 and subsequently on a sample basis.	6/23/2023	Not Started

Recos	Recommendation Status Legend
6	<i>Implemented: IA has completed the action plan to address the recommendation. The recommendation is implemented.</i>
11	<i>In Progress: During this reporting period, IA has worked on completing the action plan to implement the recommendation.</i>
1	<i>In Progress: IA is in progress of completing the action plan to implement the recommendation. The target date has been extended to allow sufficient time to fully implement the recommendation.</i>
5	<i>Not Started: IA has not begun work on the action plan during this reporting period, but plan to complete it on track of the target date.</i>

IIA Standard	Recommendation	Management's Response / Action Plan	Target Date	Status
2330	4.5 Once procedures have been firmly operating for at least 6 months, consider performing another EQA (either full assessment, or readiness assessment) prior to the 5-year requirement to ensure processes are working as intended.	IA will work on refining and improving internal operations and after one year of doing so, will consider a readiness assessment.	6/30/2023	In Progress
2340	5.1 Establish timelines for what constitutes timely supervisory review in the IA operating manual.	IA will establish timelines for audit engagement supervisory review and include in IA Operations Guide.	6/30/2022	In Progress
2340	5.2 Ensure supervision is timely and contemporaneously documented in TM during audits	IA will ensure supervisory review is timely and documented based on continuous post-audit evaluations.	6/30/2022	In Progress
2340	5.3 Include an evaluation of timely supervisory sign-off in their periodic internal quality assessments	IA will include an evaluation of timely supervisory sign-off in periodic internal quality assessments.	6/30/2022	In Progress
1110	6. Strengthen IA independence by updating the LACERA organization chart that is publicly facing to reflect a solid (functional) reporting line to AC. Review all public and internally facing organization charts to ensure reporting lines are appropriately reflected.	IA will work with Executive Office and Communications Division to update the org charts accordingly.	3/31/2022	In Progress Extended Target Date to 5/30/22
1210	7.1 Utilize a staff competency model similar to the IIA Internal Audit Competency Framework to self-assess staff against a formal competency framework	IA will develop a staff competency model using the IIA Internal Audit Competency Framework as a guide by 6/30/22 and begin using it in FY 2023.	6/30/2022	In Progress
1210	7.2 Add certification requirements to Internal Audit Job Descriptions if the practice is consistent with LACERA's internal job description methodology.	IA will review audit positions to align with current internal audit practices and evaluate the inclusion of certifications if feasible under LACERA job description methodology.	6/30/2022	Not Started
1210	7.3 Ensure staff receive timely finalized and formal performance appraisals on at least an annual basis	IA will ensure performance appraisals are completed in a timely manner and within LACERA's PE timeline. We will also complete Competency Assessments starting FY 2023.	7/31/2022	In Progress

IIA Standard	Recommendation	Management's Response / Action Plan	Target Date	Status
1110	8. Consider providing guidance in the IA Operating Manual and audit charter to describe the nature and intended purpose of this preliminary board review and the safeguards in place to ensure this review and comment period does not create a perceived challenge to the IA function's independence.	As part of our strategic planning and review of our processes, we will reevaluate and document our process for issuing audit reports in the IA Operations Guide, as well as consider the necessity of changes to the Internal Audit and AC charters, to ensure IA's independence is maintained.	10/31/2022	In Progress
2120 2240	9. Move forward with enhancing policies and procedures to better document and support engagement-level fraud risk assessment.	IA will enhance the audit process to more effectively document and support engagement-level fraud risk assessment and update process in IA Operations Guide.	3/31/2022	Implemented
2000	10. Create a strategic plan to identify and address strategic initiatives going forward.	IA will develop a Strategic Plan to support IA activities and LACERA. It will also address succession planning initiatives.	10/31/2022	Not Started
2010 2030	11. Establish a realistic and achievable risk-based annual audit plan. Seek additional resources if the risk assessment indicates more risk than can be covered by IA's current resources	IA will refine the risk assessment process to include 1) risks mapped to proposed projects based on available Internal Audit resources (staff and Audit Pool), 2) other risks areas that are being addressed by the organization or were recently addressed by IA and 3) risks mapped to proposed projects if additional resources available.	8/31/2022	In Progress
2040	12. Stabilize IA process changes, update and fully centralize departmental policies and procedures, and develop a sustainable cadence for guidance updates and the related training of staff on updates. Move forward with the planned update of departmental policies and procedures (operating manual), align this guidance with the current 2017 IPPF.	IA is in the process of updating the Operation Guide and will incorporate elements of the 2017 IPPF and other suggested inclusions, some of which are already included in our practice, such as the annual ethics training for all staff, noted in the audit recommendations.	6/30/2022	In Progress
2050	13. IA work with LACERA Executive Office to coordinate and create an assurance map by linking identified significant risk categories with a management owner, the relevant sources of assurance, and rating the level of assurance provided for each risk category.	IA will develop a feasible process to coordinate activities, and criteria for reliance on the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts. As part of our risk assessment process, we will provide Executive management and the Committee with a comprehensive view of risk, and an assessment of risk assurance effectiveness and efficiency and identify any gaps or deficiencies.	8/31/2023	Not Started



April 27, 2022

TO: 2022 Audit Committee  
Alan Bernstein  
Patrick Jones  
Joseph Kelly  
Keith Knox  
Wayne Moore  
Gina Sanchez  
Herman Santos

Audit Committee Consultant  
Robert Griffin

FROM: Kristina Sun **KS**  
Senior Internal Auditor

FOR: May 9, 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 twenty-seven recommendations outstanding. During the October 2021 Audit Committee meeting, we reported that three recommendations were implemented. During the February 2022 Audit Committee meeting, we reported an additional twelve recommendations were implemented. From February 2022 to April

2022, fifteen new recommendations were issued, and one recommendation was implemented by management. As of April 27, 2022, the total number of outstanding recommendations is twenty-six. The full detailed report for current reporting period is attached in **Appendix A**.

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

	# of Recommendations
<b>Beginning of FY2022 (6/1/2021)</b>	<b>27</b>
+ New Recommendations	0
- Accepts Risk	0
- Implemented	(3)
<b>Total Outstanding as of 9/30/2021</b>	<b>24</b>
+ New Recommendations	0
- Accepts Risk	0
- Implemented	(12)
<b>Total Outstanding as of 1/31/2022</b>	<b>12</b>
+ New Recommendations	15
- Accepts Risk	0
- Implemented	(1)
<b>Total Outstanding as of 4/27/2022</b>	<b>26</b>

**Monitoring Outstanding Recommendations**

Internal Audit actively monitors the outstanding recommendations. The chart below provides the status of outstanding recommendations as of April 27, 2022.

Current Recommendation Status	Divisions						Total
	Benefits	FASD	HR	Investments	QA	Systems	
On Track	-	1	13	1	-	-	<b>15</b>
On Track - Approved 1st Extension	-	-	-	-	1	-	<b>1</b>
On Track - Approved 2nd Extension	-	-	-	-	-	-	<b>-</b>
Pending IA Verification	1	-	1	-	-	-	<b>2</b>
Behind Schedule	-	-	-	-	1	-	<b>1</b>
Overdue (After two extensions)	-	-	-	-	-	7	<b>7</b>
Implemented	(1)	-	-	-	-	-	<b>(1)</b>

**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:

Less than 1 Year	1-2 Years	2-3 Years	More than 3 Years	Implemented Since Last AC Meeting
17	10	0	0	(1)

Staff from the respective divisions will be present at the May 9, 2022, Audit Committee meeting to address any questions.

KS

Attachment

Noted and Reviewed:



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Richard P. Bendall  
Chief Audit Executive

RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022						
Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number						
Report Date						
Audit Rating						
<b>Benefits Division</b>						
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	<b>MANAGEMENT COMPLETED, PENDING AUDIT VERIFICATION</b>  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	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 3/31/2022	<b>IMPLEMENTED</b>  As of 04/14/2022, Benefits, PMG and the Exec office have worked to set and finalize organizationally accepted and agreed-upon service level expectations (SLEs) for death and legal processing as well as all of Benefits. Additionally, Benefits division has created a dynamic web based application that tracks and monitors SLE's in addition to reporting productivity and staffing metrics throughout Benefits, MS and QA.  Date of Implementation is 4/10/2022.

RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 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						
Accounts Payable Audit 2022-UP3 April 15, 2022 Satisfactory	Low	Finding #1 - LACERA does not have a formal Accounts Payable policy.	1.) FASD, in conjunction with the Administrative Services Division, should develop a policy that covers all areas of accounts payable practices to help LACERA divisions obtain a mutual understanding of responsibilities and ensure compliance. 2.) Once the policy has been developed, FASD should communicate the Policy to the organization.	Management agrees with the recommendation. FASD management will work with Administrative Services management to develop and communicate a policy that addresses the accounts payable process including the purchasing functions. Management is currently implementing a new accounts payable automated tool, anticipating deployment during the next fiscal year, which may alter steps within the current process. Management will incorporate into the policy any process changes that occur when implementing the new tool.	3/31/2023	<b>ON TRACK</b> Report was issued on 4/15/2022.

RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022						
Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number						
Report Date						
Audit Rating						
<b>Human Resources Division</b>						
LACERA Staff Bonus Program 2021-37 February 14, 2022 Unsatisfactory	High	Finding #1 - The bonus program does not have a formal comprehensive policy or procedures	HR management should: 1. Develop and ensure finalization of a comprehensive bonus policy and desk procedures. • The bonus policy should be provided and easily accessible to all staff. • Training on desk procedures should be provided to HR staff to ensure consistent application.  2. Review all bonuses to ensure they are consistent with the final approved Policy.	LACERA Management agrees with the findings and recommendations. Within three months of the filing of this report, Human Resources will develop and have an approved comprehensive bonus policy that addresses all bonus types. Once approved, Human Resources will conduct a compliance review to ensure the applied bonuses are consistent with the approved policy.  The approved policy will be distributed to staff members via email and posted on LACERA Connect (intranet). Human Resources will conduct training at the management and supervisor action committees to explain how the policy is to be applied and to clarify the manager and supervisor role in bonus administration.  To supplement the policy, Human Resources will develop a procedure (PPG) that outlines the bonus review and approval process. Training will be provided for Human Resources staff who review bonus requests and apply bonuses (transactions).	5/31/2022	<b>ON TRACK</b>  As of April 2022, HR management has greatly expanded the ARB and OCB draft policy to include all bonuses. The draft of the Bonus Policy will be provided to the Executive Office for review.
LACERA Staff Bonus Program 2021-37 February 14, 2022 Unsatisfactory	High	Finding #2 - Bonus reporting to Executive Management and Division Managers is insufficient	HR should champion the development and periodic distribution of reports from the HR database to facilitate the Executive Office and division managers oversight of bonuses.	LACERA Management agrees with the finding and recommendation. To draw specific attention to the bonus program, Human Resources will provide a bonus report to the Executive Office and Division Managers each quarter. The report will list staff members receiving a bonus and the bonus type. For this purpose, the existing Bonus Report will be modified to remove confidential information. Until this report is generated, the Human Resources Division will manually alter and distribute the report on a quarterly basis.	5/31/2022	<b>MANAGEMENT COMPLETED, PENDING AUDIT VERIFICATION</b>  HR emailed a Bonus Report to Exec on March 9, 2022. This serves as a quarterly review. The next report will be provided in June 2022.

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022**

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
<p><b>Project Number</b></p> <p><b>Report Date</b></p> <p><b>Audit Rating</b></p> <p>Comprehensive Review of Human Resources Recruiting Process</p> <p>2022-13</p> <p>April 18, 2022</p> <p>Not used for consulting engagement</p>	N/A	Opportunity #1: Planned, Measured and Optimized Recruiting Approach	1.a. LACERA's Executive Team should work with HR Management to develop an effective Workforce Plan and Implementation Strategies that clearly align with the organization's current and future Strategic Plans related to recruitment efforts.	<p>LACERA viewed the recommendations in 1a to include several components, which require certain foundational issues to be addressed before others can be implemented. As such, we identify specific components and timelines in accordance with planned implementation approach.</p> <p>Step one: Strategic Plan LACERA has engaged a Strategic Planning Consultant to facilitate the development of its Strategic Plan, including an actionable work plan with specified goals, objective, milestones and metrics. This foundational work must be completed before the detailed implementation of specific recommendations can be addressed.</p> <p>Step two: Workforce Plan &amp; Succession Plan LACERA's Strategic Plan will include the development of a Workforce Plan that addresses LACERA's goals and objectives surrounding its workforce needs. The Workforce Plan will identify LACERA's workforce needs and priorities and include specific goals and metrics associated with the quality and responsiveness of the recruitment and on-boarding processes, and employee satisfaction, engagement, and retention. Concurrent with the development of the Workforce Plan will be the development of Succession Plan, which is discussed in more detail under management's response to 1b.</p> <p>Management believes strongly in implementing a robust Diversity, Equity, and Inclusion ("DEI") program as a foundational pillar that supports our ongoing recruitment and hiring efforts. As such, we will continue to work toward readying our leadership team, managers, and Human Resources Division to strategically implement this important initiative.</p> <p>Communication: The Workforce Plan will be shared with all HR Division staff and will be presented to the MAC Team. The Human Resources Director will present quarterly status updates to the MAC Team.</p>	<p>Strategic Plan, 12/31/2022,</p> <p>Succession Plan, 6/30/2023</p> <p>Diversity Equity and Inclusion Program, 6/30/2024</p>	<p><b>ON TRACK</b></p> <p>Eide Bailly issued the report on 4/18/2022..</p>
<p>Comprehensive Review of Human Resources Recruiting Process</p> <p>2022-13</p> <p>April 18, 2022</p> <p>Not used for consulting engagement</p>	N/A	Opportunity #1: Planned, Measured and Optimized Recruiting Approach	1.b. Identify an individual or committee (governance structure) to oversee the alignment of the approved Workforce Plan and HR's Implementation Strategies for recruiting.	As part of its Strategic Planning implementation, Executive management will establish a working group to assist in the development and implementation of the Workforce Plan. The purpose, roles and responsibilities of the workgroup will be documented in a Charter, along with established meeting frequency.	12/31/2022	<p><b>ON TRACK</b></p> <p>Eide Bailly issued the report on 4/18/2022..</p>

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022**

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
<b>Project Number</b>  <b>Report Date</b>  <b>Audit Rating</b>						
Comprehensive Review of Human Resources Recruiting Process  2022-13  April 18, 2022  Not used for consulting engagement	N/A	Opportunity #1: Planned, Measured and Optimized Recruiting Approach	1.c. LACERA's Workforce Plan should address succession planning as a key component. Each division should perform forecasting of future vacancies through retirement and attrition. Succession candidates should be identified in each division and professional development should occur to prepare these members for future roles.  We recommend that LACERA identify a Workforce Planning Model such as that established by the California Department of Human Resources or an alternative model.	LACERA will develop a Civil Service-compliant succession plan. Executive Management will assess the organizational risks due to staff retirement eligibility, organizational structure and career ladders, critical positions, and expectations for different levels of staff. Division Managers will be responsible for identifying the needed knowledge, skills and abilities ("KSAs") for their team members. KSAs and expectations at each level of the organization and for all positions will be documented and shared with staff. Managers will be expected to assess their staff readiness with specified frequently, regularly discuss individual goals with staff and to provide opportunities for their staff to develop and obtain the necessary KSAs to reach the next level.	6/30/2023	<b>ON TRACK</b>  Eide Bailly issued the report on 4/18/2022..
Comprehensive Review of Human Resources Recruiting Process  2022-13  April 18, 2022  Not used for consulting engagement	N/A	Opportunity #2: Policies, Procedures & Automation	Communication is an essential component of a comprehensive framework of internal controls. A well designed and properly maintained system of documenting policies and procedures enhances both accountability and consistency. The resulting documentation can also serve as a useful training tool for staff and facilitate cross utilization. 2.a. HR should create and disseminate an HR Recruiting Manual to assist hiring officials (division managers) and recruiters in identifying and recruiting the best candidates.	HR will develop a Division Manager-oriented manual Recruitment Manual documenting recruitment processes and procedures, including roles and responsibilities of HR staff and Division staff, a workflow diagram, checklists, and all necessary forms and documentation. The HR Director will also review and update the existing HR internal procedure manual used by recruiters to correspond to the Division Manager's manual, and include HR specific responsibilities, and links to the appropriate Civil Service Rules.	12/31/2022	<b>ON TRACK</b>  Eide Bailly issued the report on 4/18/2022..

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022**

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
<b>Project Number</b> <b>Report Date</b> <b>Audit Rating</b> Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 Not used for consulting engagement	N/A	Opportunity #2: Policies, Procedures & Automation	2.b. HR should utilize the resources and tools available through automated systems such as NEOGov or alternative systems to obtain data contained within the Analytics and Reporting functionality of the system. This data should be used to monitor and assess performance, such as, time-to-hire.	LACERA will assess the capabilities of the existing (NEOGov) and other commercially available systems and look for opportunities to obtain the desired metrics identified in this report and through the strategic planning process. LACERA is constrained, however, by its unique relationship with Los Angeles County as it does not own or have access to all of the required data.	6/30/2023	<b>ON TRACK</b> Eide Bailly issued the report on 4/18/2022..
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 Not used for consulting engagement	N/A	Opportunity #2: Policies, Procedures & Automation	2.c. HR should develop a Recruiting Process Flow Diagram which summarizes the key phases, responsibilities of divisions, and hand-off points which occur for all phases of recruitment. This should be performed in collaboration with divisions to identify opportunities for streamlining, to ensure agreement and reduce areas of confusion. This document along with updated P&P's will enable both HR and Divisions to have a clear and consistent understanding of the recruitment process.	HR will develop a workflow diagram and checklists as part of the Division Manager-oriented Recruitment Manual identified in Recommendation 2a.	12/31/2022	<b>ON TRACK</b> Eide Bailly issued the report on 4/18/2022..
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 Not used for consulting engagement	N/A	Opportunity #3: Structure, Culture & Service Level Agreements	HR Division should lead by example to working together as a cohesive group to build trust and credibility with the organization. Leading fosters collaboration, mutual respect, and inspires enthusiasm for the organization's initiatives. 3.a. HR should align with the Society of Human Resources Management ("SHRM")4 best practice for recruiting to establish the recruitment team configuration. Based on the current number of vacancies which LACERA has, dedicated recruiters will result in a focus on recruitment to meet the needs of the organization.	The use of a Generalist Human Resources Analyst vs. Specialized recruiter will better meet LACERA's longterm organizational needs. The goal is for each division to have a dedicated Human Resource Generalist that will assist and advise on matters of not only recruitment, but labor relations, employee relations, employee performance, and other Human Resource activities. The Human Resource department has requested additional resources as part of the 2022/23 Proposed Budget with the proposed structure in mind.	6/30/2023	<b>ON TRACK</b> Eide Bailly issued the report on 4/18/2022..

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022**

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
<b>Project Number</b> <b>Report Date</b> <b>Audit Rating</b> Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 Not used for consulting engagement	N/A	Opportunity #3: Structure, Culture & Service Level Agreements	3.b. HR should have recruiting specialists who are assigned specific Divisions as requested by organization stakeholders.	Management's response within 3.a addresses this recommendation.	6/30/2023	<b>ON TRACK</b> Eide Bailly issued the report on 4/18/2022..
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 Not used for consulting engagement	N/A	Opportunity #3: Structure, Culture & Service Level Agreements	3.c. HR should perform a needs assessment to determine whether additional resources are needed by performing the following activities: i.) an evaluation of the competencies of the team; ii.) performing a skills and capabilities assessment; iii.) identifying areas of strengths and professional development needs; iv.) an analysis of the division's tasks performed; and v.) the associated time requirements.	This is a foundational issue that must be accomplished before several other recommendations. LACERA will seek professional assistance to complete an assessment of Human Resources staff capabilities and strengths and identify plans for professional development to fill relevant skill gaps that may exist.	6/30/2023	<b>ON TRACK</b> Eide Bailly issued the report on 4/18/2022..
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 Not used for consulting engagement	N/A	Opportunity #3: Structure, Culture & Service Level Agreements	3.d. HR Management and Division Management should establish SLAs as it relates to recruiting efforts. SLAs should identify individual roles and responsibilities at the division level and those performed by HR recruiting staff. Additionally, performance measures should be established to address both efficiency and effectiveness (i.e., performance measure on timing associated with candidate interviews). Lastly, monitoring of the agreements should occur to hold both HR and Divisions accountable for responsibilities and timeliness of recruiting activities.	Roles and responsibilities and expected timelines will be outlined in the Human Resources recruitment manual discussed under Recommendation 2.a. SLAs will need to be negotiated with individual Divisions. Constraints will include available metrics, and HR and Division staff capacity. HR staff will develop an SLA template that will be used to document agreed upon deliverables and timelines.	12/31/2022	<b>ON TRACK</b> Eide Bailly issued the report on 4/18/2022..

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022**

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
<b>Project Number</b> <b>Report Date</b> <b>Audit Rating</b>						
Comprehensive Review of Human Resources Recruiting Process  2022-13 April 18, 2022  Not used for consulting engagement	N/A	Opportunity #3: Structure, Culture & Service Level Agreements	3.e. HR should update work programs for all HR members including the members exclusively dedicated to recruiting efforts. The work programs should outline key recruiting steps, organizational support, and performance measures and accountability.	Human Resources will assess work programs, review classifications, and identify gaps.	12/31/2022	<b>ON TRACK</b>  Eide Bailly issued the report on 4/18/2022..
Comprehensive Review of Human Resources Recruiting Process  2022-13 April 18, 2022  Not used for consulting engagement	N/A	Opportunity #3: Structure, Culture & Service Level Agreements	3.f. Based on the anecdotal evidence shared throughout this engagement it is apparent that LACERA's workplace culture is being affected in negative ways through perceptions and experiences of individuals who are directly related to the recruiting efforts, primarily at the Division level. As such, LACERA should perform an assessment of their HR Division to evaluate the team-member cohesiveness, related to employee satisfaction, level of engagement, perception of HR division management, and alignment with organizational strategy.	Management will work toward addressing this issue as part of the Work Culture and Staff Development portion of the Strategic Plan.	12/31/2022	<b>ON TRACK</b>  Eide Bailly issued the report on 4/18/2022..

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022**

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
<b>Investments Division</b>						
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	<p><b>ON TRACK</b></p> <p>Reissuing checks can take up to two years.</p>

RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022						
Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number						
Report Date						
Audit Rating						
<b>Quality Assurance (QA) Division</b>						
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  <b>Approved 1st Extension 6/30/2022</b>	<b>BEHIND SCHEDULE</b>  Executive Management is still working through proposed recommendation.
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  <b>Approved 1st Extension 6/30/2022</b>	<b>ON TRACK - Approved 1st Extension</b>  QA management have been working on both a QA Production Plan and KPI draft. Note that the QA Production Plan is a weekly plan that establishes a framework that we plan to scale up to an annual QA Production Plan. The KPI draft continues to evolve as management consider what metrics can be efficiently utilized for each performance indicator.

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022**

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Project Number						
Report Date						
Audit Rating						
<b>Systems Division</b>						
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 3/31/2022 - <b>OVERDUE</b>	<b>OVERDUE - IN PROGRESS</b>  In April 2022, Management stated they will provide the draft Policy to the Executive Office in mid-April. Expected to have the Policy finalized and implemented by June 30, 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 3/31/2022 - <b>OVERDUE</b>	<b>OVERDUE - IN PROGRESS</b>  In April 2022, Management stated they will provide the draft Policy to the Executive Office in mid-April. Expected to have the Policy finalized and implemented by June 30, 2022.
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 3/31/2022 - <b>OVERDUE</b>	<b>OVERDUE - IN PROGRESS</b>  In April 2022, Management stated they will provide the draft Policy to the Executive Office in mid-April. Expected to have the Policy finalized and implemented by June 30, 2022.

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 2022**

Project Name	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
<b>Project Number</b> <b>Report Date</b> <b>Audit Rating</b> 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 3/31/2022 - <b>OVERDUE</b>	<b>OVERDUE - IN PROGRESS</b>  In April 2022, Management stated they will provide the draft Policy to the Executive Office in mid-April. Expected to have the Policy finalized and implemented by June 30, 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 3/31/2022 - <b>OVERDUE</b>	<b>OVERDUE - IN PROGRESS</b>  In April 2022, Management stated they will provide the draft Policy to the Executive Office in mid-April. Expected to have the Policy finalized and implemented by June 30, 2022.
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 3/31/2022 - <b>OVERDUE</b>	<b>OVERDUE - IN PROGRESS</b>  In April 2022, Management stated they will provide the draft Policy to the Executive Office in mid-April. Expected to have the Policy finalized and implemented by June 30, 2022.

**RECOMMENDATION FOLLOW-UP REPORT AS OF APRIL 27, 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	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 3/31/2022 - <b>OVERDUE</b>	<p><b>OVERDUE - IN PROGRESS</b></p> <p>In April 2022, Management stated they will provide the draft Policy to the Executive Office in mid-April. Expected to have the Policy finalized and implemented by June 30, 2022.</p>



April 15, 2022

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

Audit Committee Consultant  
Robert H. Griffin

FROM: Christina Logan   
Principal Internal Auditor  
Gabriel Tafoya   
Senior Internal Auditor

FOR: May 9, 2022 Audit Committee Meeting

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

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 recommendations from seven sensitive information technology (IT) engagements, detailed on Table 1, that Internal Audit has been monitoring. Staff most recently added the first engagement listed, Moss Adams External Network Penetration Testing and Social Engineering Assessment (Pen and Social Engineering), in April 2022. The seventh one, Consolidated Recos, is a consolidation of recommendations which overlapped or were repetitive into a singular recommendation for ease of managing.

We have summarized the open recommendations by project in Table 1 and then by the control type in Table 2. There were no recommendations implemented during this reporting period.

Staff will be available to address questions at the May 9, 2022 Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

CL:gt

Noted and Reviewed:



Richard P. Bendall  
Chief Audit Executive

**SUMMARY OF OPEN RECOMMENDATIONS**

**Table 1: Recommendations Status – By Audit Engagement**

Engagement Name	Report Date	Total Recos	Implemented During Prior Periods	Implemented Feb 2022 – Apr 2022	In Progress Apr 2022
Recommendation Status by Risk Level					
<b>Moss Adams Pen and Social Engineering</b>		April 2022			
High		3	—	—	3
Medium		3	—	—	3
Low		1	—	—	1
<b>PM SOC FY2021</b>		September 2021			
High		—	—	—	—
Medium		5	1	—	4
Low		—	—	—	—
<b>PM SOC Readiness Assessment</b>		February 2020			
High		—	—	—	—
Medium		10	7	—	3
Low		—	—	—	—
<b>Clear Skies Penetration Test and VeraCode Report</b>		March 2020			
High		1	1	—	—
Medium		25	15	—	10
Low		17	8	—	9
<b>Tevora 2019 Penetration Test</b>		June 2019			
High		—	—	—	—
Medium		—	—	—	—
Low		5	3	—	2
<b>Tevora 2018 Security Risk Assessment</b>		July 2018			
High		—	—	—	—
Medium		3	3	—	—
Low		6	3	—	3
<b>Consolidated Recos</b>		January 2021			
High		2	2	—	—
Medium		2	1	—	1
Low		—	—	—	—
<b>Totals</b>		<b>83</b>	<b>44</b>	<b>—</b>	<b>39</b>

**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
<b>Data Backup and Recovery</b>	Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.
<b>Environmental</b>	Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
<b>Information Security</b>	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
<b>Logical Access</b>	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
<b>Physical Security</b>	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.
<b>System Development &amp; Change Management</b>	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.
<b>System Monitoring &amp; Maintenance</b>	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.

**Table 2: Recommendations Status – By IT General Control Areas**

	Total Recos	Implemented During Prior Periods	Implemented Feb 2022 – Apr 2022	In Progress Apr 2022
Data Back Up & Recovery	1	1	—	—
Environmental	—	—	—	—
Information Security	12	3	—	9
Logical Access	48	30	—	18
Physical Security	2	—	—	2
System Development & Change Management	2	1	—	1
System Monitoring & Maintenance	18	9	—	9
<b>Total # Recos by Implementation Status</b>	<b>83</b>	<b>44</b>	<b>—</b>	<b>39</b>



**FOR INFORMATION ONLY**

April 21, 2022

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

Audit Committee Consultant  
 Robert H. Griffin

FROM: Kathryn Ton   
 Senior Internal Auditor

FOR: May 9, 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. For the Committee's information, Internal Audit is not currently investigating, nor has it received any new reports of wrongdoing and/or become aware of any matters of wrongdoing outside of the Ethics Hotline. Furthermore, we have not identified any matters of fraud in any of our recent or current audit and consulting work.

KT

Noted and Reviewed:

Richard P. Bendall  
 Chief Audit Executive



**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**



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