LIVE VIRTUAL COMMITTEE MEETING

AUGUST 18, 2022 AT 8:00 AM

AUDIT COMMITTEE MEETING

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TO PROVIDE PUBLIC COMMENT

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

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

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

AGENDA

A 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., THURSDAY, AUGUST 18, 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 May 9, 2022

III. PUBLIC COMMENT

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

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

IV. 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 July 25, 2022)

V. NON-CONSENT ITEMS

A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Audit Committee review and approve the Fiscal Year Ending 2023 Audit Plan. (Memo dated August 5, 2022)

B. Recommendation as submitted by Christina Logan, Principal Internal Auditor and Nathan K. Amick, Senior Internal Auditor: The Audit Committee approve our request to release a Request for Proposal (RFP) for a Financial Auditor. The RFP will request certified public accounting firms submit bids to audit LACERA's annual financial statements for fiscal years ending June 30, 2023 – 2027, with an option to extend for up to two years. (Memo dated August 1, 2022)

V. NON-CONSENT ITEMS (Continued)

C. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Kathryn Ton, Senior Internal Auditor: That the Audit Committee approve the engagement of KPMG LLP (KPMG) to perform a consulting review of the LACERA's Investment Office's Operational Due Diligence Program and Processes.
(Memo dated August 1, 2022)

D. Recommendation as submitted by Christina Logan, Principal Internal Auditor and Kristina Sun, Senior Internal Auditor: That the Audit Committee review and discuss the Organizational Governance Assessment 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 August 1, 2022)

E. Recommendation as submitted by Kristina Sun, Senior Internal Auditor: That the Audit Committee review and discuss the Risk and Control Assessment - Retired Healthcare Division 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 July 22, 2022)

V. NON-CONSENT ITEMS (Continued)

F. Recommendation as submitted by Nathan K. Amick, Senior Internal Auditor: That the Audit Committee review and discuss the Audit of LACERA's Rehired Retiree Program 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 August 8, 2022)

VI. REPORTS

A. FYE 2022 Internal Audit Annual Performance Report
Leisha E. Collins, Principal Internal Auditor
(Presentation) (Memo dated August 8, 2022)

B. Fiscal Year Ending (FYE) 2023 Internal Audit Goals
Richard P. Bendall, Chief Audit Executive
(Memo dated July 22, 2022)

C. Census Testing Report – Limited Scope Memo
Christina Logan, Principal Internal Audit
Kristina Sun, Senior Internal Auditor
Nathan K. Amick, Senior Internal Auditor
(Memo dated July 25, 2022)

D. Status Update on Staff Bonus Policy
Santos H. Kreimann, Chief Executive Officer
Carly Ntoya, Director of Human Resources
(Memo dated July 25, 2022)

E. Recommendation Follow-Up Report
Kristina Sun, Senior Internal Auditor
(Memo dated August 1, 2022)

VI. REPORTS (Continued)

F. Recommendation Follow-Up for Sensitive Information Technology Areas
Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Memo dated August 1, 2022)

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

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

I. Ethics Hotline Status Report
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated August 1, 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. ADJOURNMENT

The Board of Retirement and Board of Investments have adopted a policy permitting any member of the Boards to attend a standing committee meeting open to the public. In the event five (5) or more members of either the Board of Retirement and/or the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement and/or Board of Investments. Members of the Board of Retirement and Board of Investments who are not members of the Committee may attend and participate in a meeting of a Board Committee but may not vote on any matter discussed at the meeting. Except as set forth in the Committee's Charter, the only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

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

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

MINUTES OF THE REGULAR MEETING OF THE AUDIT COMMITTEE 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., MONDAY, MAY 9, 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 (Left the meeting at 10:24 a.m.)

Patrick L. Jones, Secretary

Alan J. Bernstein

Keith Knox

Wayne Moore

Herman B. Santos
(Joined the meeting at 8:02 a.m. and left at 10:21 a.m.)

MEMBERS AT LARGE

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

JJ Popowich, Assistant Executive Officer

Steven P. Rice, Chief Counsel

STAFF, ADVISORS, PARTICIPANTS (Continued)

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

Kathy Delino, Interim Systems Division Manager

Summy Voong, Interim Assistant System Division Manager

Robert Schlotfelt, Interim Chief Information Security Officer

Carly Ntoya, Director of Human Resources

Ted Granger, Assistant Chief Financial Officer

Doug Sluyk, Manager, Eide Bailly

Audrey Donovan, Senior Manager, Eide Bailly

Roger Alfaro, Partner, Eide Bailly

Jean Young, Engagement Partner, Plante Moran

Amanda Cronk, Senior Manager, Plante Moran

Kevin Villanueva, Cybersecurity Consulting Partner, Moss Adams

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 Special Audit Committee Meeting of

March 23, 2022.

Mr. Bernstein made a motion, Mr. Knox seconded, to approve the minutes of the Special Audit Committee meeting of March 23, 2022, with the amended revisions. 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. 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)

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

V. NON-CONSENT ITEMS (Mr. Bernstein left at 8:20 am)

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)

Messrs. Kreimann, Bendall, and Ms. Ton were present and answered questions from the Committee.

Mr. Santos made a motion, Mr. Knox seconded, to approve staff's recommendation with the revisions to page 5.

Mr. Kelly made a substitute motion, Mr. Jones seconded, to accept the document from staff and for the Chief Audit Executive to consider the committee's comments in terms of revisions. The motion failed (roll call) with Messrs. Jones, Kelly, Moore, voting yes; and Messrs. Knox, Santos, and Ms. Sanchez voting No. Mr. Bernstein was absent from the vote.

The motion to approve staff's recommendation with the revision to add the number of investment manager relationships to page 5. The motion passed (roll call) with Messrs. Jones, Knox, Santos, and Ms. Sanchez voting yes; and Messrs. Kelly and Moore voting no. Mr. Bernstein was absent from the vote.

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):

V. NON-CONSENT ITEMS (Continued)

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)

Messrs. Lunde, Bendall, Kreimann and Ms. Guglielmo were present and answered questions from the Committee.

Ms. Sanchez made a motion, Mr. Knox seconded, to approve and file staff's recommendation and requested that the final policy be reported back to the Committee. The motion passed (roll call) with Messrs. Jones, Knox, Moore, Santos, and Ms. Sanchez voting yes; and Mr. Kelly voting no. Mr. Bernstein was absent from the vote.

(Mr. Bernstein rejoined at 9:03am)

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)

V. NON-CONSENT ITEMS (Continued)

Mr. Slyuk from Eide Bailly provided a brief presentation. Messrs. Lugo, Kreimann, and Ms. Ton were present and answered questions from the Committee.

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

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)

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

Mr. Bernstein made a motion, Mr. Knox seconded, to accept and file the report. The motion passed (roll call) with Messrs. Bernstein, Jones, Kelly, Knox, Moore, and Ms. Sanchez voting yes. Mr. Santos was absent from vote.

VI. REPORTS

A. Los Angeles County Employees Retirement Association Audit Committee
Pre-Audit Communication
Jean Young, Plante Moran, Engagement Partner
Amanda Cronk, Plante Moran, Senior Manager
(Presentation) (Memo dated April 18, 2022)

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

B. Audit Plan Status Report
Leisha E. Collins, Principal Internal Auditor
(Presentation) (Memo dated April 22, 2022)

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

C. Annual Audit Planning for Fiscal Year 2022-2023
Richard P. Bendall, Chief Audit Executive
(Presentation) (Memo dated April 27, 2022)

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

D. Overview of Survey of Retirement Systems Results
Robert H. Griffin, Audit Committee Consultant
(Presentation) (Memo dated April 15, 2022) (Mr. Santos left the meeting at 10:21am)

Mr. Griffin provided a brief presentation and answered questions from the Committee. Mr. Bendall was present and answered questions from the Committee. This item was received and filed.

VI. REPORTS (Continued)

E. Recommendation Follow-Up of Internal Audit's External Quality Assessment
Leisha E. Collins, Principal Internal Auditor
(Memo dated April 15, 2022)

This item was received and filed.

F. Recommendation Follow-Up Report
Kristina Sun, Senior Internal Auditor
(Memo dated April 27, 2022)

This item was received and filed.

G. Recommendation Follow-Up for Sensitive Information Technology Areas
Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Memo dated April 15, 2022)

This item was received and filed.

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

This item was received and filed.

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

This item was received and filed.

I. Ethics Hotline Status Update
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated April 21, 2022)

This item was received and filed.

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

Mr. Griffin provided brief comments to the Committee.

VIII. ITEMS FOR STAFF REVIEW

The Committee requested that staff report back on the Bonus Program

Policy when it is completed.

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

The Committee thanked staff for their work.

X. EXECUTIVE SESSION (Mr. Kelly left the meeting at 10:24 a.m.)

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

On a motion by Ms. Sanchez, seconded by Mr. Bernstein, the Audit Committee voted to accept and file the external penetration testing results component of the confidential Moss Adams report and presentation on LACERA External Penetration Testing & Social Engineering Test Results dated May 9, 2022 and the proprietary and confidential LACERA External Network Penetration Testing report dated April 20, 2022 and to direct that they be provided to the Operations Oversight Committee of the Board of Retirement at its June 2022 meeting. The motion passed 6-0, with Messrs. Bernstein, Jones, Knox, Moore, and Santos and Ms. Sanchez voting yes. Mr. Kelly was absent from the vote.

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

On a motion by Ms. Sanchez, seconded by Mr. Santos, the Audit Committee voted to accept and file the social engineering test results component of the confidential Moss Adams report and presentation on LACERA External Penetration Testing & Social Engineering Test Results dated May 9, 2022 and the proprietary and confidential LACERA Social

X. EXECUTIVE SESSION

Engineering Assessment report dated March 31, 2022, and to direct that they be provided to the Operations Oversight Committee of the Board of Retirement at its June 2022 meeting. The motion passed 6-0, with Messrs. Bernstein, Jones, Knox, Moore, and Santos and Ms. Sanchez voting yes. Mr. Kelly was absent from the vote.

XI. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 11:05 a.m.

L//CERA

July 25, 2022

TO: Each Trustee,
Audit Committee

FROM: Steven P. Rice, SPR
Chief Counsel

FOR: August 18, 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 over the past year the Governor actively terminated many emergency provisions. See, e.g., Order No. N-21-21, issued November 10, 2021, Order No. N-04-22, issued February 25, 2022. Very recently, the Governor terminated additional COVID provisions. See Order No. N-11-22, issued June 17, 2022. In the press release for the June 17 Order, the Governor's Office stated that, after June 30, 2022, "only 5 percent of the COVID-19 related executive order provisions issued throughout the pandemic will remain in place."

The Los Angeles County Department of Public Health maintains guidance to "Keep your distance. Use two arms lengths as your guide (about 6 feet) for social distancing with people outside your household when you are not sure that they are vaccinated." http://publichealth.lacounty.gov/acd/ncorona2019/reducingrisk/. The County Public Health Department also maintains guidance that employers should, "Whenever possible, take steps to reduce crowding indoors and encourage physical distancing: … Limit indoor occupancy to increase the physical space between employees at the worksite, between employees and customers, and between customers.… Continue, where feasible to offer telework options for employees. Offer teleworking options during times of high community transmission (100 or more new cases per 100,000 persons in the past 7 days). In addition, at other times, consider offering teleworking arrangements that do not interfere with business operations to reduce crowding indoors." http://publichealth.lacounty.gov/acd/ncorona2019/bestpractices/.

As further indication of the County's interpretation of the impact of the State of Emergency on public meetings, at its July 12, 2022 meeting, the Board of Supervisors voted to find that the State of Emergency remains active and "local officials continue to recommend measures to promote social distancing" and that the Board of Supervisors shall continue to hold teleconference meetings under the terms of Assembly Bill 361 and Government Code Section 54953(e)(3). On June 24, 2022, the Executive Office of the Board of Supervisors issued a press release announcing that "meetings will remain virtual until the transmission level drops to 'low' and remains at that level for 7 days." The Board of Supervisors will resume meetings in the Board hearing room when this standard is met, although Public Comment will continue to be available telephonically. It does not appear that the standard will be met in the near future. Indeed, the County recently increased the community transmission level to "high" and may soon reinstate the indoor mask mandate, possibly before the August LACERA Audit Committee meeting.

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 in certain circumstances also remains posted on the City's COVID web page as a reference. As of the date of this memo, the City Council continues to hold its meetings by videoconference/teleconference, although some council members attend in person in the council chambers. At its July 18, 2022 meeting, the City Council voted to extend the video and teleconference meeting process through August 17, 2022.

The Centers for Disease Control and Prevention (CDC) has 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.

Under these circumstances, the Committee may reasonably conclude and find that teleconferencing under Section 54953(e) is appropriate for Committee meetings during the next 30 days, so long as the State of Emergency remains in effect, because (1) the State of Emergency continues to impact the ability of the Trustees to meet safely in person, or (2) the County and other authorities continue to recommend measures to promote a safe workplace, including physical distancing, as required by the statute. Either finding is sufficient under Section 54953(e) to support continued teleconference meeting.

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.

Finally, on July 18, 2022, LACERA management reimposed heightened workplace safety requirements, including telework for staff who are not required to be in the office, masks at all times for all employees in the office, and social distancing for in office staff. These restrictions followed LACERA staff's return to the office on May 2, 2022 under hybrid work schedules for most employees. The return to office for staff was made under COVID safety protocols, including vaccination and testing procedures and encouraging masks and social distancing. No decision has yet been made as to when the Committee will return to in person meetings. When the Committee returns, management will implement protocols for the boardroom, which will present separate safety challenges, including, for example, the small size of the room, ingress and egress, and public access and comment requirements.

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

LACERA

August 5, 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 RPB
Chief Audit Executive

FOR**:** August 18, 2022 Audit Committee Meeting

SUBJECT: **Fiscal Year Ending 2023 Audit Plan**

RECOMMENDATION

Approve the proposed Internal Audit Plan for Fiscal Year Ending (FYE) 2023.

BACKGROUND

According to the Institute of Internal Auditor's *(IIA's) International Standards for the Professional Practice of Internal Auditing (Standards)*, the Chief Audit Executive *(CAE)* must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. To remain in compliance with the *Standards*, as well as the Audit Committee Charter, Internal Audit has developed the attached Internal Audit Plan *(Audit Plan)* for FYE 2023.

The projects included in our Audit Plan are primarily identified through our on-going risk assessment. This process includes keeping abreast of the concerns of the Audit Committee and Boards throughout the year, discussions with Executive Management, review of LACERA's Strategic Plan, risk meetings with division managers, and identifying risk areas from prior internal and external audits.

This year, along with our Audit Plan, as discussed at the May 2022 meeting, we are including a work-in-progress summary of our risk assessment. A risk assessment begins with identifying and refining the audit universe. This year, we refined our audit universe and mapped most divisions' self-identified key business process to the organizational chart.

Please note that we have not included the Systems Division or Information Security Office's as we intend to engage an outside auditor/consultant this year to perform an information technology (IT) risk assessment. This project will include working with the consultant to refine the audit universe for these two areas.

The intent of providing the audit universe broken out by division is to provide the Committee, not only with transparency to the universe of projects from which we develop the audit plan, but also to provide the Committee with the context of the risk area with which the project is associated and a view of Internal Audit's coverage of risk areas based on our available resources.

The attached divisional risk spreadsheets (Attachment), provide:

1. The universe of audit areas associated with each division (column 2, "Process")
2. Internal Audit's assessment of audit priority (Column 4)
3. Information about prior audit work performed and a rating of that work (Column 3)
4. A three-year view on work, that is, work included on the FYE 2022 Audit Plan, work proposed for the current year (FYE2023) and work projected to be included on the next fiscal year audit plan (FYE2024)
5. Audit projects we considered but could not add to the current Audit Plan due to resource constraints are highlighted in blue in the current year column.

We had started to develop an audit cycle column on each divisional risk spreadsheet, but this is an area that needs more work. We will integrate these divisional risk documents into the annual risk assessment process and further develop the audit cycle for each risk area for inclusion next fiscal year.

Furthermore, as recommended by the IIA, the Audit Plan includes assurance, consulting, and advisory engagements. We have also provided time in our plan for Internal Audit Administration projects and for Unplanned Work.

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

Staff will be available at the Audit Committee meeting on August 18, 2022 to address any questions.

Attachment

FYE 2023 AUDIT PLAN

	DIVISION	AUDIT/PROJECTS	PROJECT
	EXECUTIVE/LEGAL/ORGANIZATIONAL		
1	Exec office	Org Check Management Review (Rollover)	Audits
2	Exec office	LA County Rehired Retiree Audit	Audits
3	Exec office	Document Ret/Clean Desk	Audits
4	Exec office	Organization Governance Ethics Follow-Up	Other Assurance
5	Exec office	Review of Privacy Audit Recommendations	Other Assurance
	ADMINISTRATION - Admin Services, HR Systems		
6	Admin Services	Procurement of Services - Contract Operation	Audits
7	Admin Services	Inventory Asset Management	Audits
8	HR	LACERA Rehired Retiree Audit	Audits
9	Info Sec	Third-Party Data Security	Audits
10	Systems	Termination of Access (Rollover)	Audits
11	Systems	Privilege Access (Roll Over)	Audits
12	Systems	IT Risk Assessment	Ext Audit
13	Systems	Oversight of Soc Audits FY 22 & 23	Oversight
	INVESTMENTS & FASD		
14	FASD	Wire Transfers Audit - State Street	Audits
15	FASD	Wire Transfers Audit- B of A (possible FY 24)	Audits
16	FASD	Census Data Audit	Audits
17	FASD	Credit Card Audit/CEO Credit Card Review	Audits
18	FASD	State Street Bank - (limited scope)	CAP
19	FASD	Oversight of Financial Audit FY 22 & 23/RFP	Oversight
20	FASD	Duplicate Vendor Payments	CAP
21	Investments	Investments Due Diligence Consulting Review	Ext Audit
22	Investments	Oversight of Actuarial Audit FY 22 & 23/RFP	Oversight
23	Investments	Oversight THC Financial Audits - FY 22 & 23	Oversight
	OPERATIONS - Benefits, DRS, RHC, Member Services		
24	Benefits	Acct Settlement Collections (Overpayments)	Audits
25	Benefits	GRC - Account Integrity Unit	Audits
26	Benefits	Death Claims Calc & Documentation	Audits
27	Benefits	Replacement Plan 415B	Audits
28	Benefits	Felony Forfeiture	Audits
29	Benefits	Duplicate Member Payment (Limited Scope)	CAP
30	Benefits	New Payees (limited scope)	CAP
31	Benefits	Social Security Number Verification System (SSNVS)	CAP
32	Benefits	LAC Payroll Audit (Scope Assessment)	Other Assurance
33	Member Services	Member Communications (Risk & Controls Review)	Audits
34	DRS	Disability Process Review	Audits
	INTERNAL AUDIT OPERATIONS		
35	Internal Audit	Reco Follow-Up - Org & Administrative	Other Projects
36	Internal Audit	Reco Follow-Up - Systems	Other Projects
37	Internal Audit	Professional Development / CPE	Other Projects
38	Internal Audit	Quality Assessment Improvement Program (QAIP)	Other Projects
39	Internal Audit	Audit Committee Support	Other Projects
40	Internal Audit	Risk Assessment	Other Projects
41	Internal Audit	Teammate	Other Projects

ATTACHMENT

EXECUTIVE OFFICE

Division / Organizational	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Executive Office / Organizational						
	SOC 1, Type 2 OPEB	6/30/2021	🟨	Oversight of SOC-1 Type 2 Audit		
	Cash Management	Various NR	🟧	Org. Check Man. Policy Review		
	Clean Desk Policy		🟨			
	Contract Compliance	Various NR	🟨		Third party Data Review	
	BCP/DR	Advisory	🟨	BCP & DR Audit		BCP/DR Ext Independent Review
	Governance, Risk, Compliance, Culture, Ethics, and Fraud		🟧	Org. Governance Review Org. Ethics & Values Review		
	LA County Rehired Retirees Audit		🟧	LAC Rehired Retirees		
	Privacy Policy / Access to Confidential Data	Alston & Bird 2016 NR	🟧	Privacy Policy / Access to Confidential Data Board Vantage Security Settings		

LAST AUDIT RATING KEY

Satisfactory w/ recommendations

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Opportunities for improvement

Unsatisfactory

AUDIT PRIORITY KEY

🟩 Low
🟨 Moderate
🟧 Heightened
🟥 Major

RISK NOTES (IF ANY)

🟦 **Not included in FY 2023**

ADMINISTRATIVE SERVICES DIVISION

Division / Sub Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Projects	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Budget, DPC						
Admin Services - Overall Division			🟧			
	Budget Development & Monitoring		🟨		Advisory engagment on implemenation of new budget system	Assurance audit on new budget system
	Check Management (IRIS, Admin, Payroll)		🟧	Org. Check Mmt Review	Org. Check Mmt Review (RollOver)	
	Documents Processing Center		🟨			
	Mail Processing Services		🟩			
Procurement (includes BCP, Facilities Mgmt, Record Ret., Risk Mgmt						
	Business Contintuity/ Disaster Recovery	2019 Advisory	🟧		Ongoing Advisory Services	
	Contract Management (Adminstration & Saving on Contract)	06/2020	🟨		Contract Operational Review (Crossover with Legal)	
	Facilities Management		🟩			
	Health & Safety		🟧		Office Security- Disability Issues (Advisory)	
	Inventory Asset Management	MDM Audit (Systems) 06/2020	🟥		Inventory/Mobile Device Mgm Review	
	LACERA Insurance Program		🟨			
	Procurement Good & Services	> 5 Yrs ago	🟨	Procurement Audit (deferred)	Procurement Audit	
	Records Retention Management		🟧		Clean Desk Policy Review	Clean Desk Policy Review
	Renovations	> 5 Yrs ago	🟩			
	Ride Share Program		🟩			

LAST AUDIT RATING KEY

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Satisfactory w/ recommendations

Opportunities for improvement

Unsatisfactory

AUDIT PRIORITY KEY

🟩 Low
🟨 Moderate
🟧 Heightened
🟥 Major

RISK NOTES (IF ANY)
Contract Mgmt
Health & Safety
Ride Share
Records Retention

🟦 Not included in FY 2023

BENEFITS DIVISION

Division / Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Benefits - Overall Division					Member Communications Audit	
	Certificates - Vital documents	06/2017	🟨			
Account Integrity Services						
	BPU: Foreign Payees	04/2020	🟨	CAP: Foreign Payees	Risk & Controls - Account Integrity	
	BPU: Mbr Death Identification and Verification	10/2017	🟨			
	BPU: Social Security Number Verification System (SSNVS)	02/2021	🟨			
	BPU: Member Authentication Process	Advisory	🟨			
	Acct Maint: New Enrollment		🟨			
	Acct Maint: 1099/Taxes		🟨			
Process Management						
	Felony Forfeiture	Advisory > 5 Yrs ago	🟨		Felony Forefieture	
Core Benefits Svcs						
	Acct Settl: Account Settlement Process	07/2019	🟥	Account Settlement Collections	c/o Account Settlement Collections	Risk & Controls - Core Benefits
	Acct Settle: Outlawed Checks		🟨			
	Acct Settle: Plan E Rescissions		🟨			
	Contracts		🟨			
	Contract Rollovers		🟨			
	First Payment Agenda		🟨			
	Interest Posting		🟨			
	Open Window Plan Transfer		🟨			
	Previous Service		🟨			
	Reciprocity		🟨			
	Required Min Distributions	08/2021	🟨	Required Min Distribution		
	Temp Time Purchase		🟨			
	Terminations		🟨			
	Withdrawals		🟨			
Special Benefits Services						
	Legal/Death: Active Death Benefits/Member Death Benefits	Various	🟧	Death Claim Processing	c/o Death Claim Processing	
	Exceptions: Benefits Exceptions Reporting		🟧			Advisory:
	Exceptions: Contribution Rate Change	Various	🟨			
	Exceptions: Disability Payroll	> 5 Yrs ago	🟨			
	Exceptions: Discharge Cancellation		🟨			
	Exceptions: Replacement Benefit Plan (415b)	> 5 Yrs ago NR	🟧		Benefit Replacement - 415b Audit	
	Payroll: Embedded Earnings - Paycodes	Various	🟥		Plan Sponsor Payroll Audit - LA County	
	Legal/Death: Legal Splits	Various	🟨			
	Legal/Death: Minor Survivor Continuance	Various	🟨			
	Exceptions: Optional Membership		🟨			
	Exceptions: POA		🟨			
	Payroll: Retroactive Payments	Dup Special Pyments 01/2017	🟨		Duplicate Member Payments	
	Legal/Death: Seamless Survivor		🟨			
Returned ADR	Shared with Member Services					

LAST AUDIT RATING KEY

Satisfactory w/ recommendations

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Opportunities for improvement

Unsatisfactory

AUDIT PRIORITY KEY

Low

Moderate

Heightened

Major

RISK NOTES (IF ANY)

Accounts Settlement

🟦 **Not included in FY 2023**

COMMUNICATIONS DIVISION

Division / Sub-Divisions	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Communications - Overall Division				Macintosh Data Back-Up		
Media Content Management			🟨			
Member Communications						
	Collateral Production of all Media to Members		🟨		Mbr Comm High Level Review	
	LACERA Websites Updates and Maintenance		🟨			
	Internal and External Communication		🟨		Org Comm Plan (Advisory)	
Organizational Support						
	Intranet Maintenance		🟩			
	LACERA Event Planning		🟩			
	Video Production / Communication		🟩			
	Visual Design and Campain Strategy		🟩			

LAST AUDIT RATING KEY

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Satisfactory w/ recommendations

Opportunities for improvement

Unsatisfactory

AUDIT PRIORITY KEY

Low

Moderate

Heightened

Major

RISK NOTES (IF ANY)

🟦 Not included in FY 2023

DISABILITY LITIGATION DIVISION

Division / Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Disability Litigation - Overall Division						
	Disability Hearings		🟨		Disability Process - continuation on DRS	

LAST AUDIT RATING KEY	Satisfactory w/ recommendations
NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.	Opportunities for improvement
	Unsatisfactory

AUDIT PRIORITY KEY	Low
	Moderate
	Heightened
	Major

RISK NOTES (IF ANY)

Disability Process

🟦	**Not included in FY 2023**

DISABILITY RETIREMENT DIVISION

Division / Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
DRS Overall Division						
	Physician Consultant Hiring and Monitoring	02/2018 NR	🟨			
	Physician Vendor Invoice Payment Process		🟩			
	Agenda Process		🟨		Disability Process Review - based on Division Manager request	
	Record Custodial Function		🟥			
Intake						
	Intake process		🟨			
Appeals						
	Appeals process		🟨			
Investigative Team						
	Investigation process		🟨			

LAST AUDIT RATING KEY

Satisfactory w/ recommendations

Opportunities for improvement

Unsatisfactory

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

AUDIT PRIORITY KEY

🟩 Low

🟨 Moderate

🟧 Heightened

🟥 Major

FINANCIAL ACCOUNTING SERVICES DIVISION

Division / Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
FASD Overall						Risk & Controls - FASD
General Accounting						
	Child Support Payments		🟩			
	Member Payroll & Tax Payment		🟩 from med			
	Member Healthcare		🟨			
	Treasury Bank Accounts Recon		🟨			
	Member Special Payments		🟨			
	Accounts Payable	04/2022	🟩 from med	Audit: Accounts Payable		
	Corporate Credit Cards	06/2020	🟩		Audit: Corporate Credit Cards (w/CEO CC Audit)	
	Corporate Credit Cards - CEO	10/2021	🟩	Audit: Corporate CC- CEO	Audit: Corporate CC- CEO	
	Travel Training Expenses & Reporting	06/2019	🟧		Advisory: Travel Software	
	Recon Reimbursable Cost (OPEB County Trust Fund)		🟩			
	Check Distributions **(add per mtg)**		🟩			
Reporting & Complinace						
	Actuarial Projects & Reporting	Various	🟨	Oversight of Auditing Actuary CAP Test = Census	Oversight of Auditing Actuary Audit: Census Data	Oversight of Auditing Actuary CAP Test = Census
	Reporting & Acct Compliance Regulations **(add per mtg)**		🟩			
Investment Accounting						
	Wire Transfers - Cash Management	02/2022	🟧	CAP Test = SSB Audit: Wire Transfers	CAP Test = SSB	CAP Test = SSB
	Custodial / Treasury Bank Services		🟨		Advisory: Custodial Bank Search	
	Public Market Accounting Functions	Unqualified Financial Audit	🟨			
	Private Equity Accounting Functions	Unqualified Financial Audit	🟨			
	Hedge Funds Accounting Functions	Unqualified Financial Audit	🟨			
	Real Estate/Assets Accounting Functions	Various	🟨	Oversight of THC Financial Audit Oversight of R/E manager reviews	Oversight of THC Financial Audit	Oversight of THC Financial Audit

LAST AUDIT RATING KEY

Satisfactory w/ recommendations

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Opportunities for improvement

🟥 Unsatisfactory

AUDIT PRIORITY KEY

🟩 Low
🟨 Moderate
🟧 Heightened
🟥 Major

RISK NOTES (IF ANY)
Check Distribtions
Reporting and Compliance (e.g., Gloria Responsibilities, e.g., fin. Stmt rportg, law reg. GASB)

🟦 Not included in FY 2023

HUMAN RESOURCES DIVISION

Division / Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Human Resources - Overall Division						Governance, Risk and Controls
	Job Analysis and Classification Studies		🟧		Job Analysis & Classification	
Employee & Org Development						
	Employee Engagement		🟨			
	Employee Training		🟨			
	Tuition Reimbursement Program	03/2017 NR	🟩			
Return to Work / Payroll						
	Bonuses	02/2022	🟥	Employee Bonuses		
	Protected Leaves and Disability Accommodations		🟨		Advisory: Backfilling positions when on leave	
	Timekeeping/Payroll/Overtime Recording	11/2019	🟧			
	Workers Compensation		🟨			
Talent Acquisition & Management						
	Employee Disciplinary Process		🟨			
	Employee Performance Evaluations		🟨			
	Employee Terminations Process		🟧			
	New Employee Orientation	08/2022	🟨	Rehired Retirees LACERA	Advisory: Handbook	
	Recruitment Process	04/2022 NR	🟥	Review of HR Recruiting & Hiring Process		

LAST AUDIT RATING KEY

Satisfactory w/ recommendations

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Opportunities for improvement

Unsatisfactory

AUDIT PRIORITY KEY

🟩 Low
🟨 Moderate
🟧 Heightened
🟥 Major

RISK NOTES (IF ANY)

🟦 **Not included in FY 2023**

INVESTMENTS DIVISION

Division/ Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Investments - Overall Division						Investment Office Risk Assessment (Ext)
	Actuarial Oversight			Oversight Actuarial Services	Oversight Actuarial Audit	
	Operation Due Dilligence (ODD)		🟨	Operational Due Diligence RFP	ODD Consulting Eng.	
	Wire Transfers (B of A)	12/2018 NR	🟨		Wire Transfers (B of A)	
	Wire Transfers (State Street)	07/2015 NR	🟨		Wire Transfers (State Street Bank)	
	Investment Fees	06/2017 NR	🟨			Investment Fees Review
	Portfolio Analytics - Total Fund View		🟨			
	Investment Performance Reporting		🟨			
	Manager Contract Compliance		🟨			
	Cash Management		🟨		Cash mgmt 2023	
	Payroll Liquidity/Cash		🟨		Payroll/liquidity 2023	
	Asset Allocation		🟨			
	Securities Lending	07/2018 NR	🟨		Securities Lending Review	
	Portfolio Monitoring		🟨			
Credit and Risk Mitigating Strategies						
			🟨			
Global Equity						
			🟨			
Private Equity						
	Overall program review	06/2015 NR	🟨			
	Private Equity Fees		🟨			
Real Assets						
			🟨			
Real Estate						
	Oversight of THC Financial Auditors	Annual		Oversight THC Financial Audits	Oversight THC Financial Audits	Oversight THC Financial Audits
	THC Operations	06/2021	🟨			
	Oversight RE Manager Reviews	Various 2019-2021				

LAST AUDIT RATING KEY

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Satisfactory w/ recommendations

Opportunities for improvement

Unsatisfactory

AUDIT PRIORITY KEY

Low

Moderate

Heightened

Major

RISK NOTES (IF ANY)

🟦 **Not included in FY 2023**

LEGAL DIVISION

Division / Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Legal - Overall Division						
	Benefit Legal Services		🟨		X	
	Disability Counsel		🟨			
	Investments Section		🟨		X	
	Legislative Affairs		🟨			
	Litigation Section		🟨			
	THC Legal Formation and Maintenance Taxes and Exeptions		🟨		X	
	Securities Litigation		🟨			
	Disability Writ Litigation		🟨			
	Ethics Policy Monitoring and Update		🟨		X	
	Compliance		🟨		X	
	Benefit Legal Services, including but not limited to Pension Benefits, Dissolutions, Subpoenas, Power of Atorneys, Benefits Entitlement, CERL and PEPRA Compliance, Pensionable Compensation		🟨		X	
	Legislative Affairs		🟨			
	Investment Transactional Legal Servies		🟨			
	Maintaining LEI Registration, Country Registations for Public Markets, OPEB Trust Formation and Maintenance Compliance		🟨			
	Commercial Contract Review and Litigation		🟨		X	
	Commercial Contract Review and Litigation		🟨		X	
	Board Governance and Fiduciary		🟨			Form 700 Assurance Review
	Form 700		🟨			
	Retiree Healthcare Services		🟨			
	Advice on Felony Forfeitures		🟨		X	
	Employment Matters		🟨			
	Disability Legal Services		🟨			
	Tax Issues, including VCP, Fud Tax Qualification. Determination Letters, Routine Compliance		🟨			
	Public Records Act		🟨			
	Identification and Correction of Account Errors		🟨			
	Member Litigation		🟨			
	Administrative Appeals		🟨			
	Board/Staff Training and Education		🟨			
	Subrogation		🟨			
	Corporate Governance and Shareholder Rights		🟨			

LAST AUDIT RATING KEY

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Satisfactory w/ recommendations

Opportunities for improvement

Unsatisfactory

AUDIT PRIORITY KEY

Low

Moderate

Heightened

Major

RISK NOTES (IF ANY)

An X in a Proposed Plan Column indicates that the Legal Office does not have primary responsibility but a related audit is planned elsewhere in the organization.

🟦 Not included in FY 2023

MEMBER SERVICES DIVISION

Division/Sub Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Projects	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Member Services Overall				Member Communications Audit-Phase 1		
Contact Center						
	Call Center		🟧		AWS Call Center Review of Controls	AWS Call Center Review of Controls
	Member Correspondence		🟨		Member Communications Audit-Phase 2	
Quality Control						
	Quality Control/Audits		🟨			
	Appeal Process		🟨			
	Active Death Case Management		🟨			
	Escalations		🟨			
Outreach						
	Member Correspondence		🟨			
	Member Retirement Counseling		🟨			

LAST AUDIT RATING KEY

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

- Satisfactory w/ recommendations
- Opportunities for improvement
- Unsatisfactory

AUDIT PRIORITY KEY

- Low
- Moderate
- Heightened
- Major

RISK NOTES (IF ANY)
Current focus on the Call Center

🟦 **Not included in FY 2023**

QUALITY ASSURANCE DIVISION

Division Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
Quality Assurance & Metrics - Overall Division		04/2021	🟨			
QA						
	Training (Core, Veteran, Adhoc)		🟨			
	Quality Audits		🟨			
	Ad Hoc Audits		🟨			
	Special Projects		🟩			

LAST AUDIT RATING KEY

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Satisfactory w/ recommendations

Opportunities for improvement

🟥 Unsatisfactory

AUDIT PRIORITY KEY

🟩 Low

🟨 Moderate

🟧 Heightened

🟥 Major

RISK NOTES (IF ANY)

🟦 **Not included in FY 2023**

RETIRE HEALTHCARE DIVISION

Division / Sub-Division	Process	Last Audit Rating & Date	Audit Priority	Current FY 2022 Project	PROPOSED Plan FY 2023 Project	PROPOSED FY 2024 Project
RHC Overall				Risk and Control - RHC 07/2020		
	Member communications		🟨		Member Communications Audit	
Audits & Financial						
	Carrier audits		🟨			
	Financials (COBRA & Non-Deduct)		🟨			
	Insurance billings / refunds		🟨			
	Medicare Part B Premium Reimbursement Program		🟨			
	Monthly premium reconciliation		🟥			
	Refund (LIS, Code 19, RDS) processing		🟨			
	Death reports		🟨			
Operations						
	Domestic Partner Annual 1099		🟨			
	Health care enrollment process		🟨			
	OTHER	RHC Benefit Funding Audit NR 01/2018				
		Tier II RHC Program Audit NR 05/2018				
Call Center						
	RHC Call Center & Counseling		🟥			Set-up of AWS to ensure data privacy

LAST AUDIT RATING KEY

NR indicates that the audit was not rated at the time of performance. The rating applied is best judgement at this time.

Satisfactory w/ recommendations

Opportunities for improvement

Unsatisfactory

AUDIT PRIORITY KEY

Low

Moderate

Heightened

Major

RISK NOTES (If any)

🟦 **Not included in FY 2023**

L//.CERA

August 2, 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

Nathan K. Amick
Senior Internal Auditor

FOR**:** August 18, 2022 Audit Committee Meeting

SUBJECT: **Request for Proposal for a Financial Auditor**

RECOMMENDATION

Internal Audit recommends the Audit Committee approve our request to release a Request for Proposal (RFP) for a Financial Auditor. The RFP will request certified public accounting firms submit bids to audit LACERA's annual financial statements for fiscal years ending June 30, 2023 – 2027, with an option to extend for up to two years.

DISCUSSION

Government Code Sections 31598 and 31593 requires that LACERA prepare annual financial statements and retain the services of a certified public accounting firm to perform an annual audit. The Audit Committee Charter assigns the Audit Committee the responsibility to approve the appointment and compensation of a Financial Auditor hired to perform an independent audit of LACERA's Financial Statements.

On November 16, 2016, LACERA entered into a five-year contract with Plante Moran (PM) to provide audit services for fiscal years ended (FYE) June 30, 2017 – 2021. At the April 2021 Audit Committee Meeting, the Committee approved extending PM's contract for an additional year. PM's contract will conclude with the completion of the audit of FYE June 30, 2022 Financial Statements.

Included in this memo are the following attachments for discussion with the Audit Committee:

- Attachment A - proposed RFP minimum qualifications
- Attachment B - presentation on the RFP and its process including the scope of work, minimum qualifications, and the planning for the RFP.

In October 2017, Los Angeles County requested to change LACERA's Other Post-Employment Benefits (OPEB) plan structure from a cost-sharing multiple employer plan to an agent multiple employer plan beginning with Fiscal Year Ended June 30, 2019. As a result of this change, LACERA amended its contract with PM expanding the scope of work to provide:

1. Schedule of Changes in Fiduciary Net Position by Employer and related notes.
2. Independent Auditor's Report over management's assertion that census data for retirees is complete and accurate.

This RFP's scope of work includes the Schedule of Changes in Fiduciary Net Position by Employer but will not include the Independent Auditor's Report over management's assertion that census data for retirees is complete and accurate. For FYE June 30, 2021 and 2022, we have fulfilled this requirement by having PM conduct a System of Operating Controls (SOC-1 Type 2) audit over OPEB operations at LACERA. Due to the information technology specialization of SOC audits, staff decided to separate this work out from the Financial Audit RFP and issue a specific RFP for a SOC-1 Type 2 audit. We will request the Audit Committee's approval to release the SOC audit RFP at the November 2022 meeting.

CL:nka

Attachments
A. Minimum Qualifications Certification
B. Request for Proposal – Financial Auditor (Presentation)

Noted and Reviewed:

Richard P. Bendall
Chief Audit Executive

ATTCHMENT A

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.

		Yes	No
Firm Minimum Qualifications:			
1.	The firm must have an established office located within the United States.		
2.	As of the submission date, the firm must be registered and active, by the California Board of Accountancy under the Accountancy Act, Article 4, Section 5072.		
3.	The firm must be a professional public accounting firm that provides audit and other attestation services.		
4.	The firm must not perform any work for the County of Los Angeles (LACERA's plan sponsor) during the potential future term of an agreement with LACERA, up to seven (7) years, for work defined as follows: a) audit, attestation, consulting, investigation, actuarial, valuation services, review, or analysis of any nature whatsoever, for or without compensation, pertaining to LACERA or to pension or other retirement-related benefit issues administered by LACERA (e.g., other post-employment benefits programs) **or** b) bid to provide or provide services to the County of Los Angeles in connection with the preparation or audit of the County's Annual Comprehensive Financial Report (ACFR).		
5.	As of the submission date, the firm must have conducted, within the last five (5) years, at least two (2) audits of defined benefit pension plans with assets that exceeded $10 billion at the time of the audit, with multiple diverse retiree healthcare plans and agent other post-employment benefit (OPEB) plans. This requirement may be met with either (a) or (b) directly below: (a) Two (2) years of auditing the same defined benefit pension plan of a minimum size of $10 billion. **or** (b) Simultaneously auditing in each of two (2) years, more than one (1) defined benefit pension plan with combined total assets exceeding $10 billion provided that one (1) of the individual plans has at least $3 billion in assets.		

6.	As of the submission date, the firm must certify that it has knowledge and at least five (5) years of experience, auditing under the Governmental Accounting Standards. Specifically, • Statement No. 67 Financial Reporting for Pension Plans • Statement No. 68 Accounting and Financial Reporting for Pensions • Statement No. 74 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans • Statement No. 75 Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions		
7.	As of the submission date, the firm must certify that it has knowledge and at least five (5) years of experience in auditing the following classes of investments: • Global equity securities • Global fixed income securities: government bonds, corporate bonds (investment grade, high yield, distressed), securitized assets, floating-rate loans, structured products, hybrid and convertible securities, and cash instruments (commercial paper, repurchase agreements) • Real assets (Real estate, Infrastructure, Natural resources, and Commodities) • Real assets • Private equity • Securities lending and collateral • Currencies • Leverage and uses in partnerships • Derivatives - options, swaps, futures, and forwards Experience auditing these investments may be gained at a variety of different entities, such as mutual funds, insurance companies, banks, Real Estate Investment Trusts (REITs), and investment portfolios of a company.		
Engagement Partner Minimum Qualifications:			
The Engagement Partner responsible for LACERA's account, who signs the audit opinion with the firm name and the partner's own name, must as of the submission date:			
8.	Be located in the United State and have at least ten (10) years of experience in public accounting.		
9.	Be a Certified Public Accountant licensed by the California Board of Accountancy (CBA) or qualifies under CBA's Practice Privilege, in good standing, with a copy of the current license submitted with proposal.		

DRAFT

10.	Have been the Engagement Partner, within the last five (5) years, on at least two (2) audits of defined benefit pension plans with assets that exceeded $10 billion at the time of the audit, with multiple diverse retiree healthcare plans and other agent post-employment benefit (OPEB) plans.		
Audit Manager(s) Minimum Qualifications:			
The Audit Manager(s) responsible for LACERA's account, must as of the submission date:			
11.	Be located in the United States and have at least five (5) years of experience in public accounting. Such experience must include audits of defined benefit pension plans, multiple diverse health plans, and OPEB plans.		
12.	Be a Certified Public Accountant licensed by the California Board of Accountancy (CBA) or qualifies under CBA's Practice Privilege, in good standing, with a copy of the current license submitted with proposal.		
Audit Supervisor(s) Minimum Qualifications:			
The Audit Supervisor(s) responsible for directly overseeing LACERA's account, must as of the submission date:			
13.	Be located in the United States and have at least three (3) years of experience in public accounting. Such experience must include audits of defined benefit pension plans, multiple diverse health plans, and OPEB plans.		
14.	Be a Certified Public Accountant licensed within the United States, in good standing, with a copy of the current license submitted with proposal.		

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

DRAFT

ATTACHMENT B

Request for Proposal - Financial Auditor

August 2022

Presented by:
Christina Logan
Nathan Amick

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5 **Key Elements of the Request for Proposal**
- Scope of Work
- Applicable Professional Standards
- Minimum Qualifications

10 **Planning the Request for Proposal**
- Scoring Criteria to Evaluate Bidders
- Proposed Evaluation Team
- RFP Timeline & RFP Process

Recommendation

Internal Audit recommends that the Audit Committee approve the release of the Request for Proposal (RFP) for hiring a Financial Auditor.

LACERA is seeking a certified public accounting firm to audit its annual financial statements for Fiscal Years Ending June 30, 2023 – 2027, with an option to extend for up to two years.

Background

The Audit Committee Charter assigns the Audit Committee the responsibility to approve the appointment and compensation of the Financial Auditor, hired to perform an independent audit of LACERA’s financial statements.

LACERA's agreement with Plante Moran, the current Financial Auditor, concludes with the completion of the financial statement audit for Fiscal Year Ended June 30, 2022.

financial reports
Dreamstime

Key Elements of the Request for Proposal

To develop the key elements of the RFP, Internal Audit

- Reviewed recent RFPs for Financial Auditors, including peer pension funds
- Reviewed California Board of Accountancy's requirements
- Reviewed California Controller's "*Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems*"
- Reviewed LACERA's financial statements for Fiscal Year Ended June 30, 2021

REQUEST
FOR
PROPOSAL

Scope of Work

The selected Financial Auditor would provide the following services:

- Perform an audit and express an opinion on the fair presentation of LACERA's annual financial statements, which include the following:
  - Pension Trust
  - OPEB Trust
  - OPEB Agency Fund
- Perform an audit and express an opinion on the fair presentation of LACERA's GASB 68 schedule.
- Perform an audit and express an opinion on the fair presentation of the schedule of changes in fiduciary net position by employer for Los Angeles County's portion of the OPEB Trust.
- Perform testing on a sample disability retirement request to ensure the processes and related Board determinations are compliant with Board policies. Provide a written report summarizing work performed and findings.
- Review the Annual Comprehensive Financial Report against the guidelines for the Government Financial Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting.
- Perform special projects as requested and defined by LACERA.

Applicable Professional Standards

The selected Financial Auditor shall utilize all applicable components of professional standards in auditing, preparing and reporting on the financial statements of LACERA, including but not limited to, the following:

- U.S. Generally Accepted Auditing Standards (GAAS),
- U.S. Generally Accepted Accounting Principles (GAAP),
- Generally Accepted Government Auditing Standards (GAGAS),
- American Institute of Certified Public Accountants (AICPA) standards included in its *"Audits of Employee Benefit: Audit and Accounting Guide"*
- California State Controller's "*Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems*"

Minimum Qualifications for Firm

Requirements

- Established office in the United States.
- Registered and active with the California Board of Accountancy (CBA).
- Professional CPA firm providing audit and other attestation services.
- Must not perform any work for the County of Los Angeles (LACERA's plan sponsor) during the potential future term of an agreement with LACERA.
- In the last 5 years, conducted at least 2 audits of defined benefit (DB) pension plans with total assets that exceeded $10 billion at the time of the audit, with multiple diverse retiree healthcare plans and other agent post-employment benefit (OPEB) plans.
- Knowledge and at least 5 years of experience auditing GASB standards 67, 68, 74, and 75.
- Knowledge and at least 5 years of experience auditing applicable investment classes.

Minimum Qualifications for Team

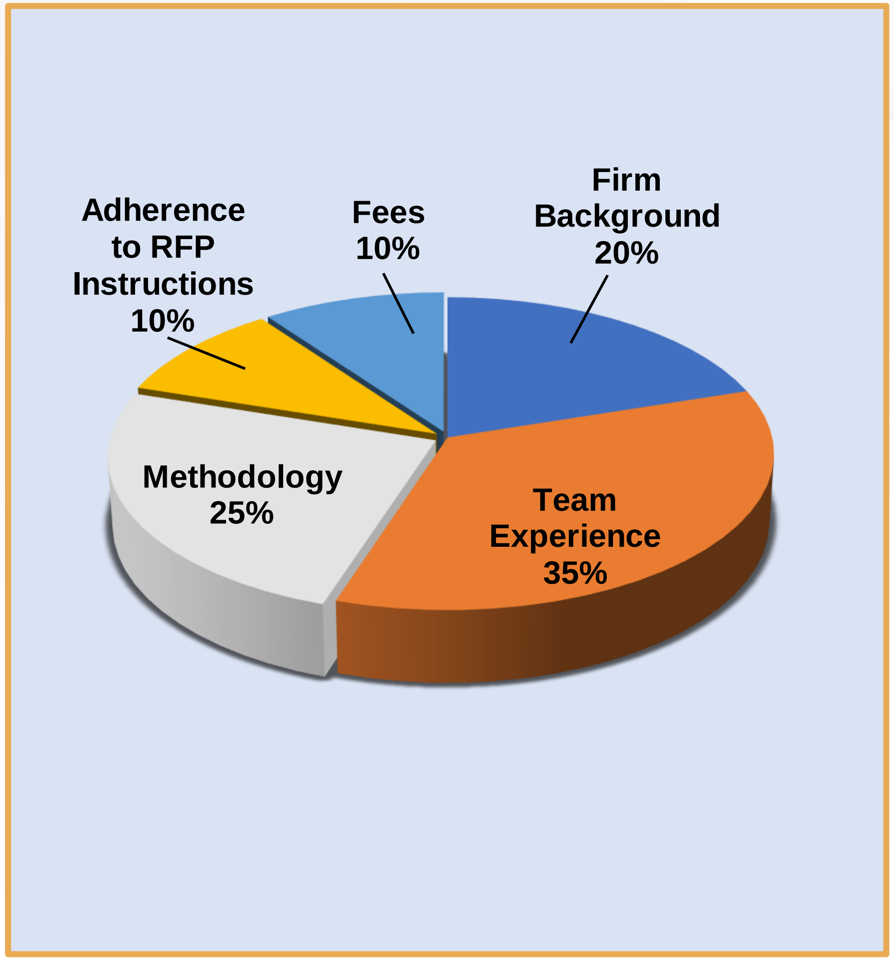
Requirements	Partner	Manager	Supervisor
Located in the United States	✓	✓	✓
Years of public accounting experience	10	5	3
Specific experience related to auditing pension plans	Partner on at least two (2) audits of defined benefit pension plans with assets that exceeded $10 billion at the time of the audit, with multiple diverse retiree healthcare plans and OPEB plans.	Experience must include audits of defined benefit pension plans, multiple diverse health plans, and OPEB plans.	Experience must include audits of defined benefit pension plans, multiple diverse health plans, and OPEB plans.
Certified Public Accountant (CPA)	California licensed CPA or qualifies under Practice Privilege	California licensed CPA or qualifies under Practice Privilege	CPA license within United States

Planning the Request for Proposal

Internal Audit worked with key stakeholders, including the Executive Office, Financial & Accounting Services Division, Benefits Division, and Investments Office, to plan and develop the RFP.

While resources constraints limited all key stakeholders from participating on the Evaluation Team, all key stakeholders provided input into developing the RFP.

Scoring Criteria to Evaluate Bidders



Firm Background

- Firm reliability and continuity
- Firm demonstrates their approach to diversity, equity, and inclusion in the workplace
- Firm's experience providing financial statement auditing for defined benefit pension plans
- Firm references align with knowledge and experience

Team Experience

- Demonstrated experience meets or exceeds LACERA's minimum requirements
- Professional capability, demonstrated competence, and applicable experience of each team member
- Work hours assigned to each team member is adequate for the scope of work

Methodology

- Proposal includes a detailed relevant work plan and methodology to accomplish objectives for the scope of work
- Sample reports demonstrate that firm has knowledge and experience to perform the scope of work

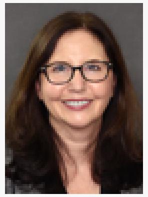
Adherence to RFP Instructions

- Clearly addresses information requested
- Overall presentation

Fees

- Fees proposed to address the scope of work

Proposed Evaluation Team


Laura Guglielmo
Assistant Executive Officer
Executive Office

Ted Granger
Interim Chief Financial Officer
Financial & Accounting Services

Gloria Rios
Senior Accountant
Financial & Accounting Services

Richard Bendall
Chief Audit Executive
Internal Audit

Christina Logan
Principal Internal Auditor
Internal Audit

Nathan Amick
Senior Internal Auditor
Internal Audit

Carlos Barrios
Interim Division Manager
Benefits

As the Audit Committee has the responsibility and authority to appoint the Financial Auditor, we would like to ask if any Members would like to join the Evaluation Team.

RFP Timeline and RFP Process

RFP Steps	July 2022	August 2022	September 2022	October 2022	November 2022	December 2022	January 2023	February 2023	March 2023	April 2023
Design RFP	■	■								
Seek Committee approval		■								
Finalize RFP		■	■							
Release RFP				■						
Questions & Responses				■						
RFP Due Date					■					
Evaluate RFP Submissions						■	■			
Recommend Finalist(s) to AC								■		
Finalize contract									■	■
Financial Auditor to kick-off FYE 2023 Financial Audit										■

The Evaluation Team will conduct the RFP process in three phases:

1. Evaluate written RFP submissions
2. Interview top candidates
3. Recommend finalist(s) at the February 2023 Audit Committee meeting

LACERA

August 1, 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 RPB
Chief Audit Executive

Kathryn Ton KT
Senior Internal Auditor

FOR**:** August 18, 2022 Audit Committee Meeting

SUBJECT: **Approval of KPMG LLP to Perform an Investment Operational Due Diligence Consulting Review**

RECOMMENDATION

Internal Audit recommends that the Audit Committee approve the engagement of KPMG LLP (KPMG) to perform a consulting review of the LACERA's Investment Office's Operational Due Diligence Program and Processes.

DISCUSSION

At the May 9, 2022 meeting, the Audit Committee approved Internal Audit's request to issue a Request for Proposal (RFP) for an investment operational due diligence review. The evaluation team has completed its review and assessment of the firms that responded to the RFP. The results of the evaluation are presented in Attachment A.

RB:kt

Attachment

LACERA

ATTACHMENT A

RFP: Investment Operational Due Diligence Review

Audit Committee Meeting

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1. Background
2. Scope of Work
3. Minimum Qualifications
4. Evaluation Team and Scoring Criteria
5. Evaluation Scoring
6. Fee Proposal
7. Basis for Selection of KPMG
8. KPMG Client Team
9. KPMG Project Methodology
10. KPMG Revised Fee Proposal
11. Recommendation

Background

- **At the May 9, 2022 meeting, the Audit Committee approved Internal Audit's request to issue a Request For Proposal (RFP) to select a qualified investment firm to perform a consulting review of LACERA's Investment Office's Operational Due Diligence (ODD) program and processes.**

- The firm selected for this review will perform an independent assessment of LACERA's operational due diligence practices over a broad range of functional categories including growth, credit-oriented fixed income, real assets and inflation hedges, and risk reduction and mitigation.

- ODD along with investment due diligence (IDD) are important components in the decision to invest and 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 an investment mandate that LACERA is considering.

  - 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.

Scope of Work

Scope includes, but is not limited to, the following areas:

- Review of the effectiveness of Operational Due Diligence (ODD) in the execution of LACERA's investment program, pre- and post-investment.
- 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 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.

Minimum Qualifications

All firms that responded met the minimum qualifications*

☑ Yes

☑ Yes

☑ Yes

☑ Yes*

1. The proposing firm must have provided investment-related consulting or auditing services related to ODD for institutional clients for a minimum of ten (10) years.
2. The proposed team should have extensive experience performing ODD on behalf of institutional clients.
3. The team leader must have at least 10+ years of experience performing ODD-related work for institutional clients.
4. No team member should have less than five (5) years of experience working on ODD-related work for institutional clients.

*KPMG requested an exception to the 5-year minimum experience requirement for one junior staff member. The Assessment team approved the exception. The junior staff member’s role will be primarily supporting the senior staff ODD professionals on the engagement.

Evaluation Team and Scoring Criteria

Evaluation Team

- ➢ Richard Bendall, Chief Audit Executive
- ➢ Leisha Collins, Principal Internal Auditor
- ➢ Christina Logan, Principal Internal Auditor
- ➢ Kathryn Ton, Senior Internal Auditor
- ➢ Steven Rice, Chief Counsel
- ➢ Christine Roseland, Senior Staff Counsel

Evaluation Team scored each section independently.

20%

Firm Background

- Firm has investment-related consulting or auditing services related to ODD for institutional clients for a minimum of 10 years.
- Reliability and continuity of firm
- Firm has adequately demonstrated their approach to diversity, equity, and inclusion in workplace
- Firm references align with knowledge and experience

35%

Team Experience

- Team lead has at least 10 years of experience performing ODD-related work for institutional clients
- No team member has less than 5 years of experience working on ODD-related work for institutional clients
- Work hours assigned to each team member is adequate for this type of review
- Professional capability, demonstrated competence, and specialized experience of team

25%

Methodology

- Proposal includes a detailed and relevant work plan and methodology to accomplish objectives for this review
- Sample reports demonstrate that firm has knowledge and experience to perform this review

10%

Adherence to RFP Instructions

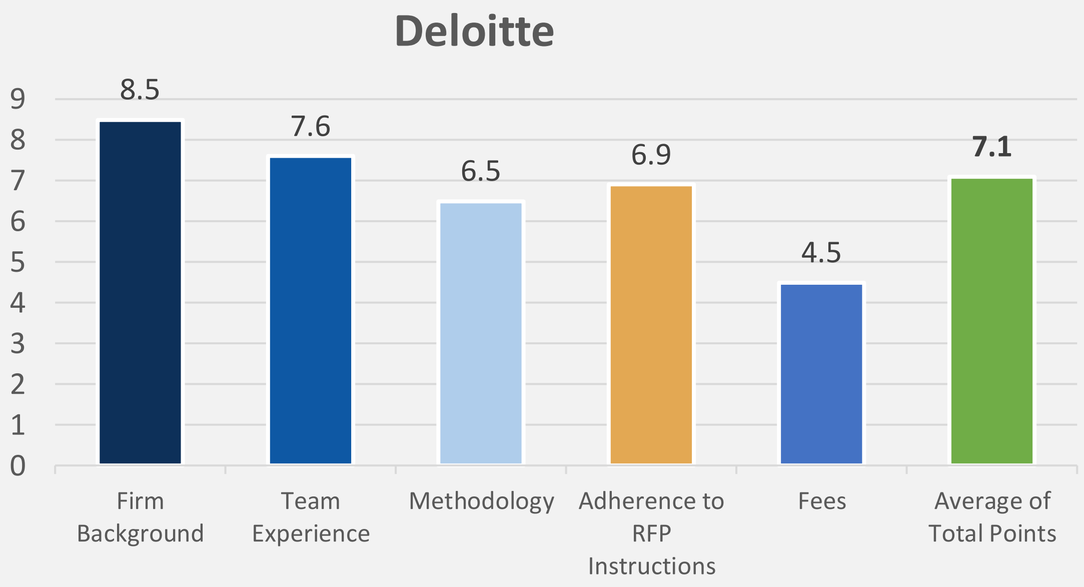
- Clearly addresses information requested
- Overall presentation

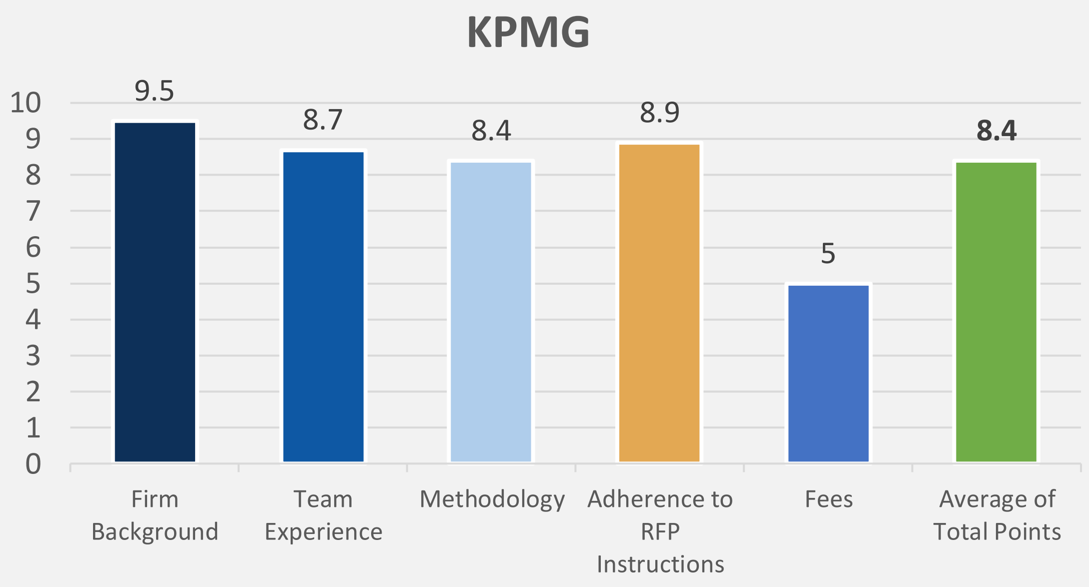
10%

Fees

- Fees and hours proposed to complete engagement

Evaluation Scoring





Fee Proposal

Proposal reflects each firm's estimate for a 12-week engagement

	Deloitte	KPMG
Project Fee	$520,00	$470,000
Project Hours	1,965	1,464
Hourly Rate Range	$300-$500	$250-$400

Basis for Selection of KPMG

Based on the responsiveness and extent of the RFP, both firms were interviewed and given the opportunity to submit additional information with regards to the scope of work, team, and fees. While both firms have ample experience and skill sets, the selection team recommends KPMG for this review.

- KPMG as a firm, services more than 80% of the 50 leading asset management firms in the United States.

- The KPMG team more clearly demonstrated their extensive experience working with major investment firms in the areas of ODD, pricing and valuation governance, compliance program development, board reporting, fund operations and risk management. The team's prior experience include General Counsel at an asset management firm, Senior Securities Compliance Examiner with the SEC, and other senior compliance officer roles.

- KPMG’s proposal articulated their approach and methodology drawing on their prior experience performing similar reviews. KPMG’s approach was also more structured and illustrated their understanding of and expectation for good ODD practices.

- KPMG’s engagement team hours consisted of more senior level professionals.

KPMG Client Team

Mark McKeever is the Lead Engagement Director responsible for this consulting engagement. Mr. McKeever has more than 20 years of financial services experience, including service as a senior securities compliance examiner with the SEC. His areas of concentration include US federal securities laws and regulations and their practical applications across various business models within the investment management, wealth management, and alternative investment industries. Considered a recognized leader in the practice, Mr. McKeever runs engagements for major investment management firms in the areas of ODD, pricing and valuation governance, compliance program development, internal audit support, and fund operations and risk management.

Larry Godin is the Lead Engagement Principal with more than 20 years of experience in the financial services industry and focuses on legal, risk, and compliance issues in the asset management space. Mr. Godin has held positions as chief legal officer for asset management, senior counsel and general counsel at large institutional asset management firms and dually registered broker-dealer/investment advisory firms. He has worked closely with compliance in the creation and implementation of asset and wealth management compliance programs.

Bridghet Donato is the Engagement Director with 20 years of financial services experience with specializations in asset management, compliance, and insurance. Her areas of concentration include knowledge of the US federal securities laws and regulations as well as their practical application across mutual fund complexes, investment advisors, trading operations, and treasury functions. Ms. Donato has served in numerous senior compliance officer roles for investment management firms with responsibilities in areas of ODD pricing and valuation governance, compliance program development, board reporting, fund operations, and risk management.

Katherine Kim is the Engagement Manager with more than 15 years of experience in financial investment management and capital markets. Ms. Kim has experience in the development, implementation, and testing of compliance programs; the assessment of enterprise risk management frameworks and standards; and providing compliance advisory support. Ms. Kim has also performed risk-based ODD of third-party investment managers and subadvisors covering a broad range of strategies including private equity, real estate, long/short equity, fixed income, credit liability-driven investing, and register funds.

Hannah Deits is the Engagement Associate and has prior experience working for a financial arm of an international construction company. Ms. Deits has performed extensive control mappings and analysis for premier capital market clients and will support senior staff ODD professionals on this engagement. Ms. Deits graduated from Belmont University with a BBA degree in economics, with a focus in behavioral economics.

KPMG Project Methodology

PHASE

1

ODD Framework Current State Assessment

Objective: Gain an understanding of LACERA's current state ODD framework and related operational risk factors given the scope and risk profile of its external manager population. This includes a review of the pre- and post-investment ODD processes in place.
Key activities: Obtain an overview of LACERA's Investment Office, review relevant documents, conduct interviews with key stakeholders, and perform a pre- and post-investment ODD assessment.
Deliverables: Detailed matrix documenting the inventory of key ODD activities, risk assessments, governance, control, and reporting processes in place, and a summary of preliminary gaps, redundancies identified, and recommendations.

PHASE

2

Gap Analysis

Objective: Perform a deep dive gap analysis of the current state of the ODD framework against its understanding of lead industry practices and the Investment Office ODD Working Group's action plans.
Key activities: Interviews with stakeholders, documentation requests, and select representative sample of ODD materials created by LACERA internally and by third party vendors to gain insight into the operating effectiveness of the current ODD framework and against leading industry practices.
Deliverables: Completion of the ODD assessment matrix and summaries of gaps and recommendations.

PHASE

3

Final Report

Objective: Completion of deliverables through a series of workshop review sessions with key stakeholders.
Deliverables: Written report detailing the scope, approach, procedures, observations, and recommendations. PowerPoint deck that summarizes observations and recommended next steps.

KPMG Revised Fee Proposal

KPMG submitted a revised fee proposal based on a 8-week engagement

	KPMG
Project Fee	$304,400
Project Hours	938
Hourly Rate Range	$250-$400

Recommendation

KPMG offers a detailed work plan and an experienced team to provide LACERA with insight on its investment operational due diligence practices.

Internal Audit recommends that the Audit Committee approve the engagement of KPMG to perform a consulting review of LACERA's Investment Office's operational due diligence program and processes.

LACERA

August 1, 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

Kristina Sun KS
Senior Internal Auditor

FOR**:** August 18, 2022 Audit Committee Meeting

SUBJECT: **Organizational Governance Assessment**

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.

BACKGROUND

The Audit Plan for Fiscal Year Ended (FYE) June 30, 2022, included an Assessment of Organizational Governance. The Institute of Internal Auditors (IIA) requires in its *Standard 2110 – Governance* that internal audit divisions assess and make recommendations to improve the organization's governance processes. LACERA revised its Internal Audit Charter in June 2020 to include assessing organizational governance in its scope of work. The Audit Committee Charter Section VII.E. also states the Committee has responsibility "to obtain reasonable assurance with respect to LACERA's governance process, the Audit Committee will review and provide advice on the governance process established and maintained, and the procedures in place to ensure they are operating as intended."

When Internal Audit began to plan this engagement, we researched the IIA's guidance on assessing organizational governance and reviewed other similar assessments. We determined the engagement scope for LACERA's first organizational governance review would be a high-level maturity assessment of the five key areas of organizational governance.

The five key areas of organizational governance as determined by the IIA are:

- Ethics and Values
- Risk Management
- Detection and Prevention of Fraud
- System of Internal Controls
- System of Compliance

The engagement was designed to provide both the Executive Office and the Audit Committee with a snapshot of the maturity and high-level recommendations to further mature LACERA's organizational governance. We reviewed the scope and objective of the engagement with the Executive and Legal Offices.

Internal Audit selected Weaver & Tidwell, LLP (Weaver) from Internal Audit's external audit pool, which was established in December 2020 with the 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. Weaver was selected for the thoroughness of their proposal and their team's expertise and knowledge in performing organizational governance reviews. The Weaver team consisted of Alyssa Martin, Engagement Partner, Adam Jones, Strategic Governance Director, and Marci Sundbeck, Process Evaluation Lead.

At the February 2022 meeting, the Audit Committee approved the engagement of Weaver to perform an organizational governance review of LACERA. The key objectives of the engagement were to provide an independent, high-level assessment of LACERA's maturity in the key organizational governance areas outlined above. The scope of the assessment was limited to understanding and validating the existence of the framework and procedures put in place by LACERA to inform, direct, manage and monitor the activities of the organization governance areas. The assessment was not designed to provide assurance over the organizational governance areas and did not include an evaluation of the effectiveness of those elements for the organization.

At the start of the engagement, Weaver met with the Senior Executive Team to define LACERA's target maturity level, which is the level of organizational governance maturity that LACERA would like to achieve within a reasonable 18-to-24-month timeframe. The Senior Executive Team consists of the Chief Executive Officer, the Deputy Chief Executive Officer, the General Counsel, and the Chief Investment Officer.

Weaver's fieldwork included surveys of and interviews with key managers and staff throughout the organization as well as reviews of charters, policies, and procedures. Although their assessment included them giving some consideration to the effectiveness and design of controls based on their high-level observations, the review was not intended to give assurance.

Since this was an externally performed audit engagement, Internal Audit monitored the progress of the engagement and assisted with coordination. During fieldwork, Internal Audit met weekly with the Weaver team for status updates and facilitated the process of documentation collection. After the completion of fieldwork, Internal Audit met with the Weaver team to discuss and review findings and recommendations for the engagement report. Throughout the engagement, Internal Audit coordinated meetings between Weaver and the Senior Executive Team during each phase of the engagement.

The Weaver team will be presenting **(Attachment B)** at the August 18, 2022 meeting to discuss their report (**Attachment A**), including scope of work, results of their assessment, as well as findings and recommendations Weaver's assessment resulted in nine observations which address the gaps between LACERA's current governance practices, and the target maturity levels established by the Senior Executive Team. Weaver's observations and their related recommendations are intended to help LACERA mature its organizational governance.

Internal Audit did not require the Senior Executive Team to provide Management Responses to each observation and recommendation and therefore, these will not be included in our quarterly recommendation follow-up process. Some of the recommendations are more strategic in nature and will require long term planning and some are being addressed through current and ongoing organizational strategic efforts. Instead, Internal Audit will continuously monitor and report on progress made during FYE 2023.

Internal Audit also welcomes feedback and guidance from the Audit Committee on LACERA's organizational governance maturity.

Internal Audit would like to extend its appreciation to the Executive Team, division managers, and staff for their assistance and cooperation with this review.

CL:ks

Attachments

A. Report on Organizational Governance Assessment Report
B. Report on Organizational Governance Assessment (Presentation)

Noted and Reviewed:

Richard P. Bendall
Chief Audit Executive

ATTACHMENT A

Accountable
Consensus oriented
Transparent
Good Governance
Participatory
Responsive
Follow the ru
Equitable
Efficient

Report on Organizational Governance Assessment

Los Angeles County Employees Retirement Association| June 2022

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Executive Summary

Organizational governance supports and encourages the growth and development of a strategically focused, risk aware and operationally effective organization. Management establishes the tone at the top regarding the importance of internal controls, including expected standards of conduct, and then reinforces expectations at the various levels of the organization. Organizational governance provides an oversight role and enables the entity to manage and mitigate risks.

As part of LACERA's 2022 internal audit plan, Weaver was engaged to assess at a high level LACERA's maturity in key organizational governance areas including:

- Ethics and value
- Risk management
- Detection and prevention of fraud
- System of internal controls
- System of compliance

The assessment resulted in nine observations where there existed a gap between LACERA's current governance practices and the target maturity level for the organization. The target maturity is the level of organizational governance maturity to be achieved by the organization within a reasonable 18-24 month timeframe. The target maturity level was defined by the Executive Team including the Chief Executive Officer, the Deputy Chief Executive Officer, the General Counsel and the Chief Investment Officer and was based on based on the attributes of LACERA and the goals of LACERA management.

The observations in the report are not deficiency findings, but rather areas identified for improvement to achieve the target maturity level of governance for the organization.

Executive Summary (continued)

The scope of the assessment was limited to understanding and validating the existence of the framework and procedures put in place by LACERA to inform, direct, manage and monitor the activities of the organization. The assessment was not designed to provide assurance over the organizational governance area and did not include an evaluation of the effectiveness of those elements for the organization.

Weaver developed and customized the Organizational Governance Maturity Model against which the organization's maturity was evaluated. The maturity model is based upon Weaver internal methodology, IIA Standards and Best Practice, and governance considerations specific to LACERA. The customized model was developed in collaboration with LACERA Executive Leadership and Internal Audit.

The maturity model breaks down the five key governance elements and measures them on a five-level scale in accordance with industry and government best practice. The five governance elements include a total of 176 attributes that were used to measure the organizational governance maturity level at LACERA. The maturity model is designed as an integrated model where the attributes work together for each governance element.

Weaver conducted an extensive document review covering LACERA policies and procedures, charters, communications, and operating plans, among other documents. Weaver interviewed LACERA Executive staff and key personnel charged with the implementation of reviewed policies and procedures. Weaver also conducted a staff survey regarding organizational governance and analyzed the results.

Executive Summary (continued)

The high-level assessment of LACERA's organizational governance identified gaps between the current maturity levels observed and the targeted maturity levels desired in each of the five elements reviewed. The organization shows relative strength in Structure and Accountability. The least mature governance element is Assessment and Risk Management.

While LACERA executes its primary mission effectively, the organization does not have a current strategic plan and is not a metric-driven organization (with some divisional exceptions).

The Investment Division operates at a higher maturity level than LACERA as an organization, particularly concerning Communication and Reporting (including KPI development) and Assessment and Risk Management.

LACERA has an established training budget but does not have an adequate professional development program, lacking an assessment of employee needs and leadership training. There is no organizational succession plan and employee evaluation is not aligned with strategic objectives. Furthermore, LACERA has not implemented a comprehensive enterprise risk assessment and compliance framework, nor a comprehensive enterprise fraud detection and prevention plan.

The assessment determined that LACERA has undertaken several initiatives with the potential to strengthen organizational governance maturity. Detailed results of the assessment are documented in the report that follows.

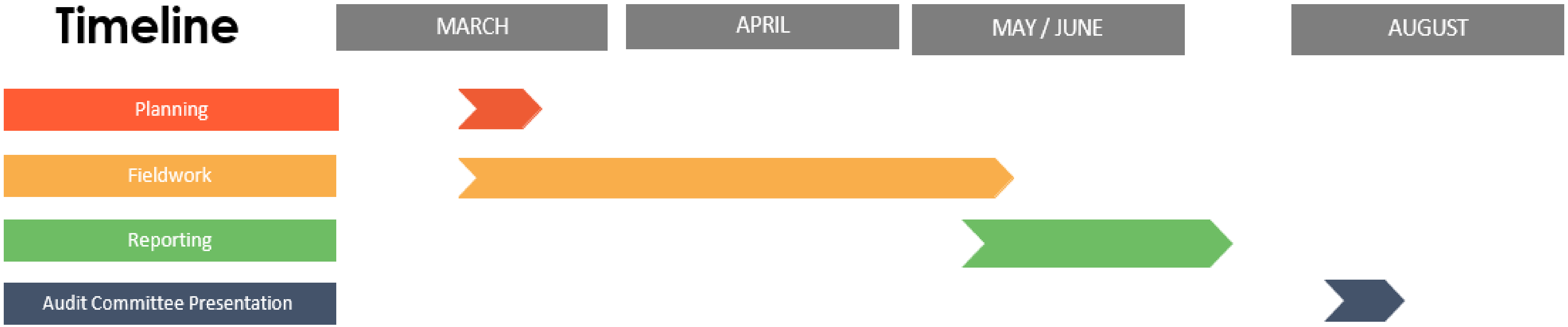
Weaver's Engagement Team

Alyssa Martin, CPA
Engagement Partner

Adam Jones
Strategic Governance

Marci Sundbeck, CIA, CISA, CCSA, CFE, CRM
Process Evaluation Lead

Project Plan



Timeline

MARCH
APRIL
MAY / JUNE
AUGUST

Planning
Fieldwork
Reporting
Audit Committee Presentation

Consulting Objective, Scope and Methodology

Objective

- The objective of the project was to assess at a high-level LACERA's maturity in key organizational governance areas including:
  - Ethics and values
  - Risk management
  - Detection and prevention of fraud
  - System of internal controls
  - System of compliance

Scope

- The assessment was limited to understanding and validating the existence of the following related to each organizational governance area:
  - The design, structure, and implementation
  - The communication and training
  - The existence of key policies
  - The use of systems and information to create efficiencies
- The assessment was not designed to provide assurance over the organizational governance area and was performed under IIA consulting standards, not auditing standards
- The assessment was limited to understanding and validating the existence of key elements of organizational governance and did not include evaluation of the effectiveness of those elements for the organization
- Review period December 1, 2020 through February 28, 2022

Methodology

- Developed a customized Organizational Governance Maturity Model
- Interviewed key LACERA management*
- Reviewed LACERA procedures / documents*
- Conducted a staff survey regarding organizational governance and analyzed results
- Assessed the current state of maturity of LACERA's organizational governance

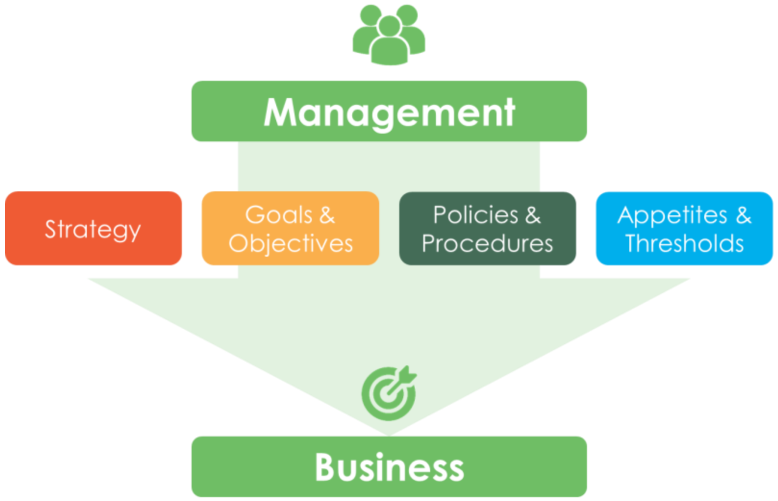
**See Appendix for detail listing of interviewees and documents reviewed*

Building the LACERA Organizational Governance Maturity Model

"**Governance** is the **processes** and **structures** implemented by the board to **inform, direct, manage, and monitor** the organization's activities toward achieving its objectives. Strong governance systems **increase the likelihood that organizations will meet their objectives and stakeholder expectations**." - IIA

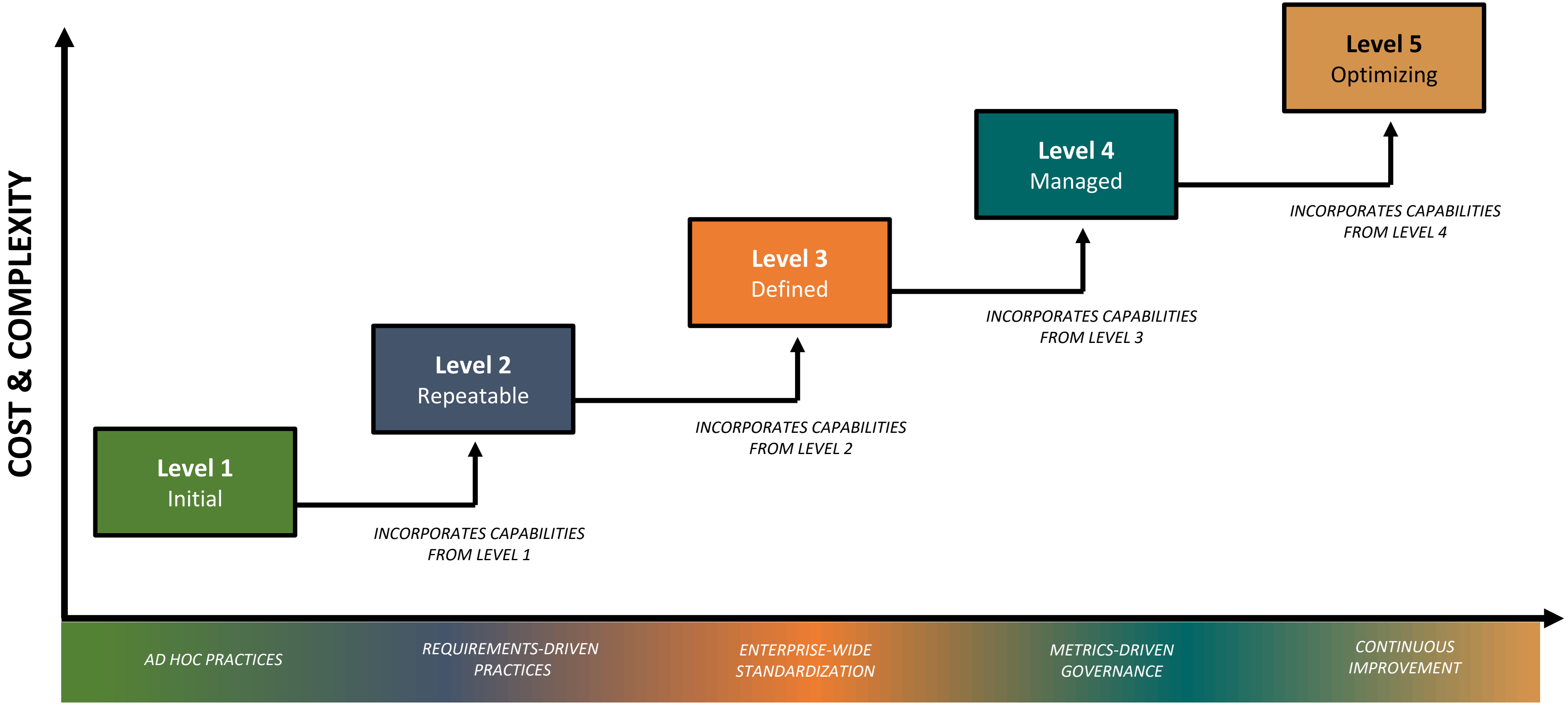
The Weaver engagement team designed a customized LACERA maturity model informed by:

- Weaver Internal Methodology
- IIA Standards and Best Practices
- Governance Considerations Specific to LACERA
- Collaboration with LACERA Executive Leadership and Internal Audit


Management
Strategy
Goals & Objectives
Policies & Procedures
Appetites & Thresholds
Business

Governance Maturity Model Scale

This maturity model scale shows the advancing levels of maturity for the organization. Each level of maturity includes a cost and complexity component as well as more advanced business practices for the organization.


COST & COMPLEXITY
Level 5
Optimizing
Level 4
Managed
INCORPORATES CAPABILITIES FROM LEVEL 4
Level 3
Defined
INCORPORATES CAPABILITIES FROM LEVEL 3
Level 2
Repeatable
INCORPORATES CAPABILITIES FROM LEVEL 2
Level 1
Initial
INCORPORATES CAPABILITIES FROM LEVEL 1
AD HOC PRACTICES
REQUIREMENTS-DRIVEN PRACTICES
ENTERPRISE-WIDE STANDARDIZATION
METRICS-DRIVEN GOVERNANCE
CONTINUOUS IMPROVEMENT

Governance Maturity Model Elements and Attributes

The maturity model includes an advancing maturity scale for each of the 5 governance elements as seen across the top of this chart.

Attributes for each governance element measure the degree of maturity for that element. There are a total of 27 attribute categories.

AD HOC PRACTICES	*REQUIREMENTS-DRIVEN PRACTICES*	*ENTERPRISE-WIDE STANDARDIZATION*	*METRICS-DRIVEN GOVERNANCE*	*CONTINUOUS IMPROVEMENT*
INITIAL **Informal and undefined**	**REPEATABLE** **Disciplined by intuitive**	**DEFINED** **Standard and consistent**	**MANAGED** **Predictable, monitored, measured**	**OPTIMIZING** **Continuous improvement**

Governance Element	Attribute Categories (27 total)
Oversight, Strategy, Policies and Procedures -Are Board roles explicitly defined through charters and committees? -How consistently and effectively does the Board provide oversight? -What are the strategy, goals, objectives, policies, and procedures for supporting LACERA's mission? -Is the strategy communicated, documented, and aligned?	Board Oversight Board Roles and Committees Mission Strategy Objectives Goals Policies and Procedures
Structure and Accountability -How effective is the structure of the organization for achieving objectives, managing programs, hiring, training and staff development, evaluating performance, and succession planning? -Does a clear distinction between Board and Executive Management responsibilities exist? -Are roles and responsibilities across the organization defined with adequate staffing?	Structure Delegation of Authority Internal Controls Segregation of Duties Succession Planning Systems and Data Training
Ethical Values and Fraud Prevention -Is there an ethics policy in place that includes fraud prevention and detection? -How are ethical standards communicated throughout LACERA? -Are ethics requirements enforced and followed by employees?	Ethics Policy Related Parties and Conflicts of Interest Fraud Detection and Prevention Reporting Hotline
Communication and Reporting -What are types of communication used by LACERA for Board reporting, internal reporting, staff meetings, dashboards and public information? -What are the key performance measures to monitor achievement of the mission?	Communication internal and external Board Reporting Reporting internal and external Key Performance Indicators Performance Measures Monitoring and Reporting against Performance
Assessment and Risk Management -What processes are in place to monitor LACERA's progress for meeting stated objectives, performance metrics, risk management, and compliance?	Risk Management Risk Assessment Compliance

Governance Maturity Model

The current state of LACERA organizational governance was assessed against the customized integrated maturity model.

For each of the five governance elements, we evaluated varying number of attributes at each maturity level as depicted in the graphics below. We reviewed a total of 176 attributes related to organizational governance.

1. Oversight, Strategy, Policies and Procedures

5	6	7	8	7	33

2. Structure and Accountability

8	9	9	9	7	42

3. Ethical Values and Fraud Prevention

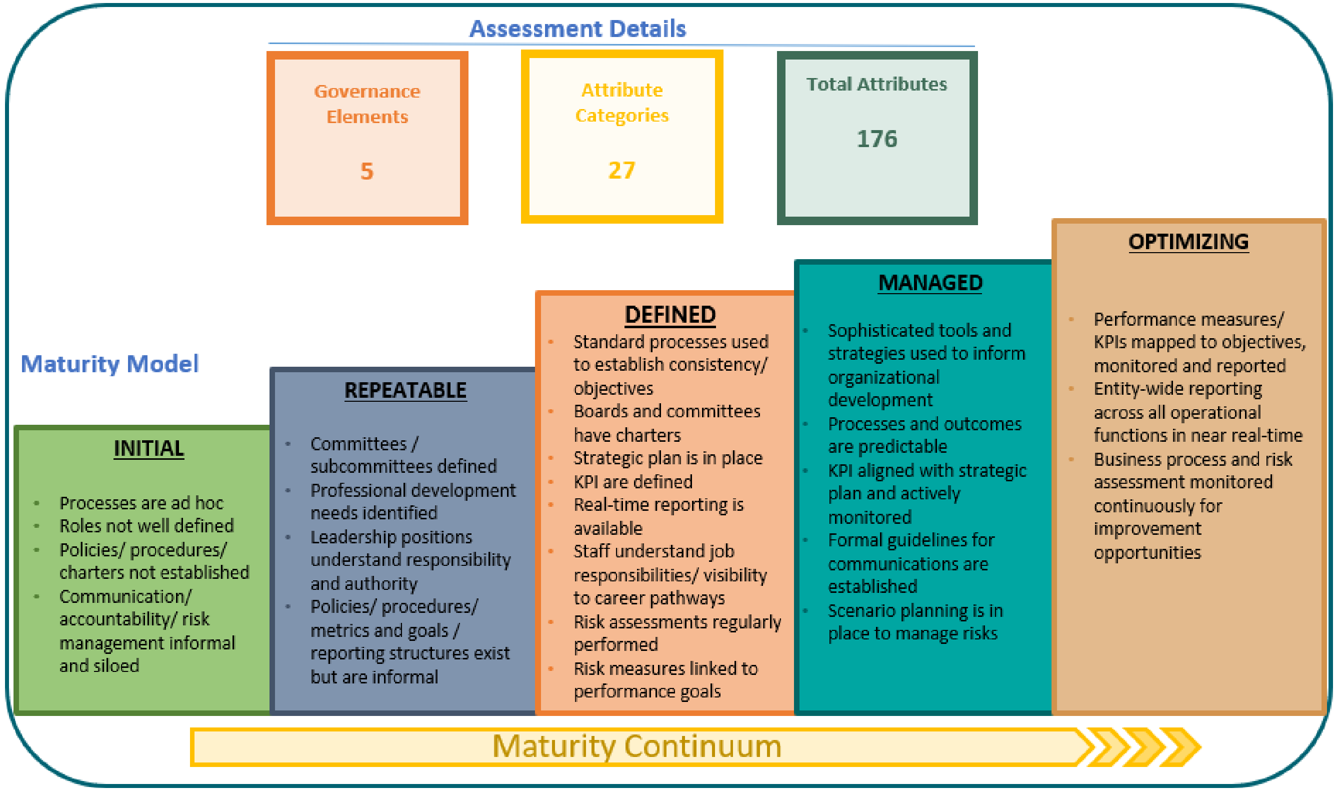
4	8	7	11	7	37

4. Communication and Reporting

5	7	6	6	7	31

5. Assessment and Risk Management

6	5	7	8	7	33



Assessment Details

Governance Elements	Attribute Categories	Total Attributes
5	27	176

Maturity Model

INITIAL
- Processes are ad hoc
- Roles not well defined
- Policies/ procedures/ charters not established
- Communication/ accountability/ risk management informal and siloed

REPEATABLE
- Committees / subcommittees defined
- Professional development needs identified
- Leadership positions understand responsibility and authority
- Policies/ procedures/ metrics and goals / reporting structures exist but are informal

DEFINED
- Standard processes used to establish consistency/ objectives
- Boards and committees have charters
- Strategic plan is in place
- KPI are defined
- Real-time reporting is available
- Staff understand job responsibilities/ visibility to career pathways
- Risk assessments regularly performed
- Risk measures linked to performance goals

MANAGED
- Sophisticated tools and strategies used to inform organizational development
- Processes and outcomes are predictable
- KPI aligned with strategic plan and actively monitored
- Formal guidelines for communications are established
- Scenario planning is in place to manage risks

OPTIMIZING
- Performance measures/ KPIs mapped to objectives, monitored and reported
- Entity-wide reporting across all operational functions in near real-time
- Business process and risk assessment monitored continuously for improvement opportunities

Maturity Continuum

Understanding the Engagement Results

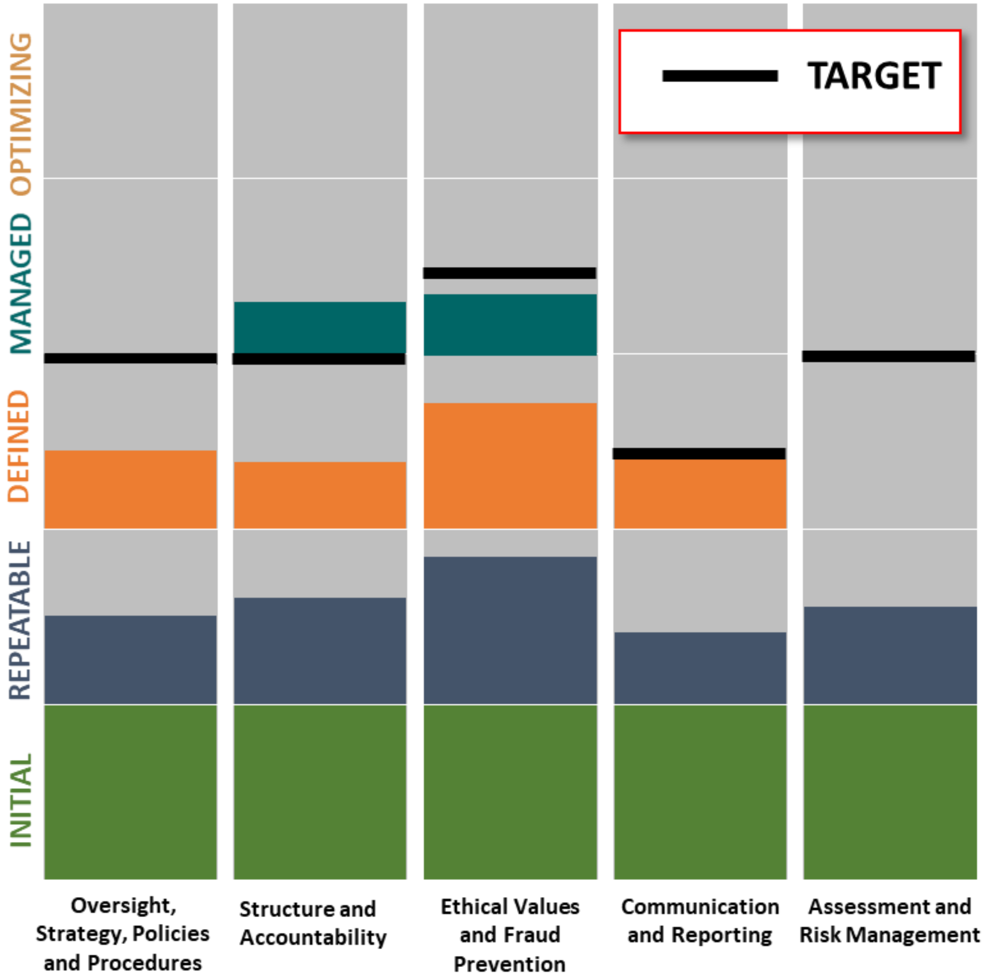
Interviews were held with the Executive Team to identify the targeted maturity level: the level of organizational governance maturity to be achieved by the organization within a reasonable 18-24 month timeframe for each of the five governance elements. The targeted maturity level is represented by the black line on the graph.

The Maturity Assessment illustrates LACERA's current achieved maturity across the five governance elements.

The colored bars represent our assessment of the achievement within each level of maturity.

Note that an organization can exhibit certain attributes of a higher level of maturity than they have achieved overall (e.g.: LACERA exhibits attributes of Defined maturity in the Oversight, Strategy, Policies, and Procedures element even though the organization falls somewhere between the Initial and Repeatable maturity level).

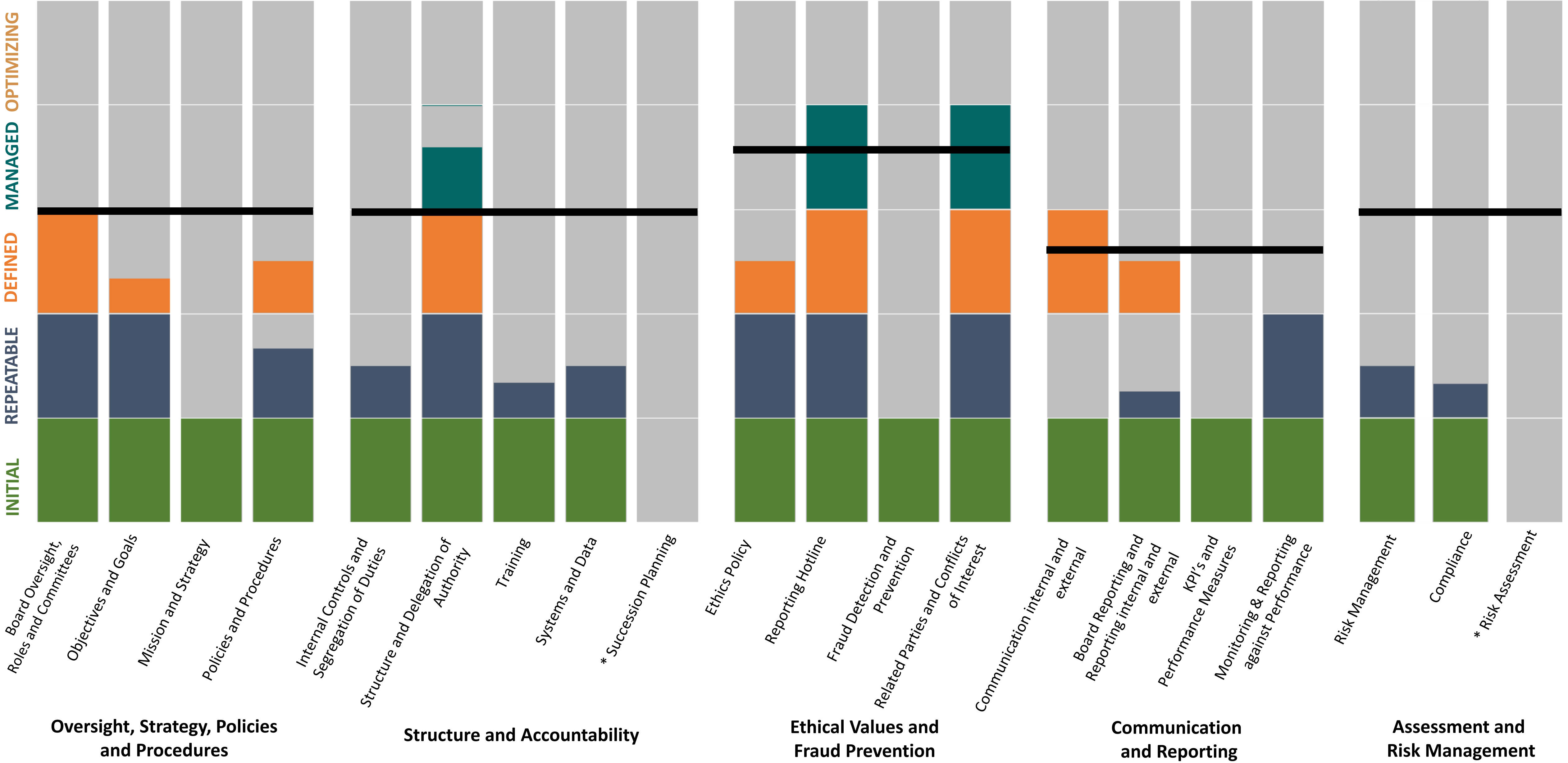
LACERA Maturity Assessment – Summary



LACERA Maturity Assessment - Detailed

▬ TARGET

* Attribute applicable to maturity above Repeatable



Engagement Results and Summary

LACERA executive management established reasonable maturity goals for the short to mid-term (18-24 months).

The organization shows relative strength in **Structure and Accountability**. The least mature governance element is **Assessment and Risk Management.**

The following observations were noted during the assessment:

- LACERA executes its primary mission effectively.
- LACERA does not have a current strategic plan and is not a metric-driven organization (with some divisional exceptions).
- LACERA has an established training budget but does not have an adequate professional development program, lacking an assessment of employee needs and leadership training. There is no organizational succession plan and employee evaluation is not aligned with strategic objectives.
- LACERA has not implemented a comprehensive enterprise risk assessment and compliance framework, nor a comprehensive fraud detection and prevention plan.

LACERA Initiatives

LACERA has undertaken several initiatives with the potential to mitigate gaps in organizational governance maturity:

- Strategic Plan (in progress)
- Policies and Procedures Council (implemented)
- Compliance Director position (in progress)
- Information Technology Communications Council (implemented)
- Case Management System (in progress)
- Communications Plan (in progress)
- Employee Handbook Update (in progress)
- *Work Plan and Strategic Initiatives* for Investments (implemented)
- Professional Development (in progress)

Nine Engagement Observations

The assessment resulted in nine observations where there existed a gap between LACERA’s current governance practices and the target maturity level for the organization. Below is a summary of the nine observations that are detailed on pages 22-30. The applicable gaps are noted in the maturity charts for each of the five elements.

High

OBS-01

Organizational Wide Strategic Plan

High

OBS-02

Policies & Procedures / Internal Controls

Medium

OBS-03

Professional Development Plan

High

OBS-04

Succession Plan

High

OBS-05

CEO Job Description & Board Committee Responsibilities

Medium

OBS-06

Fraud Prevention & Detection Program

Medium

OBS-07

Communication Plan

Medium

OBS-08

Key Performance Indicators (KPI)

High

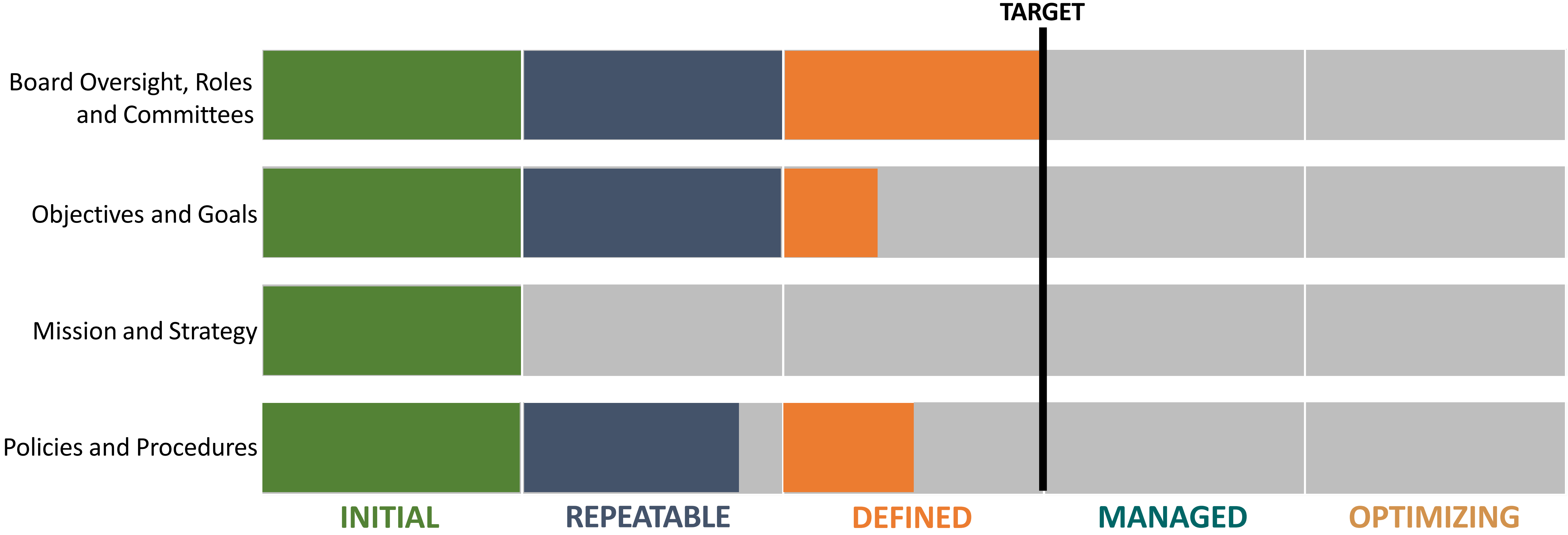
OBS-09

Risk Management & Compliance Program

Oversight, Strategy, Policies and Procedures

OBS-01
Organizational Wide Strategic Plan

OBS-02
Policies & Procedures / Internal Controls



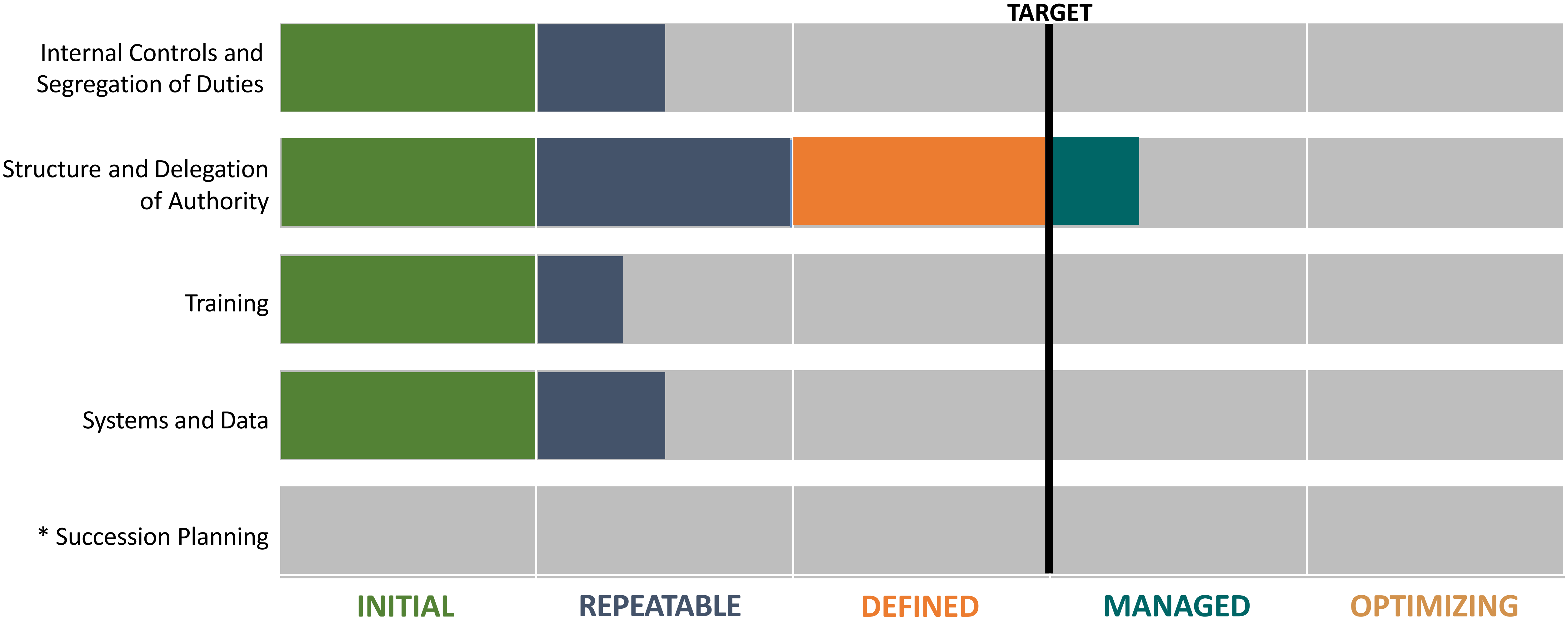
Structure and Accountability

OBS-02
Policies & Procedures / Internal Controls

OBS-03
Professional Development Plan

OBS-04
Succession Plan

OBS-05
CEO Job Description & Board Committee Responsibilities

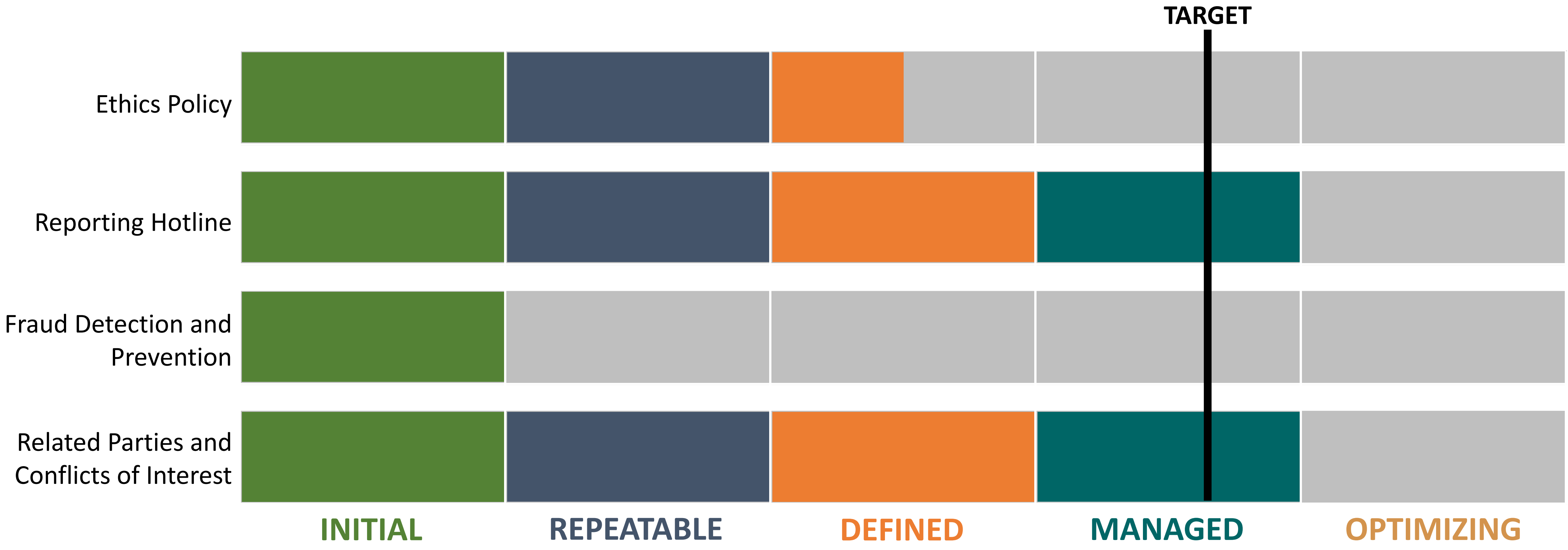


* Attribute applicable to maturity above Repeatable

Ethical Values and Fraud Prevention

OBS-06

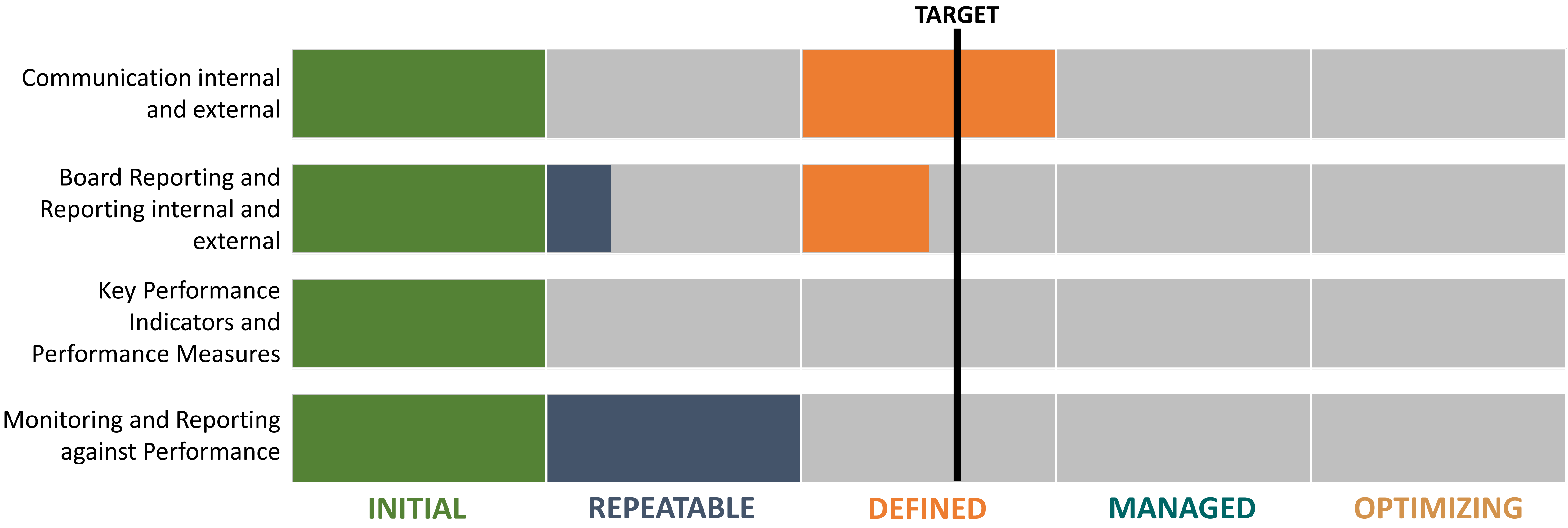
Fraud Prevention & Detection Program



Communication and Reporting

OBS-07
Communication Plan

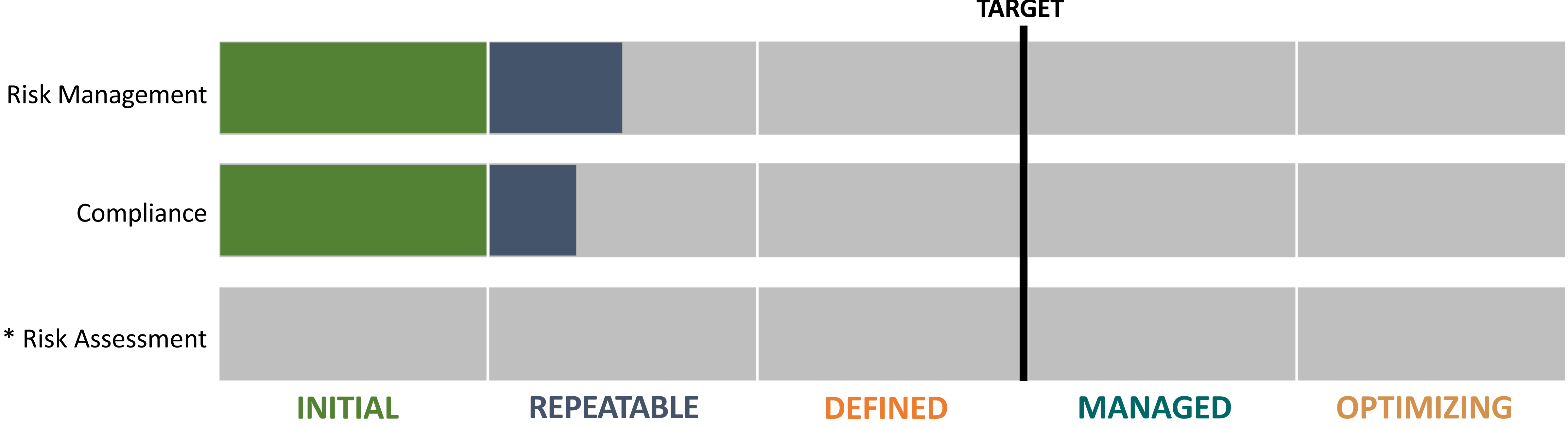
OBS-08
Key Performance Indicators (KPI)



Assessment and Risk Management

OBS-09

Risk Management & Compliance Program



* Attribute applicable to maturity above Repeatable

Observations

OBS-01

Organizational Wide Strategic Plan

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Oversight, Strategy, Policies and Procedures				
Obs - 01	**LACERA does not have an organizational wide strategic plan** LACERA does not have a strategic plan for retirement, member services and operations that aligns the goals and objectives of the organization with actionable plans and outcomes. LACERA initiated a strategic planning process in April 2022, which will include input from Board members and staff throughout the organization. A Work Plan and Strategic Initiatives for the Investments Division was approved by the Board of Investments on January 12, 2022 including an Investment Division Purpose that aligns with the requirements of the Investment Division Policy.	Without alignment of goals and objectives with actionable and measurable outcomes, the organization increases the risk that their goals and objectives will not be achieved. Specifically, the organizational wide strategic plan must be in concert and alignment with the investment division strategic plan.	LACERA should continue efforts to develop a strategic plan for the organization. Once the strategic plan is in place, LACERA should ensure that the Work Plan and Strategic Initiatives for the Investments Division aligns with the organizational wide strategic plan. The strategic plan should include the following elements: • Clearly defined measurable outcomes that define what constitutes success in each strategic objective and align with applicable performance measures of the contributing process owners • Factors that influence the near and long-term outcomes related to strategic objectives that define how internal and external factors impact progress towards goals and objectives • Identification of key stakeholders from various departments across the organization that are involved in achieving the desired outcomes • A framework to assess achievement and monitor progress, including performance information that can be assessed and categorized for each objective and outcome to determine if sufficient progress is being made and to identify gaps in strategic efforts (see Obs-08)	The faithful implementation of the strategic plan as envisioned by executive management would progress the organization to Defined maturity in the Mission and Strategy and the Objectives and Goals attributes of Oversight, Strategy, Policies and Procedures (and partially meet Managed maturity for Objectives and Goals)

Observations

OBS-02

Policies & Procedures / Internal Controls

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Structure and Accountability				
Obs - 02	**LACERA does not review and revise policies and procedures or internal controls in an effective manner** There is no defined schedule for updating LACERA policies and procedures. Divisions have varying time frames for when they review their policies and procedures. That leads to policies and procedures being reviewed in an ad-hoc manner. There are also quality deficits: not all policies and procedures are thorough, deliberative, nor effectively implemented. Internal controls are not documented and reviewed regularly. The Executive Office recently established a Policies and Procedures Council to provide an enterprise-wide governance structure for policy management to ensure policies are up-to-date, standardize policy template and writing standards, develop a routine for new policy reviews, and establish policy review cycles for existing policies.	Without regular review and update of policies and procedures, staff may not operate with the current and correct guidance. Processes may not be performed correctly if the procedures have not been updated. Furthermore, it is difficult to know if controls are operating as intended if they are not documented.	LACERA should, at a minimum, establish a schedule for reviewing and updating all policies and procedures. In addition, internal controls should also be documented within the procedures and reviewed on a regular schedule and updated as necessary. LACERA should also find an automated solution to maintain policies and procedures. The Policies and Procedures Council should focus not only on timely reviews, but also on quality control, ensuring thoroughness, ease of implementation, and effective communication with staff.	Establishing a review schedule for policies and procedures would ensure Defined maturity for the organization for the Policies and Procedures attribute for Oversight, Strategy, Policies and Procedures. However, more qualitative actions would be required to progress beyond defined maturity for either policies and procedures or internal controls, including aligning procedures to govern business processes, creating an internal controls framework, and improving documentation and training for internal controls.

Observations

OBS-03

Professional Development Plan

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Structure and Accountability				
Obs - 03	**LACERA has not implemented a professional development plan** A professional development and training plan for the organization does not exist. A training budget is in place and various training is offered to staff, but there is no formal professional development plan that identifies and aligns what training should be provided for staff in order to advance their skills and prepare them for growth within the organization. Additionally, professional development needs for individual employees to enhance their skills have not been incorporated into the system used for employee performance evaluations.	The lack of a strategic approach to professional development, increases organizational risk that the skills of the staff may not be sufficient for their current job responsibilities or respond to the growing needs of the organization.	LACERA executive leadership should engage in a facilitated analysis of employees across the organization and identify specific development needs of employee classifications and functional groups. That analysis should include: • A needs and gap assessment of skills development required for critical organization functions • An assessment of the current training budget and how it is being spent • Input from employees on desired offerings, including technology training and "digital upskilling" • An inventory of competencies required of employees by supervisors across functions, including risk and internal control awareness and management competencies • A plan for integrating individual professional development needs into the performance evaluation system In the longer term, LACERA should pay specific attention to high performing employees, and engage employees who are emerging leaders in initiatives and achievement of key objectives, providing cross-training opportunities to ensure the employee receives a well-rounded understanding of interrelated processes and key resources of the organization.	Identifying professional development needs and developing policies and procedures addressing professional development are fundamental to the Training attribute; the organization cannot progress beyond Repeatable maturity in Structure and Accountability without such actions. A comprehensive professional development plan will take time to implement. Properly identified and aligned skills training contributes to success across all aspects of any organization. The eventual integration of individual development needs and performance evaluation pushes LACERA toward Defined maturity in Structure and Accountability and improves the effectiveness of the organization to respond to attributes *beyond training*, including Succession Planning, Objectives and Goals, Compliance, and Risk Management.

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Assurance • Tax • Advisory

LACERA

Observations

OBS-04

Succession Plan

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Structure and Accountability				
Obs - 04	**LACERA does not have a succession plan** No organization wide succession plan for critical functions exists at LACERA. Some divisions have identified staff for succession but no formal plan has been put in place, including identifying core competencies and any professional development needed to enhance skills of those in line for succession.	The organization may be unprepared to fill vacancies in critical functions without a succession plan, causing the organization to be reactive to circumstances, increasing the risk of a skills deficit in critical positions that could lead to a possible disruption of services.	LACERA should implement a succession planning process to ensure that the organization can maintain a workforce that collectively possesses the core competencies and skills needed to accomplish its strategic objectives. Effective succession planning focuses on current and future needs and develops a pool of high-potential personnel to meet the organization's long-term mission. The succession plan should include a framework for: • Identification of critical positions of leadership in the organization and executive resource needs, including an analysis of core competencies for leadership success, • Evaluation of the current state of talent, including existing executive competence against what is needed to strengthen executive performance for success at LACERA, and • Aligning identified talent to LACERA's needs, including reviewing the potential leadership readiness for increased challenges or capacity.	Succession planning is a specific attribute of a mature organization. LACERA cannot progress past Defined maturity in Structure and Accountability without a succession plan that at least covers executive positions. In the long term, effective succession planning depends upon developing systems for identifying, developing and providing opportunities for high potential employees. This activity should be paired with effective professional development and performance evaluation.

Observations

OBS-05

CEO Job Description & Board Committee Responsibilities

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Structure and Accountability				
Obs - 05	**The LACERA CEO job description and the responsibilities of the Board Committees overlap/conflict** There is overlap in the Chief Executive Officer's (CEO) duties as listed in the CEO job description and the responsibilities of the BOR's Committees as listed in the Committee Charters.	Overlapping responsibilities can lead to a lack of segregation of duties as well as confusion as to who is responsible for key processes within the organization. This is a poor governance practice that increases organizational risk to the implementation of executive initiatives and the general management of the organization.	The BOR's Committee Charters and the Chief Executive Officer's (CEO) job description should be reviewed and updated to reflect the appropriate responsibilities of each. The Charters should include oversight responsibilities while the CEO job description should include responsibilities for carrying out the Board directives and management of the organization.	This recommendation is fundamental to proper governance: establishing clear lines of responsibility between a governing board and an executive director.

Observations

OBS-06

Fraud Prevention & Detection Program

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Ethical Values				
Obs - 06	**LACERA does not have a formal enterprise fraud prevention and detection program** While an Ethics Policy is in place that addresses fraud and the fraud reporting hotline, there is no formal program in place to prevent and detect fraud. The information obtained from the fraud reporting hotline is reported to the Audit Committee but there is not a process for incorporating what is learned into the organization's policies. Furthermore, there is no consistent training on fraud prevention and detection throughout the organization.	The organization increases its risk exposure to fraud without a formal program or training for staff to understand how to prevent, detect and report fraud.	LACERA should implement a formal fraud prevention and detection program that includes a policy separate from the Ethics Policy, consistent training for staff including how to report suspected fraud, and a process to incorporate what is learned from the fraud reporting into the organization's policies.	The Fraud Detection and Prevention attribute does not meet Repeatable maturity for the organization, lacking both consistent effort and policy. The Ethics Policy attribute exhibits some characteristics of Defined maturity and the agency has a well -established Reporting Hotline. Across the Ethical Values element, LACERA falls short with regard to not only implementation, but regular review and revision and communication to employees; consistency of application, training, and fraud detection processes and reporting are all necessary to achieve Managed maturity.

Observations

OBS-07

Communication Plan

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Communication and Reporting				
Obs - 07	**LACERA does not have a communication plan** A communication plan for the organization that establishes reporting timelines and format, including standards for communicating with employees and stakeholders has not been implemented. LACERA has drafted a Communication Plan for executive review. In addition, there is no style guide in place to be used with the communication plan to address style and format of standard communications.	The organization risks missed reporting deadlines or inconsistent communications or reporting.	LACERA should finalize the existing draft Communication Plan for the organization. In addition, guidelines for style and format of reporting should be developed to ensure consistency. Staff should be trained on the implemented Communication Plan and style and format guidelines.	Similar to strategic planning (Obs-01), the implementation of a communication plan would progress LACERA to Repeatable maturity in Communication and Reporting by fulfilling attributes of internal and external Communication and Board Reporting.

Observations

OBS-08

Key Performance Indicators (KPI)

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Communication and Reporting				
Obs - 08	**LACERA lacks defined Key Performance Indicators (KPI)** While some divisions have either developed or drafted key performance indicators (KPI's), they have not been defined for all divisions. Member Benefits and Investments divisions have defined KPI's. The rest of the divisions have either drafted KPI's that have not been approved or have not developed them.	The organization risks an inability or inadequacy to measure success at meeting its goals and objectives or identifying areas needing improvement.	LACERA should develop and implement key performance indicators (KPI's) for any divisions that have not yet defined them. The KPI's should be quantifiable and be linked to the goals of the organization as established in the Strategic Plan (see Obs-01). In addition, reporting mechanisms should be established for the reporting of the KPI's so that the data can be used to inform decision making.	The identification and development of KPIs across operational areas--ideally within the context of the strategic planning effort (Obs-01)--would result in Repeatable maturity for the organization.

Observations

OBS-09

Risk Management & Compliance Program

Ref #	Observation	Risk Exposure	Recommendation	Weaver Insights into Maturity
Assessment and Risk Management				
Obs - 09	**LACERA does not have a formal enterprise risk management and compliance program** A formal enterprise risk management and compliance program does not currently exist at LACERA. The Investments Division has a compliance program to address risks within the portfolios and reports regularly to the Board of Investments. The organization has plans to hire a Compliance Manager in the next six months. A risk assessment of the organization is currently performed annually only by Internal Audit for the purpose of developing the Internal Audit Plan.	Risk management and compliance programs are fundamental mitigators to risk exposure organization-wide.	LACERA should implement a formal enterprise risk management and compliance program for the organization that includes identification of risks and how to address those risks. The risk information should be used by the organization to make decisions. The program should also include an inventory of all program requirements and a plan to monitor compliance with those requirements. Reporting mechanisms should be implemented for risk management and compliance.	LACERA should address gaps in Risk Management and Compliance attributes to achieve--at a minimum--Repeatable maturity in the near term (prior to the hiring of a Compliance Manager). These gaps include defining high level risk management policies and using data and systems to monitor compliance.

Appendix 1 – List of Interviewees

- Santos Kreimann, Chief Executive Officer
- Jonathan Grabel, Chief Investment Officer
- Luis Lugo, Deputy Chief Executive Officer
- Steven Rice, General Counsel, Legal Services
- Laura Guglielmo, Assistant Executive Officer
- JJ Popowich, Assistant Executive Officer
- Bernardo Buenaflor, Chief, Quality Assurance & Metrics
- Kathy Delino, Information Systems Manager
- Cynthia Martinez, Chief, Communications
- Carly Ntoya, Director, Human Resources

Appendix 2 – List of Documents Reviewed

- 100 Day Report
- Investment Policy Statement OPEB Master Trust
- Investment Policy Statement
- LACERA Employee Handbook for Non-Represented
- LACERA Employee Handbook for Union Represented
- FY 21-22 LACERA Budget
- Board Charters and Bylaws
- Board Approved and Internal Policies List
- 2022-23 CEO Report
- KPI / MOG Metrics
- Insurance Procedures
- Employee Engagement Survey Results
- Contract Compliance Procedures
- Purchasing Policy
- Procurement Policy for Investment-Related Services
- Process Flowcharts
- Staff Travel Policy Directive
- Board Confidential Information Policy
- Board Correspondence Policy
- Board Lounge Policy
- Disability Committee Memo
- Board Training Policy
- Securities Litigation Policy
- CIO Reporting Evaluation Policy
- Change of Board Meeting Schedule Policy
- BOI Closed Session Policy
- Hearing Officer Compensation
- BOI Standing Committee Charter
- Corporate Governance Principles
- BOR Education Policy
- BOI Education Policy
- Ex Parte Communications

Appendix 2 - List of Documents Reviewed (continued)

- Fiduciary Counsel Policy
- Incident Response Team Charter
- Joint Board Meeting Policy
- Legislative Policy
- 2022 Work Plan and Strategic Initiatives Investments Division
- Performance Evaluation Guidelines for Represented Employees
- Career Development Program
- Training Opportunity Program - TOP
- LA County Code 6.127.040
- BOI Powers Reserved and Delegated Authorities
- New Hire Checklists
- IT Coordination Council Charter
- Tuition Reimbursement Policy
- DPC Privacy Policy
- Ethics Hotline Policy
- HIPAA Privacy and Security Rule Policies fro the RHC Program
- Records and Information Management Policy
- Insurance Procedures
- SEAF User Manual
- Executive Management Job Descriptions
- Control Questionnaires
- Policies and Procedures Council
- Staff Education Travel Policy
- Board Confidential Information Protection Policy
- Service Provider Policy Payment Memo
- Securities and Litigations Policy

Appendix 2 - List of Documents Reviewed (continued)

- Policy on Policies, Procedures, and Charters
- Code of Ethical Conduct
- Ethics Hotline Overview
- FPPC Conflict of Interests Desk Procedures
- LACERA COI for THC
- Ethics Hotline Overview Memo
- Conflict of Interest Code
- FY 2021-2022 LACERA Budget
- Corporate Governance Committee Charter
- Joint Organizational Governance Committee Charter
- BOR Standing Committees Charter
- Audit Committee Charter
- CEO Report Mar 2022
- Mid Year Budget
- FPPC Conflict of Interests Desk Procedures
- Administrative Budget Policy Directive
- Media Policy
- BOI Closed Session Policy
- Management Compliance Report
- Records and Information Management Policy
- DPC Privacy Policy Statement
- HIPAA Privacy and Security Rule Policies
- Incident Reporting
- Corporate Governance Policy
- Internal Audit’s Risk Assessment 2021-2022
- Training Report
- Management’s Response to Plante Moran’s Comments to Management
- Additional confidential non-public documents

ATTACHMENT B

Accountable
Consensus oriented
Transparent
Good Governance
Participatory
Responsive
Follow the ru
Equitable
Efficient

Report on Organizational Governance Assessment

Los Angeles County Employees Retirement Association| June 2022

Executive Summary

Organizational governance supports and encourages the growth and development of a strategically focused, risk aware and operationally effective organization. Management establishes the tone at the top regarding the importance of internal controls, including expected standards of conduct, and then reinforces expectations at the various levels of the organization. Organizational governance provides an oversight role and enables the entity to manage and mitigate risks.

As part of LACERA's 2022 internal audit plan, Weaver was engaged to assess at a high level LACERA's maturity in key organizational governance areas including:

- Ethics and value
- Risk management
- Detection and prevention of fraud
- System of internal controls
- System of compliance

The assessment resulted in nine observations where there existed a gap between LACERA's current governance practices and the target maturity level for the organization. The target maturity is the level of organizational governance maturity to be achieved by the organization within a reasonable 18-24 month timeframe. The target maturity level was defined by the Executive Team including the Chief Executive Officer, the Deputy Chief Executive Officer, the General Counsel and the Chief Investment Officer and was based on based on the attributes of LACERA and the goals of LACERA management.

The observations in the report are not deficiency findings, but rather areas identified for improvement to achieve the target maturity level of governance for the organization.

Executive Summary (continued)

The scope of the assessment was limited to understanding and validating the existence of the framework and procedures put in place by LACERA to inform, direct, manage and monitor the activities of the organization. The assessment was not designed to provide assurance over the organizational governance area and did not include an evaluation of the effectiveness of those elements for the organization.

Weaver developed and customized the Organizational Governance Maturity Model against which the organization's maturity was evaluated. The maturity model is based upon Weaver internal methodology, IIA Standards and Best Practice, and governance considerations specific to LACERA. The customized model was developed in collaboration with LACERA Executive Leadership and Internal Audit.

The maturity model breaks down the five key governance elements and measures them on a five-level scale in accordance with industry and government best practice. The five governance elements include a total of 176 attributes that were used to measure the organizational governance maturity level at LACERA. The maturity model is designed as an integrated model where the attributes work together for each governance element.

Weaver conducted an extensive document review covering LACERA policies and procedures, charters, communications, and operating plans, among other documents. Weaver interviewed LACERA Executive staff and key personnel charged with the implementation of reviewed policies and procedures. Weaver also conducted a staff survey regarding organizational governance and analyzed the results.

Executive Summary (continued)

The high-level assessment of LACERA's organizational governance identified gaps between the current maturity levels observed and the targeted maturity levels desired in each of the five elements reviewed. The organization shows relative strength in Structure and Accountability. The least mature governance element is Assessment and Risk Management.

While LACERA executes its primary mission effectively, the organization does not have a current strategic plan and is not a metric-driven organization (with some divisional exceptions).

The Investment Division operates at a higher maturity level than LACERA as an organization, particularly concerning Communication and Reporting (including KPI development) and Assessment and Risk Management.

LACERA has an established training budget but does not have an adequate professional development program, lacking an assessment of employee needs and leadership training. There is no organizational succession plan and employee evaluation is not aligned with strategic objectives. Furthermore, LACERA has not implemented a comprehensive enterprise risk assessment and compliance framework, nor a comprehensive enterprise fraud detection and prevention plan.

The assessment determined that LACERA has undertaken several initiatives with the potential to strengthen organizational governance maturity. Detailed results of the assessment are documented in the report that follows.

Consulting Objective, Scope and Methodology

Objective

- The objective of the project was to assess at a high-level LACERA's maturity in key organizational governance areas including:
  - Ethics and values
  - Risk management
  - Detection and prevention of fraud
  - System of internal controls
  - System of compliance

Scope

- The assessment was limited to understanding and validating the existence of the following related to each organizational governance area:
  - The design, structure, and implementation
  - The communication and training
  - The existence of key policies
  - The use of systems and information to create efficiencies
- The assessment was not designed to provide assurance over the organizational governance area and was performed under IIA consulting standards, not auditing standards
- The assessment was limited to understanding and validating the existence of key elements of organizational governance and did not include evaluation of the effectiveness of those elements for the organization
- Review period December 1, 2020 through February 28, 2022

Methodology

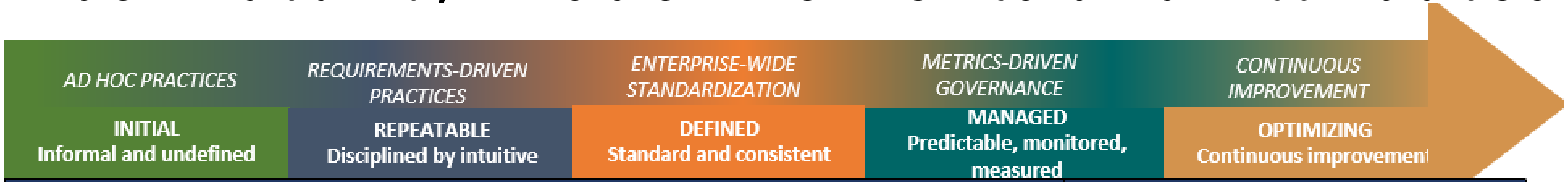
- Developed a customized Organizational Governance Maturity Model
- Interviewed key LACERA management*
- Reviewed LACERA procedures / documents*
- Conducted a staff survey regarding organizational governance and analyzed results
- Assessed the current state of maturity of LACERA's organizational governance

**See Appendix for detail listing of interviewees and documents reviewed*

Governance Maturity Model Elements and Attributes

The maturity model includes an advancing maturity scale for each of the 5 governance elements as seen across the top of this chart.

Attributes for each governance element measure the degree of maturity for that element. There are a total of 27 attribute categories.


AD HOC PRACTICES
REQUIREMENTS-DRIVEN PRACTICES
ENTERPRISE-WIDE STANDARDIZATION
METRICS-DRIVEN GOVERNANCE
CONTINUOUS IMPROVEMENT
INITIAL Informal and undefined
REPEATABLE Disciplined by intuitive
DEFINED Standard and consistent
MANAGED Predictable, monitored, measured
OPTIMIZING Continuous improvement

Governance Element	Attribute Categories (27 total)
Oversight, Strategy, Policies and Procedures -Are Board roles explicitly defined through charters and committees? -How consistently and effectively does the Board provide oversight? -What are the strategy, goals, objectives, policies, and procedures for supporting LACERA's mission? -Is the strategy communicated, documented, and aligned?	Board Oversight Board Roles and Committees Mission Strategy Objectives Goals Policies and Procedures
Structure and Accountability -How effective is the structure of the organization for achieving objectives, managing programs, hiring, training and staff development, evaluating performance, and succession planning? -Does a clear distinction between Board and Executive Management responsibilities exist? -Are roles and responsibilities across the organization defined with adequate staffing?	Structure Delegation of Authority Internal Controls Segregation of Duties Succession Planning Systems and Data Training
Ethical Values and Fraud Prevention -Is there an ethics policy in place that includes fraud prevention and detection? -How are ethical standards communicated throughout LACERA? -Are ethics requirements enforced and followed by employees?	Ethics Policy Related Parties and Conflicts of Interest Fraud Detection and Prevention Reporting Hotline
Communication and Reporting -What are types of communication used by LACERA for Board reporting, internal reporting, staff meetings, dashboards and public information? -What are the key performance measures to monitor achievement of the mission?	Communication internal and external Board Reporting Reporting internal and external Key Performance Indicators Performance Measures Monitoring and Reporting against Performance
Assessment and Risk Management -What processes are in place to monitor LACERA's progress for meeting stated objectives, performance metrics, risk management, and compliance?	Risk Management Risk Assessment Compliance

Governance Maturity Model

The current state of LACERA organizational governance was assessed against the customized integrated maturity model.

For each of the five governance elements, we evaluated varying number of attributes at each maturity level as depicted in the graphics below. We reviewed a total of 176 attributes related to organizational governance.

1. Oversight, Strategy, Policies and Procedures

5	6	7	8	7	33

2. Structure and Accountability

8	9	9	9	7	42

3. Ethical Values and Fraud Prevention

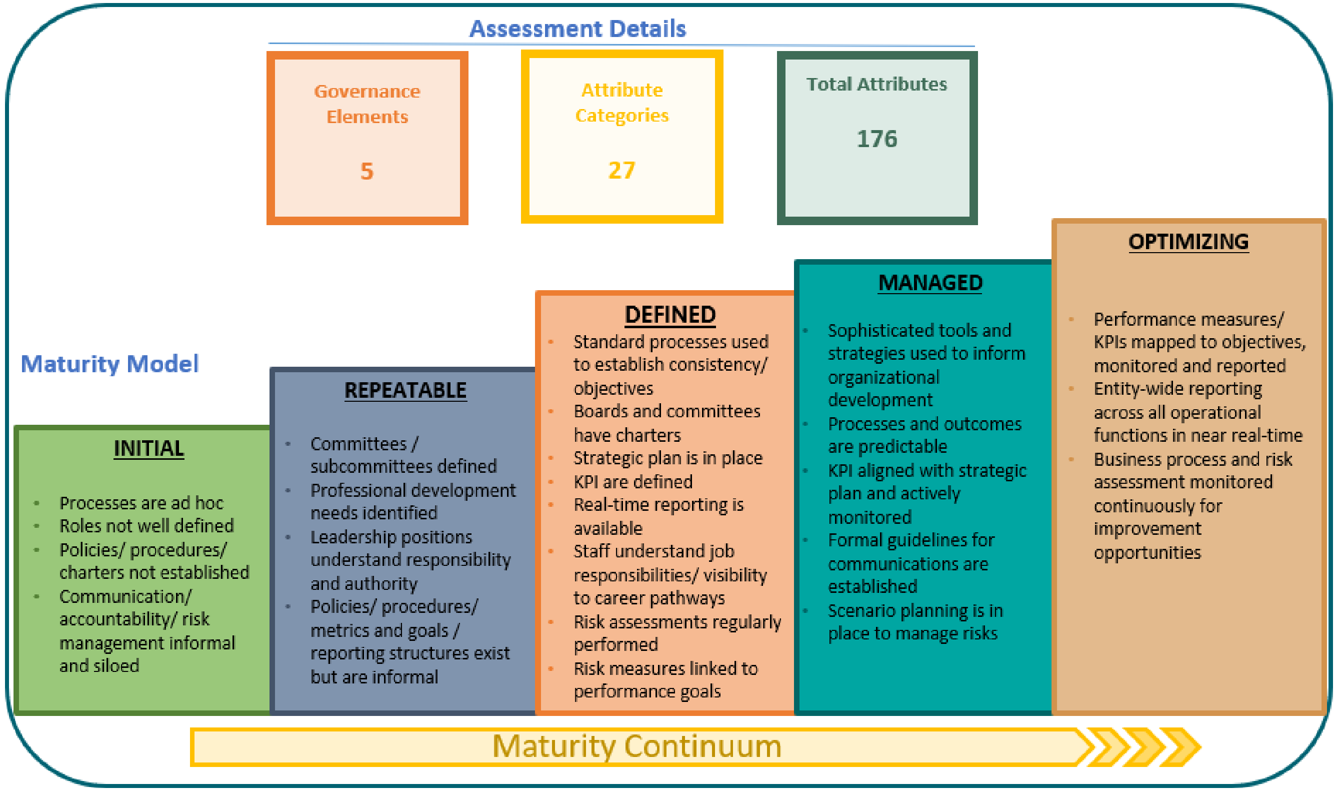
4	8	7	11	7	37

4. Communication and Reporting

5	7	6	6	7	31

5. Assessment and Risk Management

6	5	7	8	7	33



Assessment Details

Governance Elements	Attribute Categories	Total Attributes
5	27	176

Maturity Model

INITIAL

- Processes are ad hoc
- Roles not well defined
- Policies/ procedures/ charters not established
- Communication/ accountability/ risk management informal and siloed

REPEATABLE

- Committees / subcommittees defined
- Professional development needs identified
- Leadership positions understand responsibility and authority
- Policies/ procedures/ metrics and goals / reporting structures exist but are informal

DEFINED

- Standard processes used to establish consistency/ objectives
- Boards and committees have charters
- Strategic plan is in place
- KPI are defined
- Real-time reporting is available
- Staff understand job responsibilities/ visibility to career pathways
- Risk assessments regularly performed
- Risk measures linked to performance goals

MANAGED

- Sophisticated tools and strategies used to inform organizational development
- Processes and outcomes are predictable
- KPI aligned with strategic plan and actively monitored
- Formal guidelines for communications are established
- Scenario planning is in place to manage risks

OPTIMIZING

- Performance measures/ KPIs mapped to objectives, monitored and reported
- Entity-wide reporting across all operational functions in near real-time
- Business process and risk assessment monitored continuously for improvement opportunities

Understanding the Engagement Results

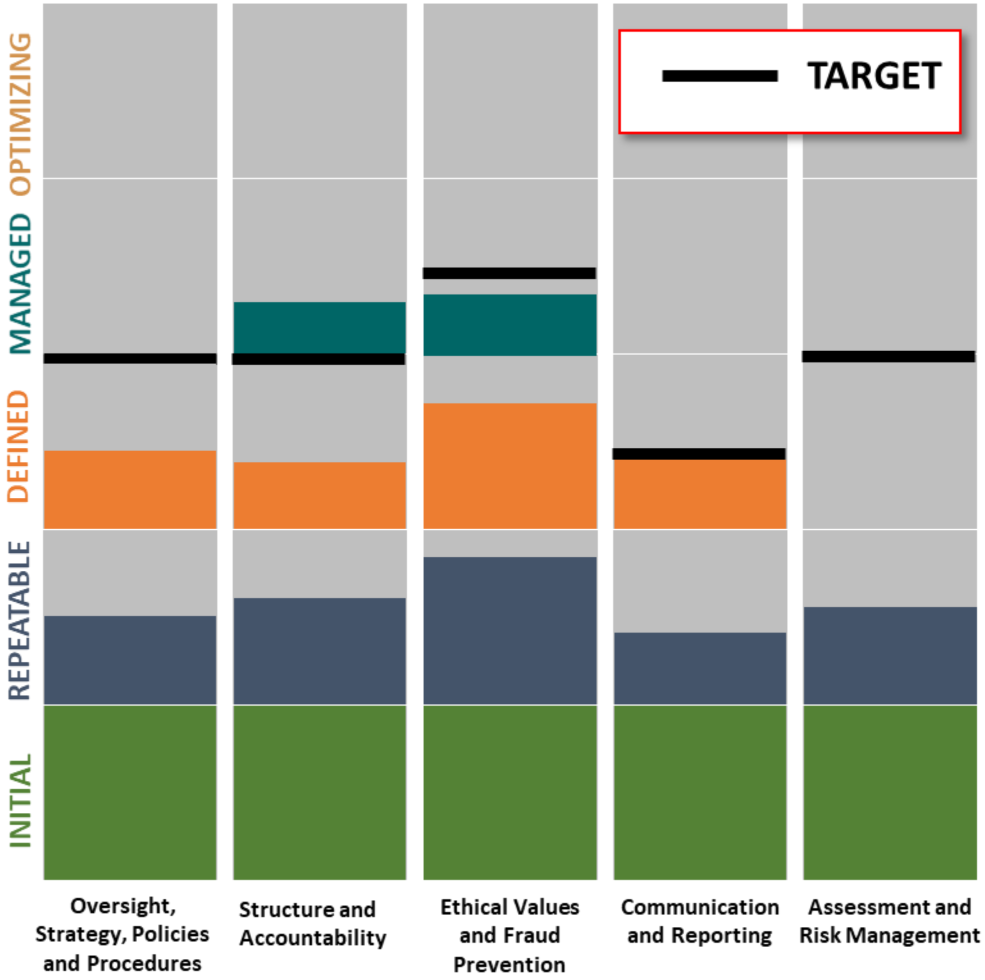
Interviews were held with the Executive Team to identify the targeted maturity level: the level of organizational governance maturity to be achieved by the organization within a reasonable 18-24 month timeframe for each of the five governance elements. The targeted maturity level is represented by the black line on the graph.

The Maturity Assessment illustrates LACERA's current achieved maturity across the five governance elements.

The colored bars represent our assessment of the achievement within each level of maturity.

Note that an organization can exhibit certain attributes of a higher level of maturity than they have achieved overall (e.g.: LACERA exhibits attributes of Defined maturity in the Oversight, Strategy, Policies, and Procedures element even though the organization falls somewhere between the Initial and Repeatable maturity level).

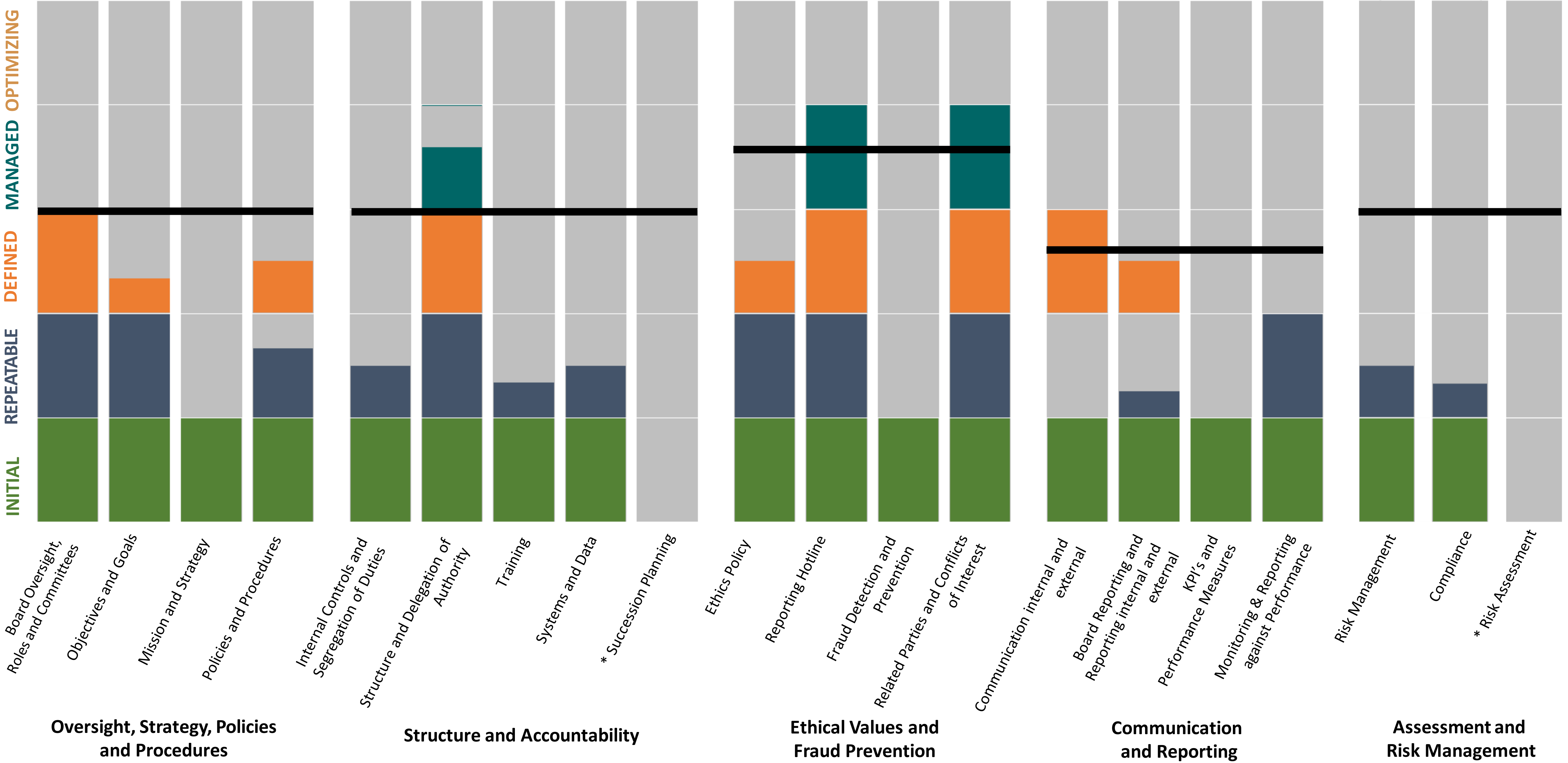
LACERA Maturity Assessment – Summary



LACERA Maturity Assessment - Detailed

TARGET

* Attribute applicable to maturity above Repeatable



Engagement Results and Summary

LACERA executive management established reasonable maturity goals for the short to mid-term (18-24 months).

The organization shows relative strength in **Structure and Accountability**. The least mature governance element is **Assessment and Risk Management.**

The following observations were noted during the assessment:

- LACERA executes its primary mission effectively.
- LACERA does not have a current strategic plan and is not a metric-driven organization (with some divisional exceptions).
- LACERA has an established training budget but does not have an adequate professional development program, lacking an assessment of employee needs and leadership training. There is no organizational succession plan and employee evaluation is not aligned with strategic objectives.
- LACERA has not implemented a comprehensive enterprise risk assessment and compliance framework, nor a comprehensive fraud detection and prevention plan.

LACERA Initiatives

LACERA has undertaken several initiatives with the potential to mitigate gaps in organizational governance maturity:

- Strategic Plan (in progress)
- Policies and Procedures Council (implemented)
- Compliance Director position (in progress)
- Information Technology Communications Council (implemented)
- Case Management System (in progress)
- Communications Plan (in progress)
- Employee Handbook Update (in progress)
- *Work Plan and Strategic Initiatives* for Investments (implemented)
- Professional Development (in progress)

Nine Engagement Observations

The assessment resulted in nine observations where there existed a gap between LACERA's current governance practices and the target maturity level for the organization. Below is a summary of the nine observations that are detailed on pages 22-30. The applicable gaps are noted in the maturity charts for each of the five elements.

High

OBS-01

Organizational Wide Strategic Plan

High

OBS-02

Policies & Procedures / Internal Controls

Medium

OBS-03

Professional Development Plan

High

OBS-04

Succession Plan

High

OBS-05

CEO Job Description & Board Committee Responsibilities

Medium

OBS-06

Fraud Prevention & Detection Program

Medium

OBS-07

Communication Plan

Medium

OBS-08

Key Performance Indicators (KPI)

High

OBS-09

Risk Management & Compliance Program

LACERA

July 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: Kristina Sun KS
Senior Internal Auditor

FOR: August 18, 2022 Audit Committee Meeting

SUBJECT: **Risk and Control Assessment – Retiree Healthcare Division**

RECOMMENDATION

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

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

ENGAGEMENT REPORT

a. Risk and Control Assessment – Retiree Healthcare Division
Kristina Sun, Senior Internal Auditor
(Report Issued: July 14, 2022)

KS

Attachment

Noted and Reviewed:

Richard P. Bendall
Chief Audit Executive

INTERNAL AUDIT DIVISION

Risk and Control Assessment – Retiree Healthcare Division

Project No. 2022-33

July 14, 2022

Consulting Engagement Performed By:

Kristina Sun, CPA, CIA
Senior Internal Auditor

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SECTION ONE: ENGAGEMENT SUMMARY

- Background
- Engagement Objective, Scope, and Methodology
- Engagement Results – Overview of Findings and Observations

BACKGROUND

This consulting engagement is a deep-dive risk and control assessment of a division's processes, risks, and controls. The engagement is based on the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Refer to Appendix 1 for more information about the COSO framework.

Internal Audit selected the Retiree Healthcare Division (RHC) for this inaugural engagement. This engagement is part of the fiscal year (FY) 2021-2022 Audit Plan and is a consulting engagement.

RHC is responsible for administering the Retiree Healthcare Benefits Program (RHCBP) for retired members, survivors, and eligible dependents. RHC provides RHC-specific training for retiree benefits specialists and operates under its own budget, which is separate and distinct from LACERA's budget. For FY2021-2022, RHC has a total of 37 budgeted positions with 29 positions filled. RHC's FY2021-2022 budget is about $11.4 million, with salaries and employee benefits at $5.3 million and services and supplies at $6.1 million. The RHCBP is fully self-funded and cannot be subsidized by LACERA. Currently, RHC charges an administrative fee for retiree healthcare medical and dental/vision plan premiums, per member, per plan, per month. The administrative fees cover RHC program expenses, including consulting services, vendor fees, and the cost of administering the RHCBP.

RHC management currently oversees 14 business processes across three business sections: 1) Audits and Financials, 2) Operations, and 3) Call Center/Member Outreach. The objectives of the RHC business processes are to serve retiree members, comply with regulatory and compliance requirements, and monitor financial spending and reduce costs.

ENGAGEMENT OBJECTIVE, SCOPE, AND METHODOLOGY

The engagement objective was to obtain an in-depth understanding of RHC's divisional objectives and operations to assess RHC's risks and controls.

The scope of work was limited to a review of RHC's processes in effect during FY2021-2022. We did not test the effectiveness of controls within the processes.

Internal Audit (IA) conducted preliminary research and interviewed key personnel:

- LACERA executive management
- RHC management, supervisors, and select staff
- Segal Consulting, external healthcare consultant

Additionally, we reviewed the following information provided by RHC management:

- RHC's FY2020-2022 strategic plan & business objectives
- RHC's FY2022 risk assessment as part of IA's annual risk assessment process
- RHC's FY2022 budget and organizational chart
- RHC's policies, procedures, and templates for key business processes
- RHC's checklists, reconciliation reports, system generated reports, monitor logs

This engagement was performed under the International Standards for the Professional Practices of Internal Auditing (IPPF) issued by the Institute of Internal Auditors (IIA).

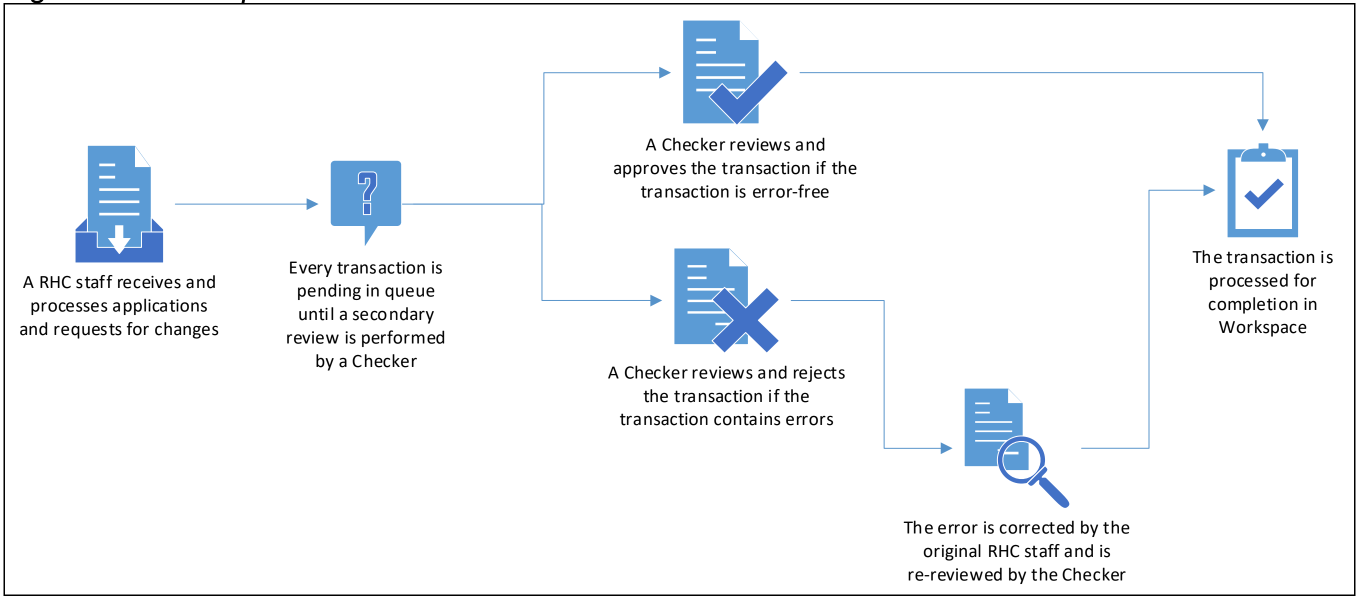
ENGAGEMENT RESULTS – OVERVIEW OF FINDINGS AND OBSERVATIONS

Internal Audit created a Risk and Controls matrix documenting RHC's business processes. The matrix contains useful information such as the purpose and description of the business process, risk, key process designation, control description, control type, and control frequency. A completed matrix for the RHC division with a detailed listing of related risks and control activities is in Section 2 of this report.

As of April 2022, the time of this consulting review, RHC had adequately designed control activities to mitigate associated risks for its key business processes. Two of its strongest controls are:

- Within the operational process, RHC management has implemented a manual secondary review for every enrollment application or change request processed by a RHC staff. The secondary review is conducted by a RHC supervisor or a Retiree Benefit Specialist III using a standard checklist developed in-house. After the review is complete, the checklist documentation is then uploaded to Workspace as an audit trail and for recordkeeping. Figure 1 shows the RHC operational process in a flowchart.
- RHC management has created written documentation such as policies and procedures for all its key business processes, to strengthen its internal controls.

Figure 1: RHC Operational Process Flowchart


A RHC staff receives and processes applications and requests for changes
Every transaction is pending in queue until a secondary review is performed by a Checker
A Checker reviews and approves the transaction if the transaction is error-free
A Checker reviews and rejects the transaction if the transaction contains errors
The error is corrected by the original RHC staff and is re-reviewed by the Checker
The transaction is processed for completion in Workspace

Internal Audit developed engagement findings and observations to address the short-term and long-term risks identified during the engagement. The findings cover the process risks and control gaps that RHC management can address using existing resources. The observations cover the broader operating risks and control gaps that require Executive Office's attention.

The comprehensive Engagement Results Dashboard shows each control activity as prescribed in the COSO framework, as well as gaps identified, findings, and observations. The remaining control activities were considered to be reasonably satisfactory as management provided documentation to evidence the existence of their controls.

Engagement Results Dashboard			
Retiree Healthcare Division Risk and Control Assessment			
COSO Component	**COSO Control Activities**	**Gaps Identified**	**Findings and Observations**
Control Environment	Organizational Tone		
	Business Objective/Performance Measures	X	F1
	Resource Capacity	X	Obs-1, Obs-3
	Forecasting/Budget	X	Obs-4
	Training and Development & Talent Management	X	Obs-2
Risk Assessment	Risk Identification/Planning		
	Risk Assessment/Impact Analysis		
	Risk Response/Cost-Benefit Analysis		
	Business Continuity		
Control Activities	Policies/Procedure Development & Maintenance	X	F2
	Review/Approvals		
	Supporting Evidence/Records Retention		
	Segregation of Duties		
	Safeguarding Assets		
	General IT Controls	X	Obs-3
Information & Communication	Data/Information Classification		
	Data/Information Input		
	Data/Information Processing		
	Data/Information Output		
	Internal and External Reporting		
Monitoring	Evaluations/Inspections		
	Quality Control/Quality Assurance Reviews		
	Reconciliations		
	Management Assessment		

The details of findings are included in Section Two of this report, along with our recommendations and management's responses.

Engagement Findings Summary

F#	Page	Description of Finding	Inadequate Control Design	Ineffective Operating Control	Rating[**]
F1	10	RHC management has not initiated or completed a majority of its divisional strategic goals.	X		Medium
F2	12	RHC division does not have a formal process for reviewing divisional policies and procedures.	X		Low

Due to the observations requiring a longer time period to address, we have not rated them or requested a specific management action plan. The Executive Team and RHC management provided responses to describe the current efforts undertaken by management. Furthermore, the observations will be considered as part of LACERA's strategic planning.

Engagement Observations Summary

Obs-#	Page	Description of Observation	Related COSO Activity	Long-Term Risk
Obs-1	14	RHC has vacancies throughout the division, especially in the RHC Call Center.	Resource Capacity	Risk of inability to meet RHC's divisional objectives
Obs-2	14	RHC is lacking succession planning between management team and staff. RHC management has continued to rehire a retiree for over ten years.	Training and Development & Talent Management	Risk of business sustainability
Obs-3	15	Most of RHC's operational processes rely heavily on manual processes and are performed outside of the Workspace system. These processes also lack automated controls.	Resource Capacity, General IT Controls	Risk of increased inefficiencies due to errors and delays
Obs-4	15	RHC's administrative fee process is not formalized.	Forecasting/ Budget	Risk of financial loss and inconsistencies

---

[**] See Appendix 2 for Finding's Risk Rating

We would like to thank the RHC staff and management for their cooperation with this consulting engagement.

REVIEWED AND APPROVED

Date: July 14, 2022

Richard Bendall
Chief Audit Executive

REPORT DISTRIBUTION

2022 Audit Committee	Santos H. Kreimann, CEO	Cassandra Smith, Director of Retiree Healthcare
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	

SECTION TWO: ENGAGEMENT RESULTS

- Findings, Recommendations, and Management’s Responses
- Observations and Management’s Responses
- Risk & Control Matrix of RHC Business Processes
- Appendix 1 – COSO Framework
- Appendix 2 – Finding’s Risk Rating Scale

FINDING #1

RHC management has not initiated or completed a majority of its divisional strategic goals.	**Risk Rating**[**]
	Medium

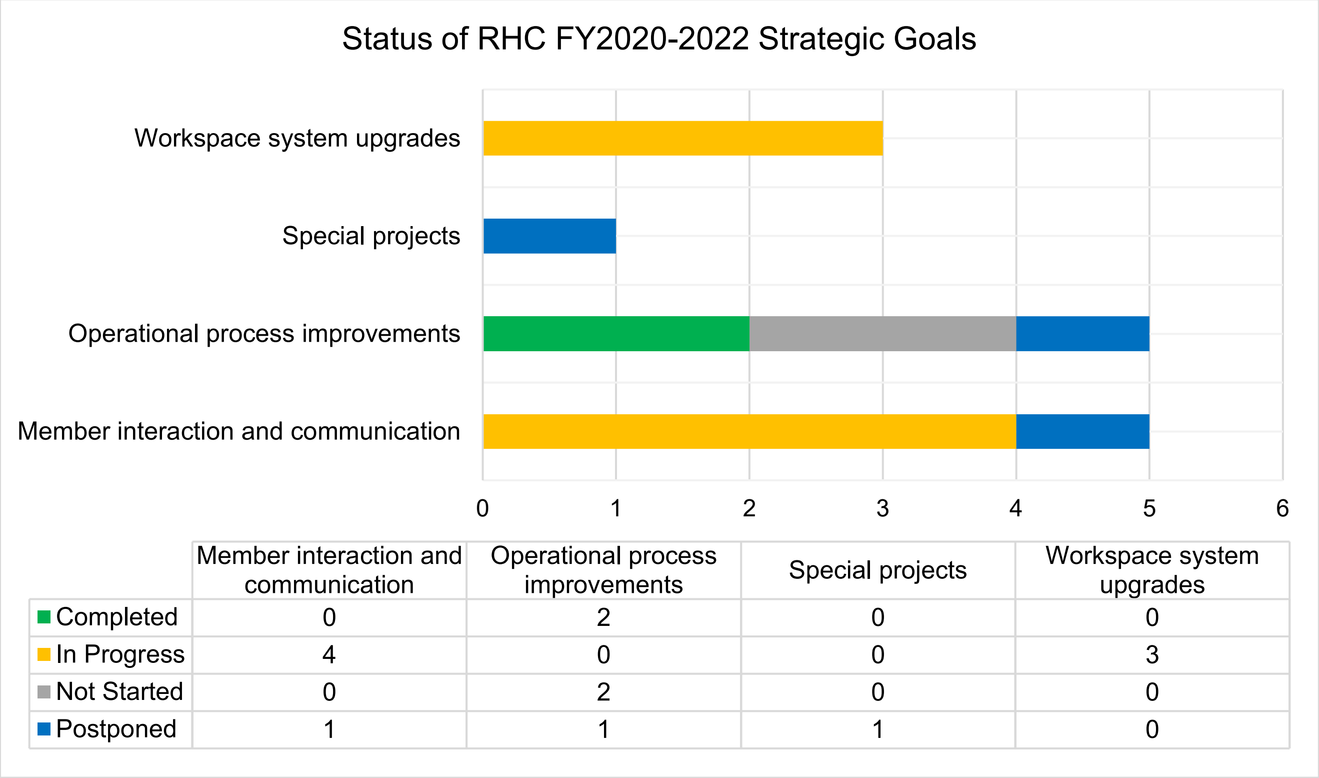
OBSERVATION

The mission of the Retiree Healthcare division (RHC) is “to efficiently administer the Healthcare Benefits Program for retired association members and beneficiaries and provide a healthcare program of the highest quality at an affordable cost.” In 2020, RHC management developed a FY2020-2022 strategic plan as a roadmap to prioritize and accomplish new goals. The purpose of the strategic goals is to enhance the RHC’s business units: 1) Audits and Financials, 2) Operations, and 3) Call Center/Member Outreach.

Internal Audit reviewed and categorized the RHC strategic goals into four broad areas:

- Workspace system upgrades for RHC operational processes
- Operational process improvements to increase efficiency
- Perform special projects using third party vendors
- Increase member interaction and communication

Below is a graphical overview of RHC’s FY2020-2022 strategic goals and status.



Status of RHC FY2020-2022 Strategic Goals

	Member interaction and communication	Operational process improvements	Special projects	Workspace system upgrades
🟩 Completed	0	2	0	0
🟨 In Progress	4	0	0	3
⬜ Not Started	0	2	0	0
🟦 Postponed	1	1	1	0

As of May 2022, RHC management has completed two goals (14%), working on seven in-progress goals (50%), and postponed or has not started on the remaining four goals (36%).

[**] See Appendix 2 for Finding’s Risk Rating

Additionally, the seven in-progress goals were first created in FY2017 as part of the RHC FY2017-2019 Strategic Plan and have been under development for the past five years.

RHC management noted that the divisional goals were delayed or fell behind schedule due to lack of resources available in both RHC division and within LACERA. However, RHC management is not addressing identified gaps between the current performance and the target performance of its operations.

RISK

The delay in implementing the goals can create operational inefficiencies and financial loss. The divisional performance and service delivery may be negatively impacted.

RECOMMENDATION

RHC management should a) assess its strategic goals using a risk-based approach, and b) prioritize addressing goals that can be completed with RHC's current resources.

MANAGEMENT'S RESPONSE

Management agrees with the recommendation. Currently, LACERA is in the process of developing its organizational Strategic Plan. LACERA's Executive Team and RHC management will develop, align, and prioritize divisional goals and action plans with the finalized LACERA strategic plan. Also, will work in conjunction with Systems, Member Services, Communications, and other divisional stakeholders to ensure cross functional alignment.

TARGET COMPLETION DATE

March 31, 2023

FINDING #2

RHC division does not have a formal process for reviewing divisional policies and procedures.	**Risk Rating**[**]
	Low

OBSERVATION

Internal Audit evaluated the risks and controls of each RHC business process and related documentations. RHC management used control activities such as written policies and procedures to ensure risks are managed appropriately. For primary business processes that are core to RHC's operations, RHC management frequently reviews and updates the policies and procedures. For secondary business processes, RHC management does not perform periodic review or updates to the policies and procedures since changes seldomly occur in these operational areas.

Below is a summary of RHC management's review of the fourteen business processes:

Last Review Date	Number of Primary Business Process	Number of Secondary Business Process
Within 1-2 Years	4 (29%)	0
Within 3-5 Years	1 (7%)	0
More than 5 Years	0	4 (29%)
No Evidence of Management's Review	0	2 (14%)
No Written Documentations of Policies or Procedures	0	3 (21%)

Our work showed that RHC management has not been consistent in their review of policies and procedures. For four of the five primary business processes, RHC management reviewed and updated the policies and procedures within the last two years. In contrast, RHC management has not reviewed or updated the policies and procedures for six secondary business processes in the last five years. Furthermore, no written documentations of policies or procedures exist for three secondary business processes.

RISK

Outdated policies and procedures may cause inconsistent practices, result in a potential fiscal impact, may fail to comply with laws and regulations, and may not address current operational risks.

RECOMMENDATION

RHC management should develop a policy and procedures review process to ensure that the documents are current with applicable laws, organizational policies, and processes.

[**] See Appendix 2 for Finding's Risk Rating

MANAGEMENT'S RESPONSE

Management agrees with the recommendation. RHC management will adopt the checklist, process, and procedures developed by the newly formed Policy Committee in authoring and implementing its various policies and procedures. This will ensure adherence to organizational standards and transparency in operational policies and controls.

TARGET COMPLETION DATE

June 30, 2023

ENGAGEMENT OBSERVATIONS

#	Description of Observation	Related COSO Activity / Long-Term Risk	LACERA Management's Response
Obs-1	RHC has vacancies throughout the division, especially in the Call Center. • RHC Call Center: The RHC Call Center has a total of 14 budgeted staff positions for FY2022. The RHC Call Center team consists of 4 full-time staff, 1 full-time staff working in a hybrid capacity, and 1 temporary agency staff. The remaining 8 positions are vacant. • Impact to other RHC sections: RHC supervisors and staff from the Operations and Audits/Financial sections are helping with the call center queues due to the short staffing. However, RHC operational staff cannot perform their regularly assigned responsibilities. It has resulted in a cycle of high-volume calls and backlog of incoming member requests and forms. RHC management is currently using overtime to address the issue.	Resource Capacity Risk of inability to meet RHC's divisional objectives	Currently, RHC has three temporary staff that will soon be onboarded, along with an additional promotional hire. This will assist with service delivery constraints.
Obs-2	RHC is lacking succession planning between the management team and staff. RHC management has continued to rehire a retiree for over ten years.	Training and Development & Talent Management Risk of business sustainability	Executive staff will work to ensure RHC management has a plan to document transfer of knowledge. Also, RHC management will incorporate Executive staff and RHC staff in taking a more active role in understanding plan design, building carrier relationship, and attending educational opportunities.

Obs-3	Most of RHC's operational processes rely heavily on manual processes and are performed outside of the Workspace system. These processes also lack automated controls.	Resource Capacity, General IT Controls Risk of increased inefficiencies due to errors and delays	Executive staff and RHC management will develop a plan with our Systems Division to build and deploy critical self-service options for retirees. Organizationally, LACERA lacks a Knowledge Management system that allows for the indexing, reference, and access of operating procedures and manuals. This will be addressed as part of our strategic planning efforts. RHC management will then leverage this tool to better document and reference various operational processes.
Obs-4	RHC's administrative fee process is not formalized.	Forecasting/ Budget Risk of financial loss and inconsistencies	Executive staff and RHC management are working collaboratively with the County CEO's office to develop a Letter of Understanding on the RHC administrative fee process. The goal is to have that developed by the end of the calendar year 2022.

RISK & CONTROL MATRIX – RHC BUSINESS PROCESSES

RHC Section Unit / Business Process Name	Primary or Secondary Process / Business Objectives Business Process Description	Detailed Process	Business Process Risk	Is there a Control in place? [Y/N] Control Type	Control Description and Control Frequency	Date of Management's Review of Policies and Procedures
Call Center / Member Outreach **RHC Call Center & Counseling**	Primary Process / Member Operations Provides counseling to LACERA Members and answer questions through the RHC Call Center	Manual counseling to members via the RHC Call Center	Risk of fraudulent calls Risk of providing incorrect information	Yes / Preventive and Detective	Checklist and manual secondary review Multiple times a day	2017
Operations **Medicare Part B Verification**	Primary Process / Member Operations & Financial / Cost-saving Reimburse members up to the standard amount of Medicare part B, only for members who are eligible and enrolled in Medicare Part A and B.	Manual process for 1) mass mailing to members, 2) calculating payment to members, 3) update member information in Workspace	Risk of overpaying for healthcare premiums For 2022, Segal consultants estimated an annual saving of $8 million.	Yes / Preventive and Detective	Checklist and manual secondary review Multiple times a day	2022
Operations **Member Healthcare Enrollment Process**	Primary Process / Member Operations Enroll LACERA Members into the appropriate RHC plan	Manual process for processing member application or change request	Risk of members not receiving their benefits	Yes / Preventive and Detective	Checklist and manual secondary review Multiple times a day	2021

RISK & CONTROL MATRIX – RHC BUSINESS PROCESSES (CONT.)

RHC Section Unit / Business Process Name	Primary or Secondary Process / Business Objectives Business Process Description	Detailed Process	Business Process Risk	Is there a Control in place? [Y/N] Control Type	Control Description and Control Frequency	Date of Management's Review of Policies and Procedures
Audits / Financial **QC of the Member Healthcare Enrollment Process**	Primary Process / Member Operations Reviews member enrollment into a healthcare plan	Manual review of member transactions	Risk of members not receiving their benefits	Yes / Detective	Manual secondary review Multiple times a day	2021
Operations **Tier 2 Membership Enrollment**	Primary Process / Member Operations Enroll LACERA Members into the RHC Tier 2 membership	Manual process for processing member application or change request	Risk of members not receiving their benefits	Yes / Detective	Manual secondary review Multiple times a day	2021
Audits / Financial **Carrier Audits (Review Discrepancy Report)**	Secondary Process / Member Operations Investigate member data discrepancy with carriers for errors and make needed corrections	Manual checking in Workspace system to investigate discrepancies from carrier data	Risk of inaccurate data used in actuarial valuation; Risk of members not receiving their benefits	No	N/A	No written documentation of policies or procedures
Audits / Financial **Retro and Late Enrollment**	Secondary Process / Member Operations Collect payment from those that have not paid their RHC benefits on time	Manual process for member checks	Risk of members not receiving their benefits	Yes / Detective	Manual secondary review As Needed	No written documentation of policies or procedures

RISK & CONTROL MATRIX – RHC BUSINESS PROCESSES (CONT.)

RHC Section Unit / Business Process Name	Primary or Secondary Process / Business Objectives Business Process Description	Detailed Process	Business Process Risk	Is there a Control in place? [Y/N] Control Type	Control Description and Control Frequency	Date of Management's Review of Policies and Procedures
Audits / Financial **Financials (COBRA and Non-Deduct)**	Secondary Process / Member Operations Enroll eligible spouse or dependents for COBRA and Obtain payment from non-deduct members to ensure coverage	Manual process of calculating payment due from members and issuing payment for qualifying members to carriers	Risk of missing payments from members; Risk of members not receiving their benefits	Yes / Preventive	Checklist and manual secondary review Multiple times a day	No review date
Audits / Financial **Domestic Partner Annual 1099**	Secondary Process / Regulatory Compliance Issue annual 1099 forms for members with registered domestic partner per Federal regulations	Manual creation of 1099 forms for qualifying members using IT generated reports	Risk of non-compliance with laws and regulations	Yes / Detective	Manual secondary review Annual	No review date
Audits / Financial **QC of RHC Call Center & Counseling**	Secondary Process / Member Operations Monitor and check selected phone calls to ensure quality and for training purpose	Manual review of RHC calls with members	Risk of fraudulent calls; Risk of providing poor customer service	Yes / Detective	Manual secondary review Monthly	2014

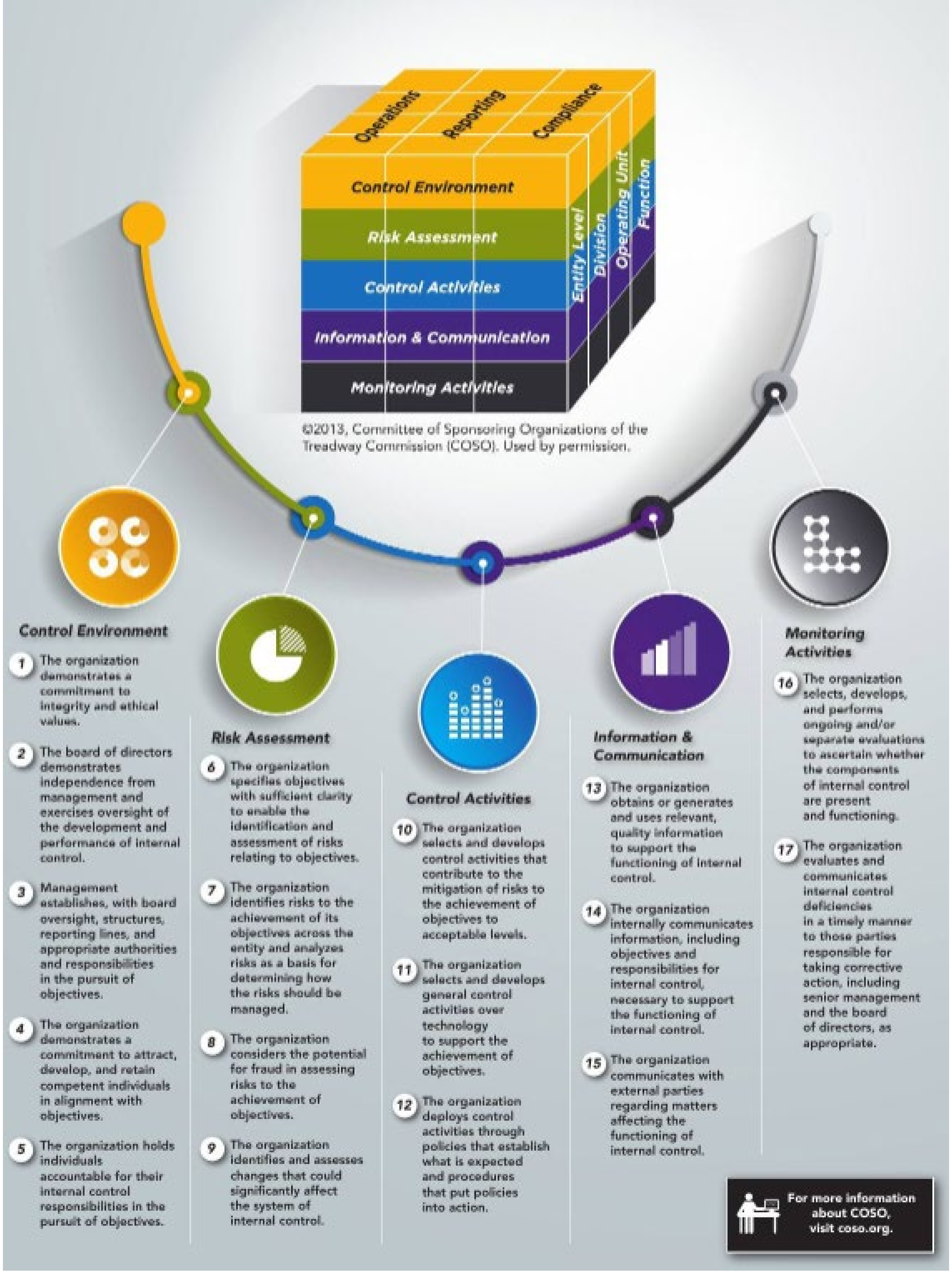
RISK & CONTROL MATRIX – RHC BUSINESS PROCESSES (CONT.)

RHC Section Unit / Business Process Name	Primary or Secondary Process / Business Objectives Business Process Description	Detailed Process	Business Process Risk	Is there a Control in place? [Y/N] Control Type	Control Description and Control Frequency	Date of Management's Review of Policies and Procedures
Operations **Insurance Billings/Refunds**	Secondary Process / Member Operations Make manual adjustment for prior payments due to late notice or missing supporting documentations	Manual process of calculating payment to members and issuing checks for qualifying members	Risk of RHC over or under paying members; Risk of members not receiving their benefits	Yes / Detective	Manual secondary review Bi-Weekly	No written documentation of policies or procedures
Operations **Refunds (Code 19)**	Secondary Process / Member Operations Refund money to survivors after the member has passed away	Manual process of calculating payment to members and issuing checks for qualifying survivors	Risk of overpaying or underpaying refund	Yes / Preventive and Detective	Checklist and manual secondary review Multiple times a day	2013
Audits / Financial **Monthly Premium Reconciliation (Payment to Carriers)**	Secondary Process / Financial / Cost-saving Reconciliation of carriers expense and premiums payments paid by members and plan sponsors	Manual reconciliation of IT generated reports	Risk of overpaying for healthcare premiums	Yes / Detective	Manual secondary review Monthly	2013

RISK & CONTROL MATRIX – RHC BUSINESS PROCESSES (CONT.)

RHC Section Unit / Business Process Name	Primary or Secondary Process / Business Objectives Business Process Description	Detailed Process	Business Process Risk	Is there a Control in place? [Y/N] Control Type	Control Description and Control Frequency	Date of Management's Review of Policies and Procedures
Audits / Financial **Subsidy Program (RDS, LIS)**	Secondary Process / Financial / Cost-Saving Request claims from federal programs for drug subsidy reimbursement (The reimbursement stays in the DDA account).	Manual process of submitting subsidy reimbursement	Risk of not receiving the full subsidy reimbursement amount The annual subsidy reimbursement is approx. $12 million.	No	N/A	2011

APPENDIX 1: COSO INTERNAL CONTROL – INTEGRATED FRAMEWORK



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Control Environment

1 The organization demonstrates a commitment to integrity and ethical values.

2 The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.

3 Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

4 The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

5 The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

6 The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

7 The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.

8 The organization considers the potential for fraud in assessing risks to the achievement of objectives.

9 The organization identifies and assesses changes that could significantly affect the system of internal control.

Control Activities

10 The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

11 The organization selects and develops general control activities over technology to support the achievement of objectives.

12 The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information & Communication

13 The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

14 The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

15 The organization communicates with external parties regarding matters affecting the functioning of internal control.

Monitoring Activities

16 The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

17 The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

For more information about COSO, visit coso.org.

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

LACERA

August 8, 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 Amick
Senior Internal Auditor

FOR**:** August 18, 2022 Audit Committee Meeting

SUBJECT: **Audit of LACERA's Rehired Retiree Program**

RECOMMENDATION

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

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

ENGAGEMENT REPORT

a. Audit of LACERA's Rehired Retiree Program
Nathan K. Amick, Senior Internal Auditor
(Report Issued: August 8, 2022)

NKA

Attachment

Noted and Reviewed:

Richard P. Bendall
Chief Audit Executive

INTERNAL AUDIT DIVISION

Audit of LACERA's Rehired Retiree Program
Project No. 2022-28B

August 8, 2022

Audit Performed By:
Nathan Amick, Senior Internal Auditor

AUDIT REPORT

Audit Name:	Audit of LACERA’s Rehired Retiree Program
Responsible Division:	Human Resources
Audit Rating*:	Unsatisfactory
Prior Audit Rating*:	None
Prior Report Date:	None

BACKGROUND

The state of California's County Employees Retirement Law (CERL) provides that if the County believes its retirees possess special skills or knowledge, the County has the option to employ those retirees as “Rehired Retirees.” The statute limits the rehired retirees to working no more than 960 hours in a fiscal year. CERL also requires all rehired retirees to observe the California Public Employees' Pension Reform Act (PEPRA) continuous 180-day break in service requirement prior to returning as a rehired retiree.

In addition to the PEPRA’s 180-day break in service requirement, the Internal Revenue Service (IRS) regulations require a "bona fide" (90-day) break in service after retirement if the retiree is under the “normal retirement age” before the retiree can be rehired. At LACERA, normal retirement ages range from age 55 to 65 depending on the retirement plan.

In the past, LACERA’s Internal Audit Division (Internal Audit) audited compliance with the above requirements as part of the countywide “Rehired Retiree Audit.” This audit tested 100% of rehired retirees throughout the County. In November 2020, LACERA’s Board of Retirement adopted LACERA’s “Post Retirement Employment Policy” (Policy). As such, Internal Audit has performed this audit specific to LACERA’s rehired retiree Policy. Internal Audit will continue to perform the countywide audit of rehired retirees annually and report on that audit separately.

AUDIT OBJECTIVE & SCOPE

We developed the following objectives for our review of LACERA’s rehired retiree program:

1. Assess organizational compliance to LACERA’s “Post Retirement Employment Policy.”

2. Assess Human Resources (HR) compliance to their divisional procedures, “Policies and Procedures Guide (PPG) 102, 120-Day or 960 hours Retiree Rehire Procedures”.

The scope of this engagement covered the Fiscal Year 2020-2021 and the four retirees that LACERA hired during that period.

AUDIT RATING & SUMMARY OF FINDINGS

We rated this audit unsatisfactory, as we found material non-compliance with LACERA’s Board Policy, HR procedures and the associated laws governing the rehiring of retirees. Specifically, we noted non-compliance with many elements of the Policy and procedures, including one retiree who exceeded the 960-hour limit. We also noted the need for the Policy to be more prescriptive regarding limited duration.

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* See Appendix 1 for Audit Rating

Finding #	Page	Description of Finding	Risk Rating[**]
F1	4	Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	High
F2	6	Noncompliance With 960-Hour Limit Requirement	High
F3	8	Lack of Specific Limits in Defining Limited Duration	High

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

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

REVIEWED AND APPROVED

Date: August 8, 2022

Richard Bendall
Chief Audit Executive

REPORT DISTRIBUTION

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

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[**] See Appendix 2 for Finding’s Risk Rating

FINDING # 1

Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	**Risk Rating**[**]
	High

OBSERVATION

LACERA's "Post Employment Retirement Policy" (Policy) charges the Human Resources Division (HR) with the responsibility for administering and monitoring compliance with the rehired retiree program at LACERA. Section 7.3, titled "Monitoring" states, "The Human Resources Division is responsible for monitoring and tracking compliance with the requirements as set forth in this Policy."

To aid in their administration of the program, HR developed their "120 Day or 960 Hours Retiree Rehire Procedures" (HR Procedure). The HR Procedure requires that management complete a "Request for Employment of Retiree 960 Hour Temporary Assignment," (960 Request Form) which is the initiating, and the final approval form for the rehiring of a retiree. HR and the Executive Office Management must review and approve the 960 Request Form with signature and date. The HR Procedures require nine supporting documents along with the approved 960 Request Form that should be included in the personnel file. Examples include the Oath Card, Duty Statement and Offer Letter.

In reviewing the documentation supporting the four LACERA rehired retirees for the Fiscal Year 2020-21, we determined lack of compliance with the Policy and HR Procedures. Specifically, we noted the following exceptions:

1. Four 960 Request Forms contained multiple missing required signature approvals, approval dates, or approvals were obtained up to 10 months following the start of the rehired retiree's employment.
2. Four 960 Request Forms were missing detailed clear descriptions of the project and explanation of why work cannot/should not be performed by permanent staff.
3. Four 960 Request Forms were missing clear and well-defined transition plans from the retirees to permanent staff.
4. Two retirees worked past the end dates indicated on their 960 Request Form.
5. For all four rehired retirees, HR did not obtain the required Oath Card, Duty Statement and Offer Letter, as required by the procedures.
6. For two rehired retirees HR did not obtain I-9 forms.

RISK

Noncompliance with policies and procedures, which are a good operational governance practice, renders them ineffective as a control to ensure compliance with laws and protect LACERA's qualified plan tax status.

[**] See Appendix 2 for Finding's Risk Rating

RECOMMENDATION #1

1. LACERA's Executive Office and HR should meet and confer around the expectations for compliance with the Post Employment Rehired Retiree Policy. HR should then revise their procedure accordingly.
2. HR Management ensure 960 Request Forms are completed and approved by the Executive Office, and all required documentation is obtained each fiscal year prior to the rehired retiree beginning work.
3. HR Management to ensure that missing documentations identified in this audit are obtained for the rehired retirees that worked in FY 2020-2021.

MANAGEMENT'S RESPONSE

The management team recognizes the importance of keeping accurate records to ensure compliance with the established policy, demonstrate our commitment to regulatory compliance, and preserve our tax qualification status.

We also acknowledge that during the pandemic, as we transitioned to a fully functional remote workforce, we experienced some difficulty in getting documents singed. During the early months through the middle of the height of the pandemic our electronic signature capabilities were not fully setup and working as expected. Additionally, we could not print out and sign documents physically while working remotely. In one case, the Executive Office signed off on the plan to bring a retiree back electronically. Proof of this was provided post audit (which is an indicator better record keeping is needed). A second request was signed by appropriate staff approximately a month or so after the retiree returned. Verbal approval was given for the returning retiree until we could complete paperwork and bring that employee back.

In regard to the justification and transition plan documentation, we believe each of these memos were presented with valid justifications. Transition plans were clearly available for three of the four applications reviewed.

However, management agrees that there is always room for improvement in both timing and documentation. In collaboration with Human Resources, we will take the following steps:

a. Collaborate on an educational and informational program to be delivered to the MAC and SAC teams on an annual basis to review the policy, procedures, and to stress the importance of adherence to the policy.
b. Review our procedures and make adjustments to ensure that we have set 'standards' for justification and transition plans, and how they are to be submitted and reviewed.
c. The management team believes flexibility is required in determining the timing of bringing back rehired retirees. As such, we will review the policy and procedures and propose adjustments to allow for a process to bring back a retiree during a fiscal year and outline what mid-year or end of year adjustments must be made to support the need.
d. Management and HR will work to document the actions taken during this review period.

TARGET COMPLETION DATE

September 30, 2022

FINDING # 2

Noncompliance With 960-Hour Limit Requirement	**Risk Rating**[**]
	High

OBSERVATION

Section 6.1 of LACERA's "Post Employment Policy," titled, "Work Hour Limitation (960 Hours)" states, "The retired annuitant may not work in excess of 960 hours in any July 1 - June 30 fiscal year. Once the 960 hours limit is reached, the retired annuitant is not permitted to receive any compensation for the remainder of the fiscal year. As a result, the hiring manager shall establish methods to control the days and hours worked by retired annuitants to ensure compliance with work limits."

Our test work identified one rehired retiree who worked 1,019 hours, an excess of 59 hours in Fiscal Year Ended June 30, 2021. The hiring division was controlling for the 960-hour limit but an error in their tracking of the retiree's hours resulted in the overage. As soon as the overage was detected, the retiree ceased working for the remainder of the Fiscal Year.

We also noted that the LACERA Policy and/or the HR Procedure do not address the action LACERA must take to remedy such overages nor does LACERA take any action to address 960-hour overages. The HR Procedure does state, "LACERA may suspend the retiree's retirement and/or healthcare benefits if found in violation of the work time," however, no process has been established at LACERA to address this.

RISK

Failure to adhere to the 960 hours per fiscal year limit is not only a violation of the State law governing retirement benefits, but it may also jeopardize the qualified tax-deferred status of the County's retirement system under federal tax law and create significant adverse tax consequences for all active and retired County employees.

RECOMMENDATION #2

1. HR Management should coordinate and communicate with division managers, prior to and periodically during the year, to ensure compliance with the 960-hour limit.
2. LACERA Executive Management should develop a process to remedy any overages due to payments for hours in excess of 960 hours.

MANAGEMENT'S RESPONSE

Regarding recommendation 2-1, Management agrees we need to do everything we can to adhere to the regulations and prevent to the best of our ability any instances of overages. With this in mind the following action steps will be or have been taken:

a) Human Resources has already begun providing division managers with a monthly report beginning in January of each FY so they can track the hours assigned to the rehired retiree more closely.

[**] See Appendix 2 for Finding's Risk Rating

b) Will work to remind the MAC and SAC team of the importance of reviewing these reports immediately upon receipt and managing the remaining time in such a manner that overages are not allowed.

Regarding recommendation 2-2, LACERA management recognizes we have an obligation to pay each employee for the work they perform. This includes any accidental overages beyond the 960 limits should they occur. In collaboration with Human Resources, we will review what steps we can take in the event an employee exceeds their approved hours, including disciplinary, and loss of eligibility to return in the future if needed.

However, the Executive Office believes that recommendation 2-2 is not specific to LACERA as an employer, but rather a recommendation for LACERA the system to develop a policy and process to address overages, regardless of the employer. With this in mind, the Process Management Group (PMG) will be assigned a task to develop a 960 Day Overage Policy. PMG will work with the Executive Office, Legal, and outside Tax Counsel to develop a policy that will allow us to remain compliant with CERL and IRS regulations. This will include a component to require the employers to provide us with payroll records for all 960-Hour employees so that we can track it and enforce whatever the policy may require. This will be a multi-phase project. Phase I will be development of the policy. Phase II will be discussion and planning with the employers, and Phase III will be implementation/ongoing maintenance. The target date below is for Phase I alone.

TARGET COMPLETION DATE

Phase I: December 31, 2022
Phase II: TBD
Phase III: TBD

FINDING # 3

Lack of specific limits in defining limited duration	**Risk Rating**[**]
	High

OBSERVATION

LACERA'S Policy section "Legal Requirements for the Hiring of Retiree," section 6.4 titled "Limited Duration" states: "Limited duration is based on a cases-by case basis, but it is expected to be the minimum period required to complete the work. The employment should terminate when the limited-duration work is completed."

Furthermore, LACERA's Policy, section 7.1 titled "Requests," states "Managers are required to submit requests to hire retired annuitants to a 960-hour temporary assignment using the attached form Request for Employment of Retiree to a 960 Hour Temporary Assignment (the "Request"). The Request must include a description of the project, an explanation as to why the work cannot be performed by a current staff member, the retired annuitants' skills and abilities and a description of the plan to complete the retiree's work or transition it to a current staff member, and the expected limited duration of the work."

As indicated above, LACERA's policy does not define specific limitations around limited duration but rather takes more of a principled approach. We found from our limited survey of other funds that this is not unusual among peer 37 Act and other public pension systems in California. However, we found two systems, San Bernadino CERA[1] and Sacramento CERS[2], whose policies were more prescriptive by including specific limits related to duration.

A recent audit[3] by CALPERS' Internal Audit team uncovered substantial non-compliance in the plan sponsors' reporting of rehired retirees to CALPERS. The audit also disclosed rehired retirees that exceeded what might reasonably be considered limited duration in the number of years worked as a retiree. An article in the *Sacramento Bee*[4] highlights this audit and the resulting "double dipping." CALPERS is currently proposing a much more prescriptive policy[5] which includes specific limits regarding limited duration.

We found that one retiree at LACERA has worked as a rehired retiree for 15 years and has done so since retiring as the Division Manager of the Division for which the retiree is now working.

[**] See Appendix 2 for Finding's Risk Rating

[1] San Bernadino County Employees Retirement Association. (2014). *Policy 015 - Retirees Returning to Work.*

[2] Sacramento County Employees Retirement System. (2020). *Policy 011 – Post-Retirement Employment Policy.*

[3] *Review of Broadmoor Police Protection District.* CalPERS Office of Audit Services. Dec. 2021, https://www.broadmoorpolice.com/wp-content/uploads/2021/12/calpers_audit_2021.pdf. Accessed 7 Jun. 2022.

[4] Ryan Frost. "Re: CalPERS Audit Finds History of Pension Spiking in Broadmoor Police Department." *Reason Foundation*, 30 Dec. 2021, https://reason.org/commentary/calpers-audit-finds-history-of-fraud-and-pension-spiking-in-broadmoor-police-department/. Accessed 7 Jun. 2022.

[5] Proposed Adoption of Section 574.1 of Article 4 of Subchapter 1 of Chapter 2 of Division 1 of Title 2 of the California Code of Regulations. California Public Employees' Retirement System. Dec. 2021, https://www.calpers.ca.gov/docs/board-agendas/202204/pension/item-6a-attach_a.pdf. Accessed 7 Jun. 2022.

Although in the 15th year of services as a rehired retiree, the 960 Request Form for Fiscal Year 2020-2021 did not include a transition plan to permanent staff, but rather, included language indicating the critical nature of the projects and how critical this retiree is to the success of the program.

RISK

This exposes LACERA to headline risk regarding the lack of compliance with the laws around the rehiring of retirees and may give the appearance of allowing "double dipping." It also highlights a lack of succession planning and demonstrates continued reliance on the rehired retiree to avert an implied significant risk of business disruption in their absence.

RECOMMENDATION #3

1. LACERA Executive Management should develop a more prescriptive policy around the rehiring of retirees which includes specific limits around the matter of limited duration.
2. LACERA Executive Management should develop an expedited plan to transition from the retiree to permanent staff and report that plan to the Board of Retirement.

MANAGEMENT'S RESPONSE

Management agrees in general that retired staff members should be brought back for a limited duration to remain in compliance with regulations. However, management also believes that CERL is flexible enough to support, with justification, bringing back a retired staff member on a cyclical basis as needed.

For example, LACERA has a cyclical spike in demand for Member Operations Group staff members in Benefits and Member Services during the March Madness season. Management reserves the right to evaluate business needs and make a determination whether it is more economical and efficient to bring back retired staff, or hire additional permanent staff that would not be needed during the "off retirement season."

Therefore, we feel the previous responses provide sufficient recommendations that will cover the requirement for a transition plan, when applicable.

TARGET COMPLETION DATE

December 31, 2022

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

LACERA

August 8, 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**:** August 18, 2022 Audit Committee Meeting

SUBJECT: **Internal Audit Annual Performance Report – Fiscal Year Ended 2022**

BACKGROUND

According to the Institute of Internal Auditor's Standard 2010 (Standard) on audit planning[1], the Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity and ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization. To remain in compliance with the Standard, Internal Audit developed the Fiscal Year Ended (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 final Audit Plan consisted of 46 assurance, consulting, advisory and other operational projects, and as of June 30, 2022, staff had completed 31 projects. As of this August 8th reporting date, staff completed an additional five projects, bringing the total to 36 completed projects on the Audit Plan. Staff has also completed two additional audits and are currently drafting the final audit report which we expect to issue by end of August.

The remaining eight are in various phases of completion and were moved forward to the FYE 2023 Audit Plan due in part to the organization's resource constraints and also to Internal Audit's resource constraints. Furthermore, this year, several projects took significantly longer to complete due to their complexity including the External Quality Assessment, the RFP for the hiring of a consultant to perform an Operational Due Diligence Review, the analysis of affiliates for LACERA's financial auditor, and the Organizational Governance Review. Internal Audit also focused on making qualitative improvements on planning engagements and audit workpapers. Refer to page 3 of this memo for the FYE 2022 Audit Plan Status Report. Attachment A includes a brief description of each project on the Audit Plan.

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[1] For IIA 2010 Standard, refer to website at www.globaliia.org/standards-guidance or www.theiia.org/guidance.

Staff has prepared the attached Annual Performance Report which provides additional details and insight into work performed throughout FYE 2022. Staff will provide a presentation of the report at the August 2022 meeting **(Attachment B)**.

LEC

Attachments
  A. FYE 2022 Audit Plan
  B. Internal Audit Annual Performance Report (Presentation)

Noted and Reviewed:

Richard P. Bendall
Chief Audit Executive

This report provides the status of projects on the FYE 2022 Audit Plan. Refer to Attachment A for a brief description of each project.

Ref	Project Name	Project Type	Estimated Hours	Actual Hours	Estimate Vs. Actual	Status
EXEC/ LEGAL / ORGANIZATION						
1	Organizational Governance Review	Audit	400	337	63	In Progress
2	Oversight of SOC-1 Type 2 FYE 2021	Oversight	200	187	14	Completed
3	Oversight of SOC-1 Type 2 FYE 2022	Oversight	200	279	-79	Completed
4	Business Continuity Plan & Disaster Recovery	Assurance	150	4	146	Completed
5	Privacy Policy / Access to Confidential Data	Audit	200	12	189	FYE 2023
6	Organizational Check Management Policy Review	Audit	300	27	273	FYE 2023
7	Ethics Hotline & Investigations	Assurance	200	145	55	Completed
8	Board Vantage Security Settings Audit	Audit	100	292	-192	In Progress
ADMINISTATION DIVISIONS - Admin Srvc, Systems, HR						
9	Reco Follow-Up ADMINISTRATION	Assurance	400	408	-8	Completed
10	Review of HR Recruiting & Hiring Process	Audit	100	120	-20	Completed
11	Employee Bonuses	Audit	150	531	-381	Completed
12	Pen & Social Engineering Audit (External)	Audit	150	213	-63	Completed
13	Review of IT Policies	Assurance	100	2	99	Completed
14	IT Risk Assessment	Assurance	100	63	38	FYE 2023
15	Privilege Access Audit	Audit	100	0	100	FYE 2023
FASD & INVESTMENT OFFICE						
16	Oversight RE THC Financial Audits FYE 2021	Oversight	100	130	-30	Completed
17	Oversight RE THC Financial Audits FYE 2022	Oversight	100	130	-30	Completed
18	Oversight RE Manager Reviews	Oversight	100	10	90	Completed
19	Oversight Actuarial Services	Oversight	100	46	55	Completed
20	Oversight of Financial Audit FYE 2021	Oversight	225	272	-47	Completed
21	Oversight of Financial Audit FYE 2022	Oversight	225	205	21	Completed
22	Investments Due Diligence - RFP	Other	250	292	-42	In Progress
23	Wire Transfers Audit	Audit	300	54	246	FYE 2023
OPERATION DIVISIONS - Benefits, Member Srvc, Comm, DRS, RHC						
24	Continuous Auditing Program (CAP Testing)	Audit	700	293	407	Completed
25	Reco Follow-Up OPERATIONS	Assurance	400	255	146	Completed
26	LA County 960 Rehired Retirees Audit	Audit	250	283	-33	In Progress
27	LACERA Rehired Retirees Audit	Audit	250	401	-151	In Progress
28	DLU Death Claim Processing	Audit	300	204	97	FYE 2023
29	Member Communications Audit	Audit	150	4	146	FYE 2023
30	Governance, Risk, & Controls in Retiree Healthcare	Audit	250	423	-173	In Progress
INTERNAL AUDIT OPERATIONS						
31	QAIP	IA Op	280	292	-12	Completed
32	Professional Development (CPE)	IA Op	300	372	-72	Completed
33	Audit Committee Support	IA Op	700	912	-212	Completed
34	Risk Assessment	Assurance	700	600	100	Completed
35	KPMG Recommendation Follow-Up	IA Op	250	42	208	Completed
36	External Quality Assessment	IA Op	250	253	-3	Completed
37	TeamMate	IA Op	300	320	-20	Completed
ADDED PROJECTS						
38	Advisory Participation in Organization Fiduciary Review	Assurance	120	231	-111	Completed
39	Review of Executive Office Credit Card Expenditures	Audit	100	146	-46	Completed
40	State Street Bank Monitoring-January 2022	Audit	100	43	58	Completed
41	Accounts Payables Audit	Audit	200	259	-59	Completed
42	Participation on Systems and InfoSec Projects	Assurance	75	44	32	Completed
43	Macintosh Data Back-Up (Follow-Up)	Assurance	40	16	25	Completed
44	Termination of Access	Audit	150	143	8	FYE 2023
45	Census Data Testing	Audit	120	229	-109	In Progress
46	Audit Pool Planning&Oversight	Assurance	225	207	18	Completed
	TOTAL		10460	9721	739	

Attachment A

	Audit Projects	Description of Project
	EXECUTIVE / LEGAL / ORGANIZATION	
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.
	ADMINISTRATION *(Admin, HR, Systems)*	
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.
110	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.
	INVESTMENTS & FASD	
16	Oversight of THC RE Financial Audits (FYE 2021)	Internal Audit manages the relationship with the real estate external auditors who perform the 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 Investment Office due diligence practices.
23	Wire Transfer Audit	Audit of operational updates and improvements to the wire transfer process; assess appropriateness of levels of review and approval.

	Audit Projects	Description of Project
	OPERATIONS	
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	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.
	IA ADMINISTRATION PROJECTS	
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.
	ADDITIONAL PROJECTS	
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.

ATTACHMENT B

Internal Audit
Annual Performance Report
For Fiscal Year Ended June 30, 2022

Prepared by
Leisha Collins, Principal Internal Auditor

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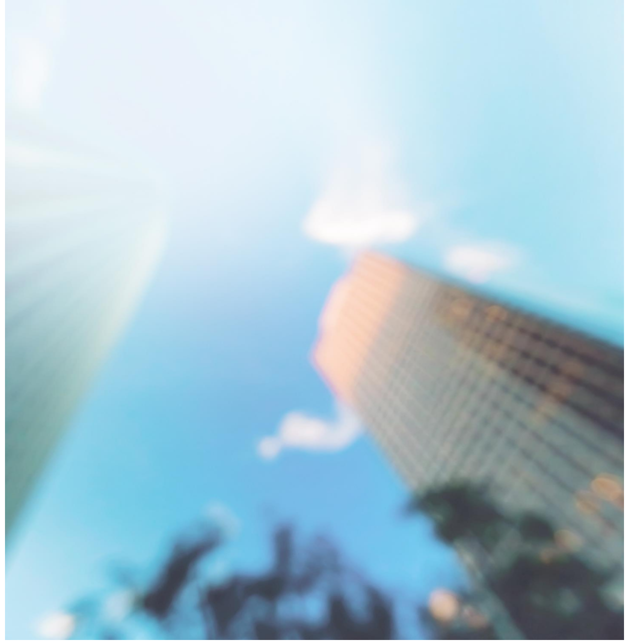
Audit Committee Support 20

Annual Report Overview

The Internal Audit Division (Internal Audit) is pleased to present the Annual Performance Report for the Fiscal Year Ended June 30, 2022 (FYE 2022). The report provides information on the completion of our FYE 2022 Audit Plan, our audit activities adding value to the organization, and insight into the services provided relating to assurance, consulting, and advisory projects.

During FYE 2022, Internal Audit, as well as the entire organization, faced changes and transitions, including the continuing challenges of COVID-19. We adapted well and found new ways to address the changing risk landscape. Despite these challenges, we completed audits and other projects that we believe made a positive impact on LACERA and its operations.

The work performed by Internal Audit contributes toward accountability, integrity and good management practices at LACERA. Audits and projects as detailed in this report focused on improvement of risk management, control, and governance processes. Throughout the year, we've reported the results of our audits, and work to the Audit Committee. The Annual Report summarizes our efforts.



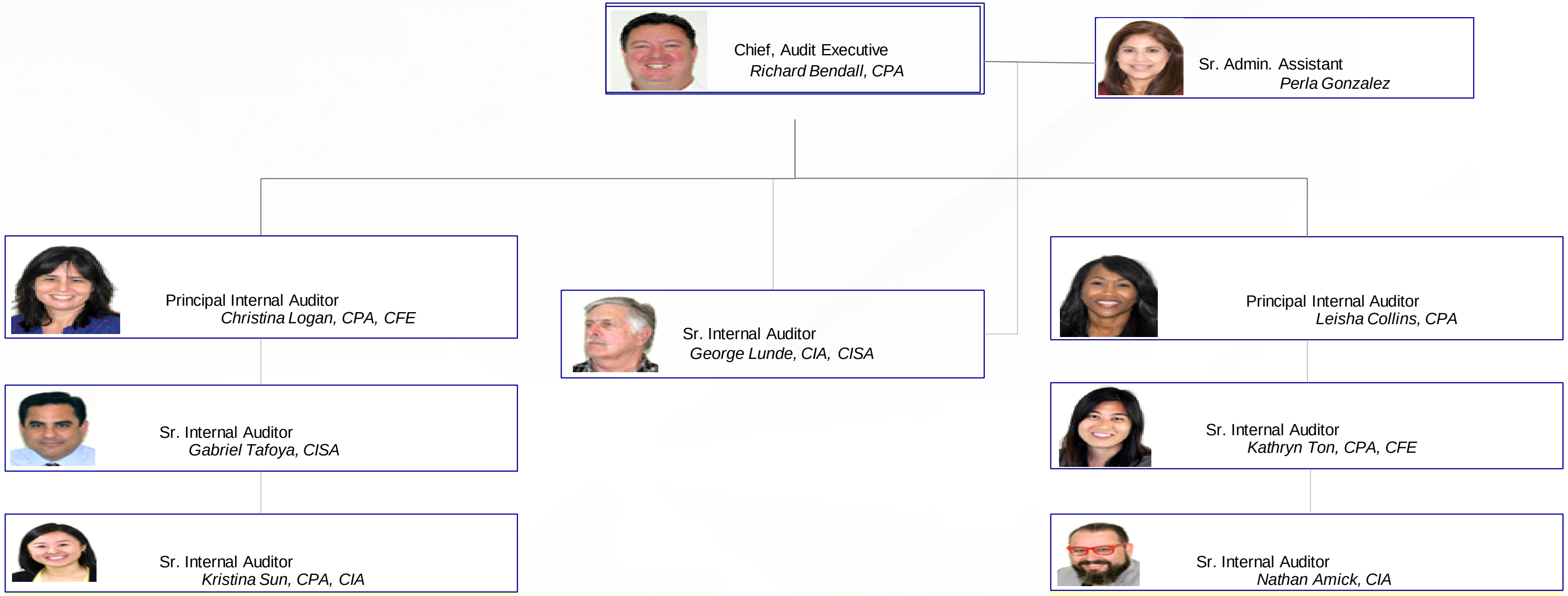
Internal Audit

Our Mission:

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

Internal Audit consists of 11 budgeted position; 10 of which are filled, with one auditor on loan to another division. The remaining one auditor position is vacant. Part of the measure of an internal audit department is the qualifications and professional development of the personnel. We take pride in having a well-rounded team with vast years of audit experience and professional designations including Certified Public Accountant (CPA) Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE) and Certified Information Systems Analyst (CIA).

The Internal Audit Team



Chief, Audit Executive
Richard Bendall, CPA

Sr. Admin. Assistant
Perla Gonzalez

Principal Internal Auditor
Christina Logan, CPA, CFE

Sr. Internal Auditor
George Lunde, CIA, CISA

Principal Internal Auditor
Leisha Collins, CPA

Sr. Internal Auditor
Gabriel Tafoya, CISA

Sr. Internal Auditor
Kathryn Ton, CPA, CFE

Sr. Internal Auditor
Kristina Sun, CPA, CIA

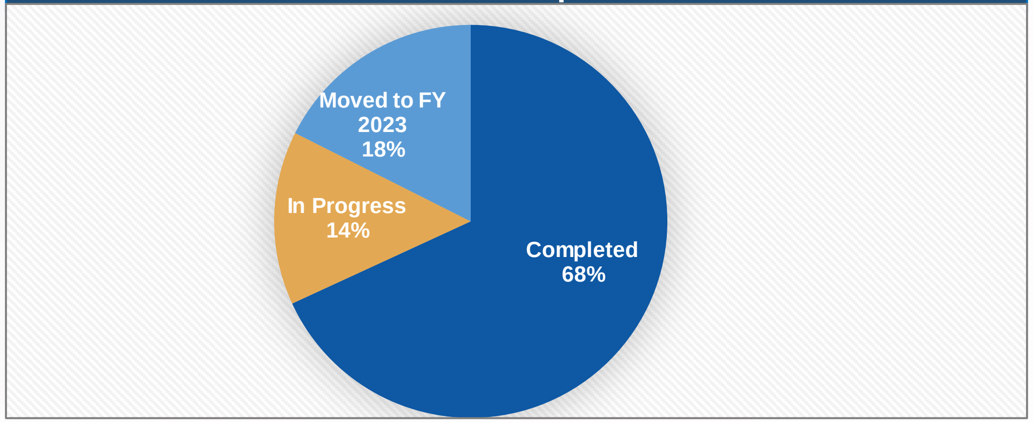
Sr. Internal Auditor
Nathan Amick, CIA

FYE 2022
Year In Review

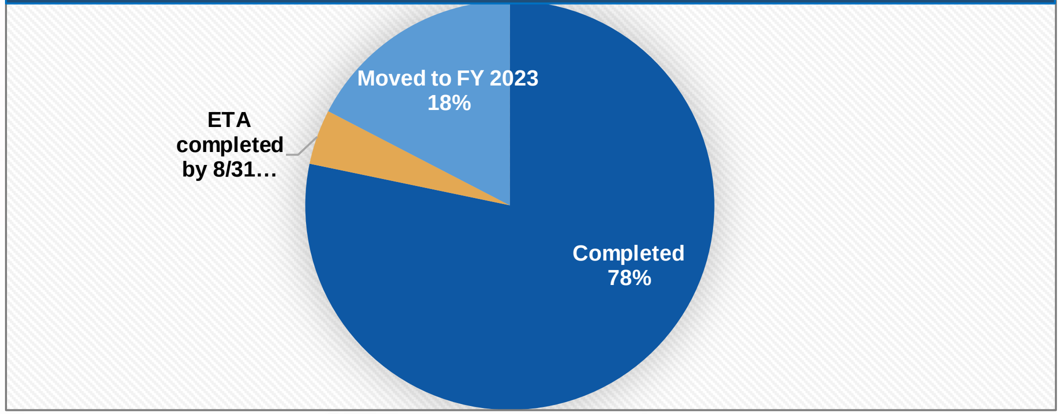
FYE 2022 Year In Review

For FYE 2022, Internal Audit focused on areas of risk management, control, and governance processes which was reflected in the 46 projects on the FYE 2022 Audit Plan (Audit Plan). As of June 30, 2022, staff had completed 31 projects (68% of the Audit Plan). As of this August reporting date, staff had completed an additional five projects, bringing the percentage of completion to 78%. Staff had a total of 12,680 work hours for this fiscal year with the majority (9,271 or 77%) spent directly on assurance, consulting, advisory and other operational audits and projects. The charts below provide a summary of our work and activities for FY 2022.

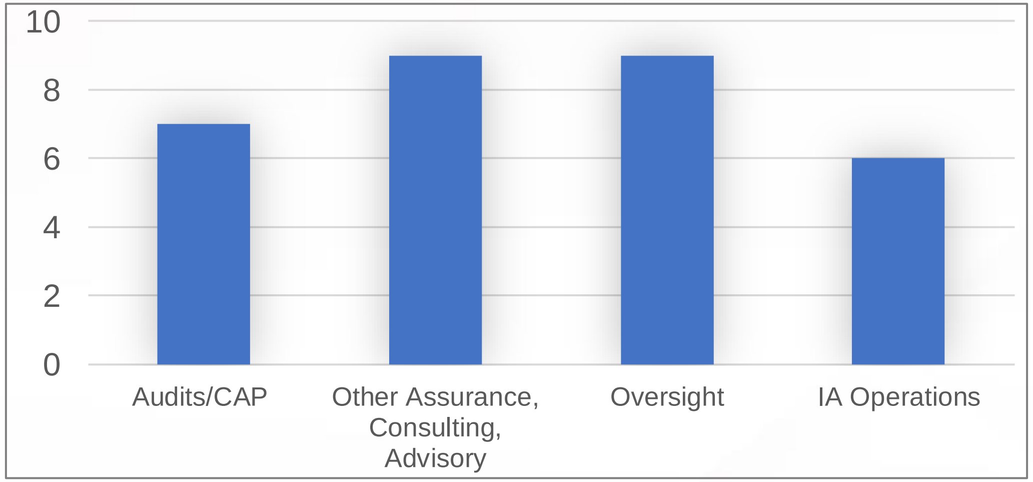
FYE 2022 Audit Plan Completed As Of 6/30/22



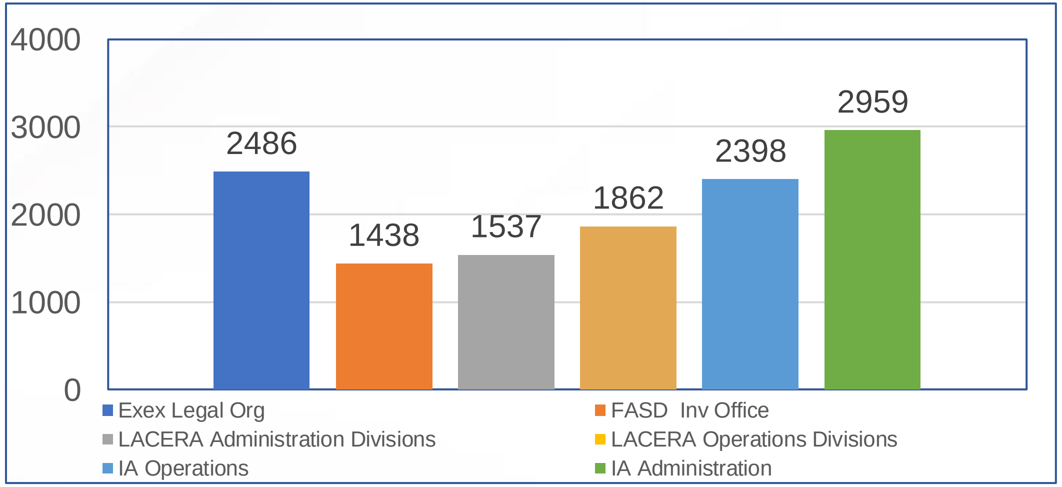
Current Status of Projects On The FYE 2022 Audit Plan



Type of Projects Completed In FYE 2022

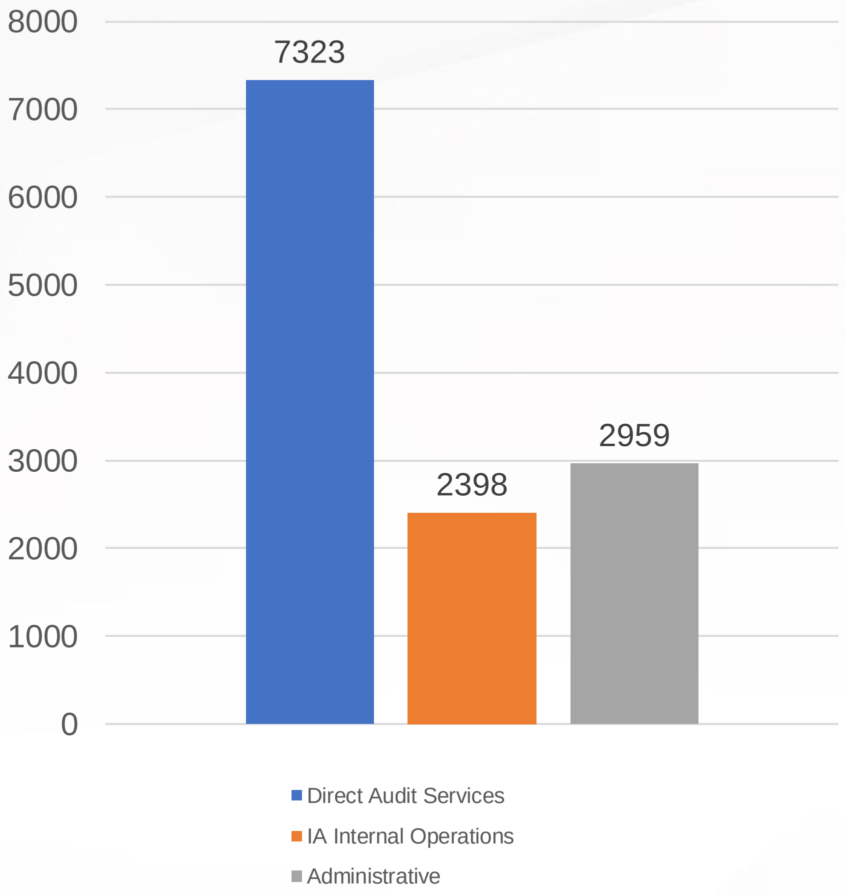


Actual Work Hours For FYE 2022



FYE 2022 Allocation of Internal Audit Time

Allocation of Work Hours

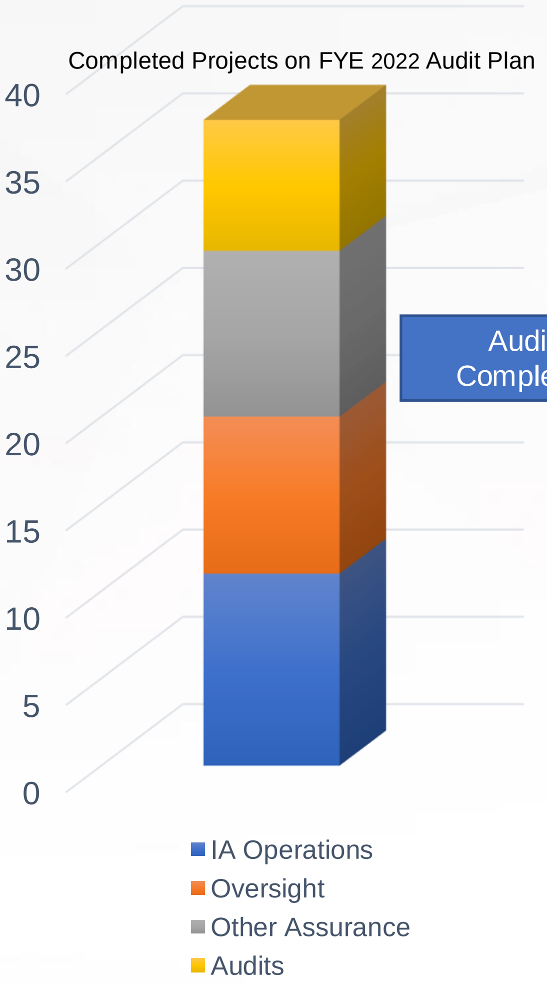


Key points regarding the allocation of hours:

- ❑ Internal Audit spent a total of 12,680 work hours on projects from the FYE 2022 Audit Plan and Internal Audit activities.
- ❑ At the beginning of the fiscal year, we estimated approximately 1800 available hours for each fully time employee (FTE) in an audit position; the CAE hours were not included since his time is not spent specially on audit projects but overall management of the division.
- ❑ The estimated hours is determined after consideration of sick time, vacation, and holiday time as well as extended medical leave. During this fiscal year, we had six and a half auditor FTEs (one staff was on leave 6 months); approximately 12,000 hours.
- ❑ Staff spent 7,323 hours on direct audit services which primarily includes audits, oversight of externally performed engagements, recommendation follow-up, and assurance, advisory and consulting projects performed throughout the organization.
- ❑ Staff spent 2,398 hours on IA Internal Operations which includes work on IA operations and activities such, quality assurance improvement program, professional development, audit committee support, meeting preparation, and teammate administration.
- ❑ Administrative work hours includes time allotted for staff meetings, attending board meetings, and administrative tasks which are not included on the Audit Plan. Staff spent 2,959 hours in this category. Although this time is within our 30% target, we do see this as an area to better monitor and are restricting the amount of administrative time in FYE 2023 to allow more time on audits..

FYE 2022
Work Completed & In-Progress

Completed Audits & Consulting Projects (*As of 8/8/22*)



Audits Completed

Projects	Project Objective	Audit Rating	Recommendations
Review of CEO Credit Card Exp.	On an annual basis Internal Audit performs a compliance audit of the CEO’s expenditures to ensure compliance with the Policy.	Satisfactory	None
LACERA Staff Bonus Program Audit	Audit Objectives; 1) evaluate the effectiveness of the applicable policy and procedures for bonuses 2) determine that bonus management practices are conducted in compliance with applicable policies and procedures, and 3) determine that reports provided to management are accurate, and support management’s decisions and monitoring bonus payments to staff.	Unsatisfactory	2 High Risk
Review of HR Recruiting Process	The audit, performed by Eide Bailly, included the key audit objectives 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.	N/A	12 Not rated
Accounts Payables Audit	Audit Objectives included 1) Assess the effectiveness and adequacy of key controls 2) operational effectiveness of internal controls, 3) Documentation exists to support payments.	Satisfactory	1 Low Risk
External Network Penetration Audit	The audit, performed by Moss Adams, key objectives were to conduct an independent penetration test against the external network infrastructure, servers, and web applications to identify weaknesses and within the external network.	N/A	3 High Risk 1 Medium Risk
RHC Risk & Control Review	The objective of this consulting engagement was to obtain an in-depth understanding of Retirement Heath Care’s (RHC) objectives, operations, risks and controls.	N/A	1 Medium Risk 1 Low Risk
Investment Due Diligence RFP	Internal Audit issued an RFP to hire a vendor to perform a consulting review of LACERA’s Investment Office Operational Due Diligence practices. The RFP process is complete, pending Committee approval.	N/A	N/A
Census Data Testing – Limited Scope	The objective of this testing was to compare the year-over-year census data provided to LACERA’s actuary for reasonableness. Census data is a critical component for determining LACERA’s pension fund liability and contribution rates.	N/A	N/A
Organizational Governance Review	The consulting engagement, conducted by Weaver, was designed to provide both the Executive Office and Audit Committee with a snapshot of the maturity of LACERA’s organizational governance.	N/A	N/A
LACERA Rehired Retiree	Assess LACERA’s compliance to post retirement laws and guidelines	Unsatisfactory	7 High Risk
Limited Scope Reviews/CAP	Continuous Automated Process (CAP) is continuous audit testing for fraud and compliance, incorporating data analytics as the primary auditing tool. During the fiscal year, staff completed several CAP limited scope reviews including state street bank authorizations, termed users, and new payee verifications.	N/A	N/A

FYE 2022 Other Projects Completed

Other Assurance Projects & Value-Added Activities

- ☐ **Oversight of Externally Performed Audit Engagements -** Internal Audit oversees several externally performed audits due to their complexity and audit sensitivity. These engagements include:
  - SOC 1 Type 2 Audit,
  - LACERA Financial Audits,
  - THC Financial Audits
  - Real Estate Manager Compliance Reviews
  - LACERA actuarial audit services

- ☐ **Ongoing Risk Assessment Process -** Our risk assessment process includes not only our annual risk assessment, but we continually assess risks through audits and other activities to identify additional areas for audit planning. Aspects of this process includes:
  - Bi-weekly meetings with the Executive Office,
  - Monthly meetings with Info Sec,
  - Attendance of board meetings, and
  - Risk and control meetings with division managers

- ☐ **Ethics Hotline & Investigations -** Internal Audit continues to oversee LACERA's Ethics Hotline. During FYE 2022, we also updated the hotline procedures and spearheaded the annual awareness campaign which included updating Hotline posters, and content for LACERA Connect.

- ☐ **Recommendation Follow-Up:** We continue to enhance our recommendation follow-up process, tracking and reporting. To better track and ensure timely implementation, we meet monthly with management to update and discuss outstanding recommendations and track progress in our TeamMate audit software. During FYE 2022, the CAE discussed outstanding recommendations at MAC meetings.

- ☐ **External Audit Pool -** In 2021, we established an external audit pool to conduct audits on an as needed basis. As we began using the external audit pool during FYE 2022, it became necessary to allocate IA staff resources in the role of liaison/coordinator between auditee and auditor firm, as well as oversight and monitoring of the audit engagements.

- ☐ **Advisory Participation on Organizational teams -** Internal Audit provides advisory participation on several organization committees and teams including:
  - Organization Fiduciary Scope Review Team,
  - LACERA Incident Response Team
  - IT Steering Council
  - Policies Committee
  - Strategic Action Planning Teams

- ☐ **KPMG Recommendation Follow-Up Review** - Majority of the KPMG recommendations were implemented in 2021 and the remaining were closed out by May 2022. In addition to addressing the KPMG recommendations, we continued to refine our recommendation to include further testing on implemented recommendations to ensure compliance.

- ☐ **Professional Development and Continuing Education** – 100% of the audit team has a professional designation including (CPA,CIA,CFE,CIA). These designations require continuing professional education. During FYE 2022 there was training to meet certification requirements and also team training in the areas of audit engagement, communication, audit reporting, and ethics.

- ☐ **External Quality Assessment** - In February 2022, the IIA Quality Services conducted an independent external assessment of Internal Audit and presented its report at the March 2022 Audit Committee meeting. We received the highest rating of compliance.

FYE 2022 Projects In-Progress

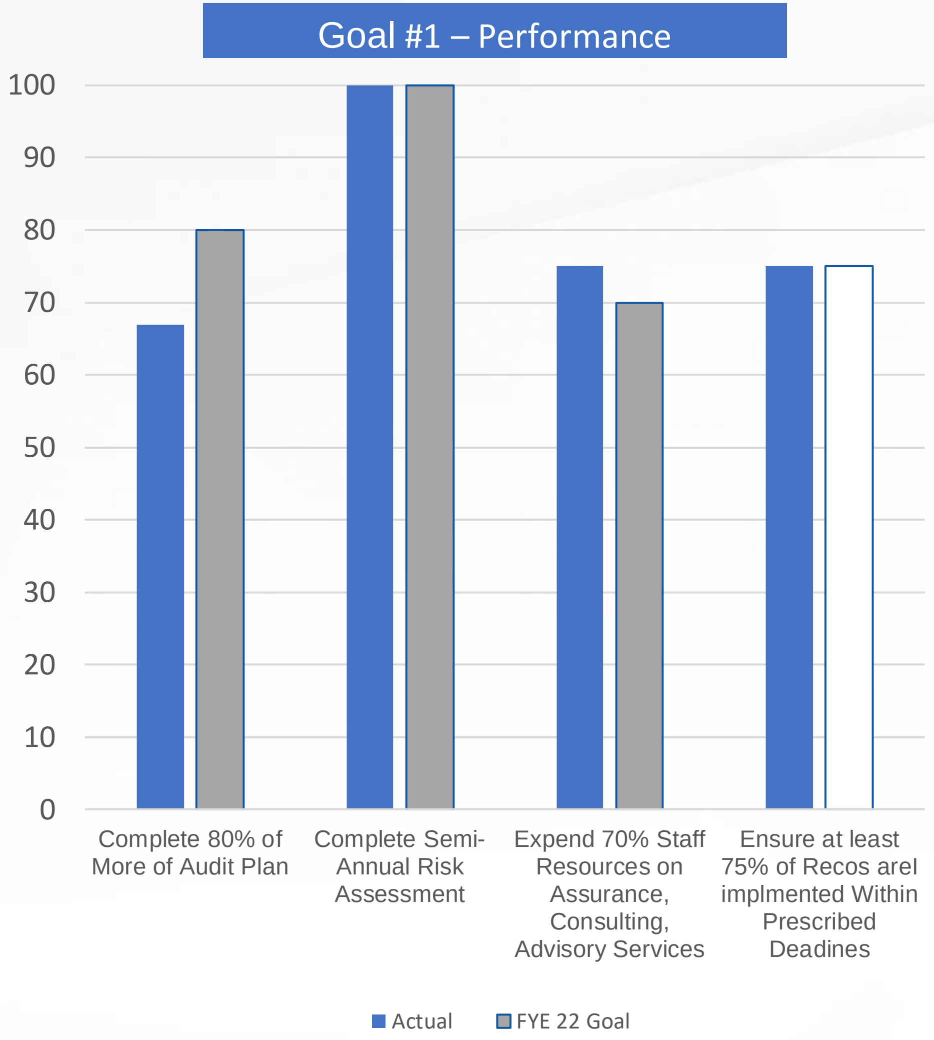
As of June 30, 2022, staff had completed 31 projects, with an additional seven nearing completion within the months following fiscal year end. Due to shifts in priorities and some delays beyond Internal Audit's control, the remaining eight projects were move forward to the FYE 2023. The following is a summary of Projects In-Progress

|----------------------------Current Phase of Engagement----------------------------|

Audit Engagement/Project	Estimated Completion	planning Scope	Prelim Audit Work	Audit Field Work	Draft Report	Exit Meeting	Report Issued
Governance, Risk, & Compliance Review - RHC	July 2022	▨	▨	▨	▨	▨	▨ 7/14/2022
Organizational Governance Review	July 2022	▨	▨	▨	▨	▨	▨ 7/20/2022
Census Testing	July 2022	▨	▨	▨	▨	▨	▨ 7/25/2022
LACERA Rehired Retirees Audit	August 2022	▨	▨	▨	▨	▨	▨ *8/8/2022*
Investment Due Diligence Consulting Review RFP	August 2022	▨	▨	▨	▨	▨	▨ *Pending AC approval at August 2022 Meeting*
LA County Rehired Retirees Audit	August 2022	▨	▨	▨	▨		
Board Vantage Security Settings Audit	August 2022	▨	▨	▨	▨		
Death Claim Processing	Moved to FYE 2023	▨	▨				
Termination of Access	Moved to FYE 2023	▨	▨				
IT Risk Assessment	Moved to FYE 2023	▨	▨				
Organizational Check Management Review	Moved to FYE 2023	▨	▨				
Member Communication	Moved to FYE 2023	▨	▨				
Privacy Policy/Access to Confidential Data	Moved to FYE 2023	▨	▨				
Wire Transfers Audit	Moved to FYE 2023	▨	▨				
Privileged Access	Moved to FYE 2023	▨	▨				

FYE 2022 Goals

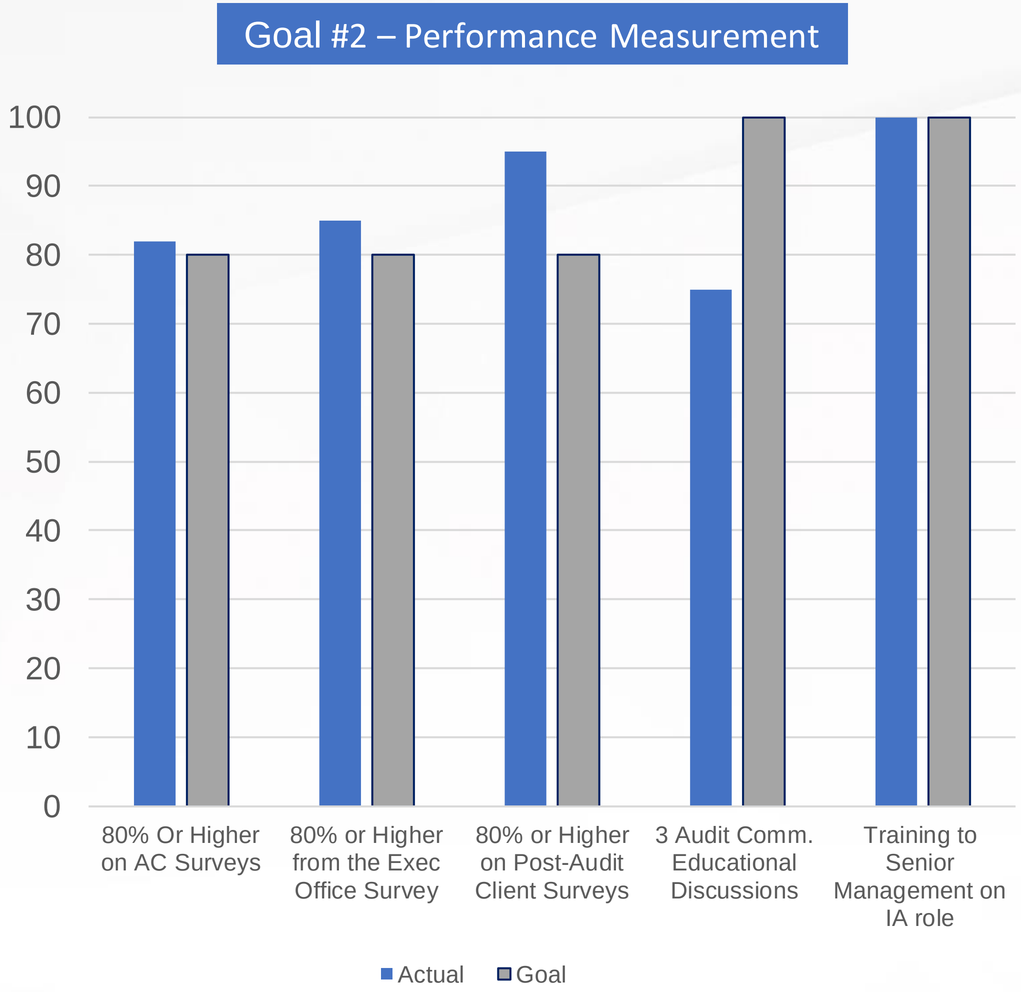
Goal #1 – Develop and Execute a Risk-Based Audit Plan



Audit resources are targeted towards completion of our Audit Plan The FYE 2022 Audit Plan, is heavily focused on performing assurance, consulting and advisory engagements. Significant accomplishments relating to the achievement of Goal #1 and the associated performance measurements included the following:

- ☐ As of June 30, 2022, we completed 31 of 46 projects (68%) on the Audit Plan. Due to staffing priorities and delays beyond Internal Audit's control, we were unable to meet the 80% goal. Although we fell short of meeting this performance measurement, there were 7 additional projects nearing completion as of fiscal year end; 5 of which were completed by this 8/8/22 reporting date.
- ☐ Our risk assessment process includes not only our annual risk assessment, but we continually assess risks through audits and other activities to identify additional areas for audit planning. The process includes Bi-weekly meetings with the Executive Office, Monthly meetings with Info Sec, attendance of board meetings, and risk and control meetings with division managers
- ☐ We target 70% (8400 hours) of the available 12,000 hours on direct audit services including Internal Audit operations and 30% (3600 hours) on administrative tasks which is a standard practice amongst internal audit units. Actual direct hours were 77% (9,721 hours) with indirect hours coming in at 2959 hours. Refer to slide 7 for details on work hours.
- ☐ Although we had established a benchmark of ensuring that 75% of recommendations are implemented, we found that performance measurement unrealistic and unattainable. Due to organizational challenges relating to staffing resources, extensions were required for several recommendations in various divisions. We continued to enhance our tracking and reporting of outstanding recommendations. This has included frequent meetings with management and Executive Office to discuss the status of outstanding recommendations.

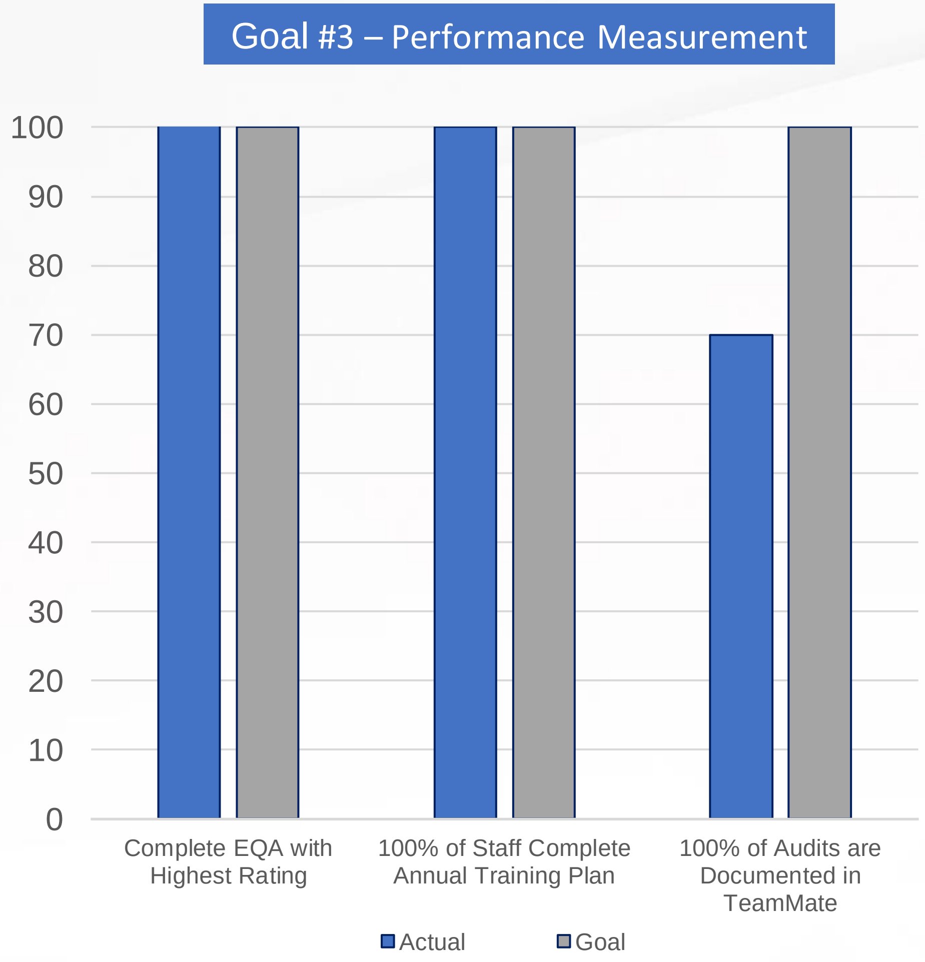
Goal #2 – Continue to Improve Internal Audit's Presence and Value with Key Stakeholders



We strive to strengthen our presence at LACERA and add value to the organization through our audits and services. Significant accomplishments relating to Goal #2 and the associated performance measurements included the following:

- ❑ Although we only received 2 of 7 surveys from AC, the results overall were positive, (82% approval). One comment relating to identification of risk was also made in one survey and we will incorporate that into our risk assessment process moving forward.
- ❑ We received 5 of 6 surveys from Executive Management. Although we did receive high ratings on all surveys (85% approval), we did identify a couple of areas for improvement such as: more clearly communicating our roles in the organization, better structured identification of organizational risks, and further training in areas of Investments and IT; all of which will be included in the FYE 2023 goals.
- ❑ Post-audit surveys resulted in an overall rating of 95%. Although we received high ratings, we continue to find ways to improve our audit process including documentation of audit work and timeliness of audit reporting.
- ❑ Performance measurement relating to the educational pieces provided to the AC included: Overview of International Professional Practices Framework and the Risk Assessment and Audit Planning.
- ❑ Training on the role of Internal Audit was provided at a May Management Action Committee.

Goal #3 - Continue to Enhance Internal Audit’s Competency and Efficiencies



We Continue to enhance competencies and Efficiencies. Significant accomplishments relating to the achievement of Goal #3 and the associated performance measurements included the following:

- Internal Audit underwent a ~~c~~omprehensive External Quality Assessment which was conducted by the IIA Quality Services. We received the highest rating of Generally Confirms.

- Part of the measure of an internal audit department is the qualifications and professional development of the personnel. We take pride in having a well-rounded team with vast years of audit experience and professional designation. With that comes continuing professional education (CPE), and during this fiscal year, not only did staff complete their required CPE for their professional designations, but we also had team training in the areas of Audit engagements, communication, work papers and reporting and ethics.

- We continue to fine-tune our audit engagement workflow process, to include complete audit workpapers that are documented, reviewed and approved through our audit software, Teammate. As part of our enhancements to our audit process, we now perform a QA on all audits to ensure that workpapers are updated are adequately monitored and closed out on TeamMate. Although we have made great strides on our TeamMate documentation, as of fiscal year end, we had not met our 100% performance measurement but are at 70%. This partially implemented goal will continue into FYE 2023

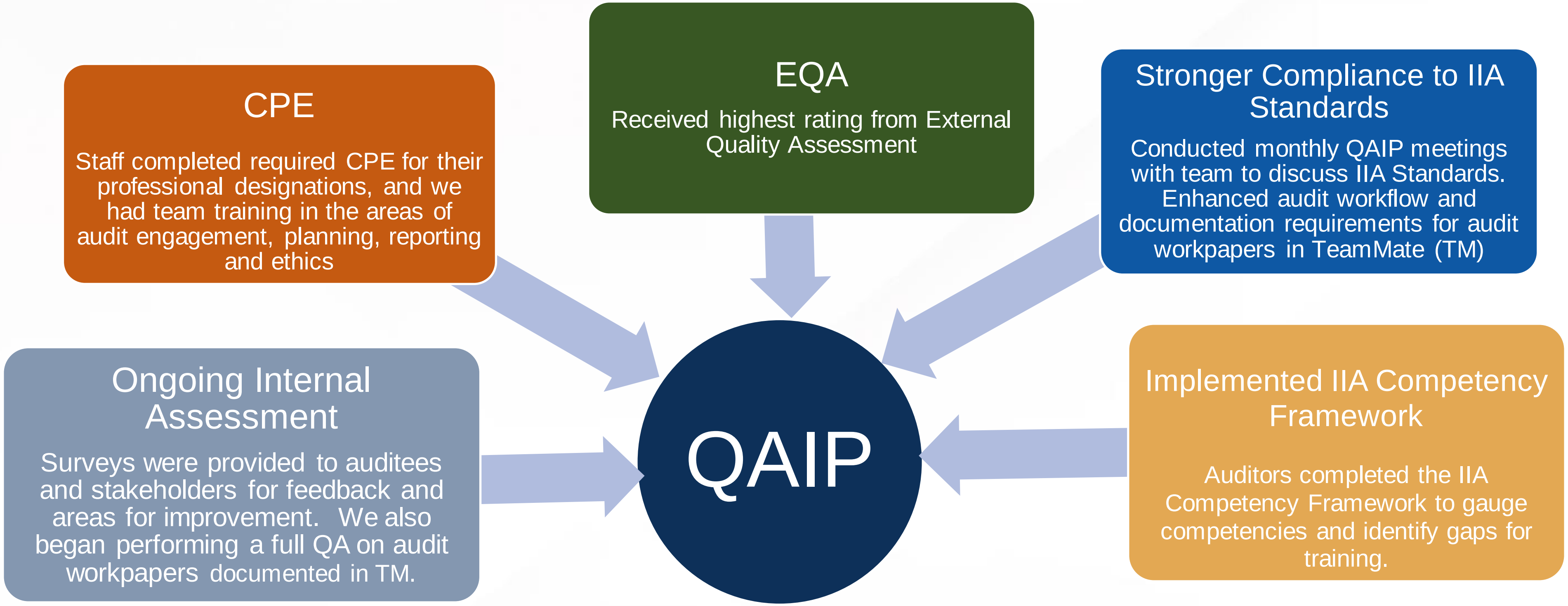
Quality Assurance and Improvement Program

Quality Assurance and Improvement Program

International Standards for the Professional Practice of Internal Auditing (Standards), promulgated by the Institute of Internal Auditors (IIA), requires that Chief Audit Executives must develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. The program must include both internal and external assessments (required every five years).

To meet IIA Standards, during FYE 2022, Internal Audit implemented a very broad program including both internal and external assurance programs to ensure compliance and continuous improvement, In February 2022, the IIA Quality Services conducted an independent external assessment of Internal Audit and presented its report at the March 2022 Audit Committee meeting. We received the highest rating of compliance to IIA Standards, “Generally Conforms”. Our FYE 2022 internal assessment process included a self-assessment and ongoing monitoring of the performance of the internal audit activity which is detailed on the page 19.

Notable activities included in our QAIP:



CPE

Staff completed required CPE for their professional designations, and we had team training in the areas of audit engagement, planning, reporting and ethics

EQA

Received highest rating from External Quality Assessment

Stronger Compliance to IIA Standards

Conducted monthly QAIP meetings with team to discuss IIA Standards. Enhanced audit workflow and documentation requirements for audit workpapers in TeamMate (TM)

Ongoing Internal Assessment

Surveys were provided to auditees and stakeholders for feedback and areas for improvement. We also began performing a full QA on audit workpapers documented in TM.

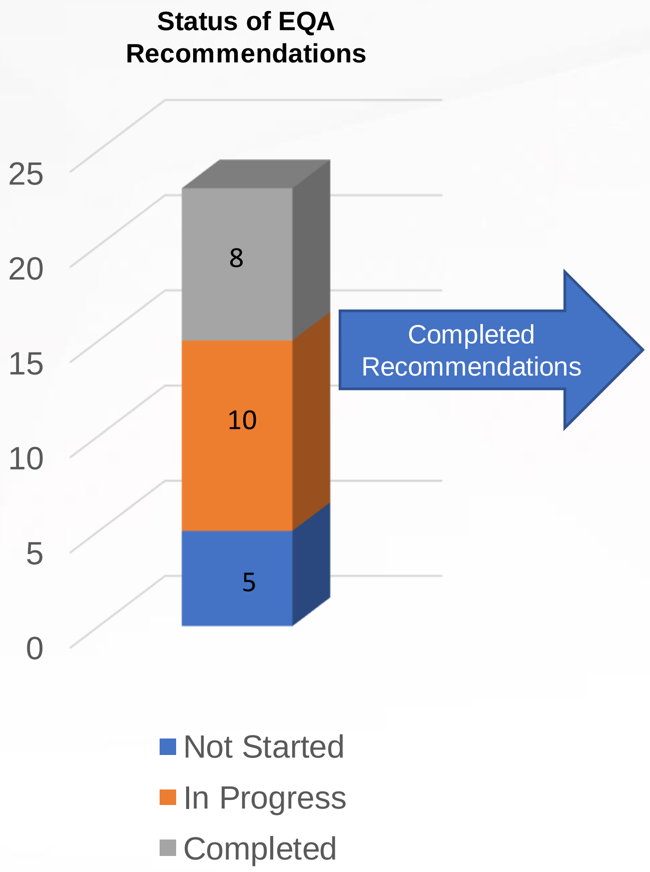
QAIP

Implemented IIA Competency Framework

Auditors completed the IIA Competency Framework to gauge competencies and identify gaps for training.

Results from External Quality Assessment

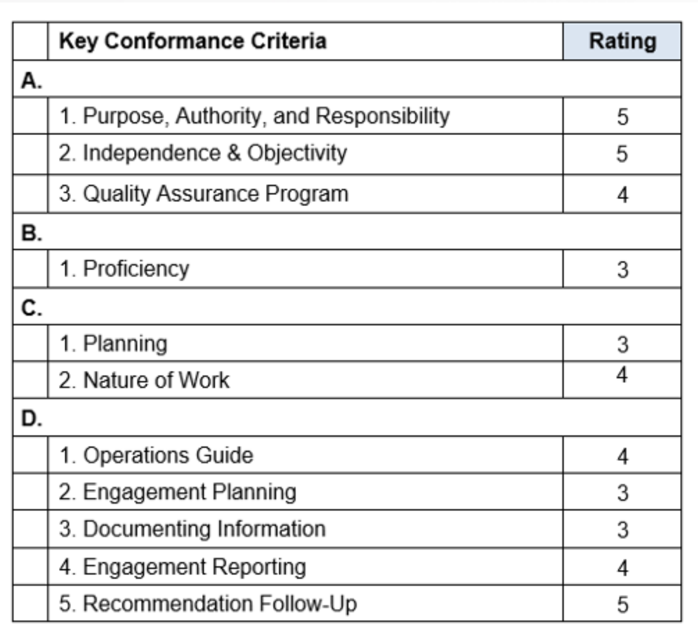
As part of the EQA, Quality Services identified opportunities for improvements and reported 23 recommendations. Internal Audit has reported the status of the recommendations at Audit Committee meetings. The following is a summary of progress made during FYE 2022 in implementing the recommendations:



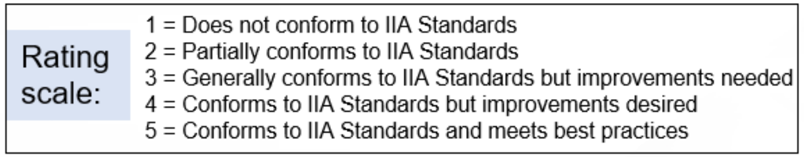
Reco	EQA Observation	Recommendation	Implementation
1.2	Internal Audit (IA) did conduct a periodic internal assessment and reported the results to the Audit Committee. However, workpapers to support the assessment were not maintained and available for review.	Adequately document the work performed for 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 IIA Conformance Statement even though an external QA as not conducted at least once every five years.	Refrain from using Conformance Statement without EQA confirming conformance.	IA refrained from using the Conformance Statement until the EQA Report was issued 2/18/22.
4.2	Documentation reviewed for this EQA 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 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 was in June 2022
7,1	Utilize IIA Competency Framework	Will implement the IIA Competency Framework for staff to complete by fiscal year end.	Implemented IIA framework. All staff completed by 6/30/22
8	Provide guidance on AC report process	IA will provide the AC with guidance on reporting process	Issued email to AC 4/7/22 on updated process for issuance of audit reports
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.	Move forward with enhancing policies and procedures to better document and support engagement-level fraud risk assessment.	IA 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.

Results from Internal Periodic Assessment

The IIA provides a template to conduct a periodic self-assessment. The template is designed to assess conformance with the internal audit charter, the IIA's Definition of Internal Auditing, *Standards*, Code of Ethics, and to assess efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Staff used this template and rating scale to conduct an annual self-assessment for FYE 2022.



	Key Conformance Criteria	Rating
A.		
	1. Purpose, Authority, and Responsibility	5
	2. Independence & Objectivity	5
	3. Quality Assurance Program	4
B.		
	1. Proficiency	3
C.		
	1. Planning	3
	2. Nature of Work	4
D.		
	1. Operations Guide	4
	2. Engagement Planning	3
	3. Documenting Information	3
	4. Engagement Reporting	4
	5. Recommendation Follow-Up	5



Rating scale:

1 = Does not conform to IIA Standards
2 = Partially conforms to IIA Standards
3 = Generally conforms to IIA Standards but improvements needed
4 = Conforms to IIA Standards but improvements desired
5 = Conforms to IIA Standards and meets best practices

This year, we changed our rating for our internal assessment to provide a better assessment of these key areas.

During FYE 2022, we worked to improve:

- Purpose, Authority, and Responsibility & Independence & Objectivity
  - Provided AC with an Orientation to review these areas
  - Provided MAC team with overview of our roles & responsibilities
  - Reviewed Internal Audit Charter to ensure no updates required
- Proficiency
  - All staff attend continuing professional educational courses in IT, Fraud, and Engagement Planning.
  - Introduced having one staff person lead discussion on IIA's Practice Guides during monthly QAIP meeting
  - Conducted IIA Competency Review

For FYE 2023, we plan to continue to improve upon:

- Proficiency
- Engagement Planning
- Document Information

Audit Committee Support

Audit Committee Calendar

This Calendar provides a summary of our work supporting Audit Committee activities. The highlighted boxes indicate the Committee meeting when the work was completed.

FY2022 Annual Audit Committee Calendar								
Audit Committee Activity	**Ref to AC Charter**	**Frequency**	**August 2021**	**Oct 2021**	**Dec 2021**	**Feb 2022**	**March 2022**	**May 2022**
Audit Engagement Reports	VII.A.2.a.	All Meetings			V.A.		V.A.	V.B.-D.
Audit Plan Status Update	VII.A.1.d. & VII.A.2.c-d.	All Meetings	V.F.	V.F.	VI.C.			VI.B.
Summary of Hotline Investigations	VII.D.3 & VII.E.2.b.	All Meetings	V.E.	V.E.	V.F.	V.I.		VI.J.
Recommendation Follow-Up Reports	VII.A.2.b.	Tri-Annually		VI.A.-C.		VII.C.-E.		VI.E.-G.
Proposed Audit Plan and Budget	VII.A.1.c.	Annually				VI.C.	V.B.	
Annual Risk Assessment	VII.A.1.a.	Annually						
Annual Audit Plan	VII.A.1.b.	Annually				VI.D.		VI.C.
Presentation / memo by Financial Auditor detailing proposed scope of work and timing.	VII.B.2	Annually						VI.A.
Internal Audit Charter	VII.A.3.a.	Annually	IV.A.					
Internal Audit Annual Performance Report	VII.A.3.b.-c.	Annually	V.A.					
CAE Performance Evaluation	VII.A.4.b.-c.	Annually	XI.B.					
Ethics & Values Review	VII.D.1-3.	Annually				VI.B.		
Organizational Governance Review	VII.E.	Annually				VI.B.		
Compliance Memo from Legal Office	VII.E.4.c.	Annually				VII.B.		
Financial Statements, Correspondence, & Presentation	VII.C.1.-4.	Annually			VI.A./B.			
Audit Committee Annual Performance Report	VII.F.1.	Annually			V.B.			
Audit Committee Charter	VII.F.4	Every 3rd year						
Approve the appointment and compensation of the External Financial Auditor	VII.B.1	Every 5th year						
Ensure IA has an external quality assessment performed every five years.	VII.A.3.d.	Every 5th year		V.A.	V.C.			
Provide an open avenue of communication between IA, all Professional Service Providers (PSP), Mgmt. and Boards.	VII.F.2	Continuous						
Approve the appointment & compensation of other PSP, hired to perform non-financial statement audits, reviews or consulting, subject to limitations.	VII.B.2	As needed		V.B.		VI.B.		V.A.
Review with PSP, including the Financial Auditor, and Management the results of the work performed, findings & recommendations, management's responses, and actions taken to implement them.	VII.B.3	As needed		X.A.	VI.A./B.			
Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.	VII.A.3.e.	As needed						
Make recommendations to both Boards regarding the appointment, discipline, and/or dismissal, of the CAE, which will be addressed by the Boards in a joint meeting.	VII.A.4.a.	As needed						
Perform other activities related to this Charter as requested by the Boards.	VII.F.3	As needed						

Thank you!

QUESTIONS?

LACERA

July 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: Richard P. Bendall
Chief Audit Executive

FOR: August 18, 2022 Audit Committee Meeting

SUBJECT: **Fiscal Year Ending (FYE) 2023 Internal Audit Goals**

Attached are the FYE 2023 Internal Audit Division Goals. To improve efficiency and effectiveness of the Internal Audit function, we are continuing to focus on three primary goals: 1) Develop and Execute a Risk-Based Annual Audit Plan, 2) Continue to Improve Internal Audit's Presence and Value with Stakeholders, and 3) Continue to Enhance Internal Audit's Competence and Efficiencies.

We made minimal changes to these goals from the FYE 2022 goals as these continue to be core to our mission and success. However, we did refine and make changes to some of the performance measures under the goals to ensure that they provide for meaningful measures of success in achieving the overall goals. Attachment A provides a description of each goal and the associated performance measurements.

We welcome the opportunity for discussion and feedback from the Committee.

Internal Audit Goals - FYE 2023

Goal 1: Develop and Execute a Risk-Based Annual Audit Plan

Performance Measures:

- Complete 80% or more of Audit Plan in the fiscal year.
- Complete annual Risk Assessment.
- Expend 70% or more of total available staff hours (excluding uncontrollable leave) on direct assurance, consulting, and advisory services.

Estimated Completion Date: June 30, 2023

Goal 2: Continue to Improve Internal Audit's Presence and Value with Stakeholders

Performance Measures:

- Provide training to the Audit Committee at least twice per year in relevant areas of their responsibilities.
- Provide training to MAC/SAC on internal controls and fraud prevention.
- Receive 80% or higher overall scores from Audit Committee in the performance of audit work and support.
- Receive 80% or higher overall satisfaction on post-audit client surveys.
- Receive 80% or higher overall scores from feedback from the Executive Office.

Estimated Completion Date: June 30, 2023

Goal 3: Continue to Enhance Internal Audit's Competence and Efficiencies

Performance Measures:

- Implement 2022 External Quality Assessment (EQA) recommendations due this fiscal year.
- Develop and complete a divisional training plan that strengthens Internal Audit's competencies.
- Conduct monthly Quality Assessment Improvement Program (QAIP) meetings focusing each month on a different Institute of Internal Auditors (IIA) Practice Guide.

Estimated Completion Date: June 30, 2023

LACERA

July 25, 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

Nathan K. Amick
Senior Internal Auditor

Kristina Sun KS
Senior Internal Auditor

FOR: August 18, 2022 Audit Committee Meeting

SUBJECT: **Census Data Testing – Limited Scope Memo**

BACKGROUND

LACERA relies on its census data to determine its pension fund liability and upcoming contribution rates. The census data is sent to Milliman, our current actuary, each August so that Milliman can perform its annual actuarial valuation. The valuation results are dependent on the integrity of the data supplied to the evaluating firm and the results of the valuation can differ if the underlying data is incomplete or missing.

The data used in this valuation consists of financial information as well as the age, service, and income records for active and inactive members and their survivors. LACERA provides all of this data to Milliman, and Milliman accepts the data without auditing it.

As this data is a critical component of LACERA's pension fund liability and contribution rates, Internal Audit tests key components of the census data for reasonableness. This year, we did this by performing a year-over-year comparison of the census data provided to Milliman. We report the results of our testing to Plante Moran's Financial Audit and System and Organization Controls (SOC) teams.

In previous years, we tested a sample of active and retiree accounts, using a judgmental sample method, under our Continuous Auditing Program (CAP). The results were reported in our quarterly CAP memo. This year, Internal Audit decided to expand the scope of testing by using data analytics to perform risk-based sampling, which allowed us to review 100% of actives, retirees, survivors, deferred and reciprocal member records. We compared Fiscal Year Ended (FYE) 2021's census data against FYE 2020 census data to find any unexpected variances. For any records with variances, we selected a representative sample from each member group and performed further analysis to validate the changes. We did not validate the accuracy or validity of the data.

RESULTS

In total, Internal Audit reviewed approximately 186,000 records from FYE 2021 census data, across 21 field categories with quantitative and qualitative attributes. See the table below for details.

Fields Selected for Testing	**Active**	**Retirees & Survivors**	**Deferred / Reciprocal**
ID / Social Security Number	X	X	X
Birth Date	X	X	X
Entry Age	X	X	X
Member's Active Plan	X	X	X
Member's Active Type	X	X	X
Yearly Base Salary	X		
Active Plan Service Credit	X		X
Inactive Plan	X		X
Inactive Type	X		X
Inactive Service Credit	X		X
Transfer Date	X		X
Total Normal Contributions	X		X
Separation Code			X
Retirement Date		X	
Retirement Type		X	
Monthly Retirement Benefit		X	
Beneficiary DOB		X	
Minor Benefit End Date		X	
PERS Service Credit			X
One Year FAC			X
Three Year FAC			X

Internal Audit noted one exception caused by human error which resulted in a gender discrepancy in one (1) member record.

NEXT STEPS

Due to importance of accurate census data to LACERA, Internal Audit plans to also, conduct an audit of FYE June 30, 2022's census data, which will include this year-over-year testing, as well gaining an understanding and assessing the process and related controls in place to ensure accurate and complete records.

Noted and Reviewed:

Richard P. Bendall
Chief Audit Executive

LACERA

FOR INFORMATION ONLY

July 25, 2022

TO: Each Trustee,
Audit Committee

FROM: Santos H. Kreimann SHK
Chief Executive Officer

CN
Carly Ntoya
Director of Human Resources

FOR: August 18, 2022 Audit Committee Meeting

SUBJECT: **STATUS UPDATE ON STAFF BONUS POLICY**

BACKGROUND

This memo is in response to a request at the May 9, 2022 Audit Committee meeting that Management provide the Committee with an update on the Bonus Policy for LACERA staff and the recommendations made by Internal Audit in the LACERA Staff Bonus Program audit report. That audit evaluated the effectiveness of applicable policies and procedures for each bonus type and LACERA's compliance with the applicable policies and procedures. Additionally, the audit assessed the reliability of reporting and data provided to Management to support decision making and monitoring. Management agreed with the audit findings and agreed to specific actions to remedy the findings and reduce organizational risk.

SUMMARY

Following is a summary of audit findings and the actions taken in response to each one of Management's commitments to remedy those findings.

Finding One: The bonus program does not have a formal comprehensive policy or procedures.

Management Commitment: By May 31, 2022, Human Resources will develop and have an approved comprehensive bonus policy that addresses all bonus types.

> Action: Human Resources provided Management the LACERA Bonus Policy and Procedures in May, and the Executive Office and Legal Office completed their review on June 16, 2022.
>
> The purpose of the Bonus Policy is to outline the responsibilities and requirements to request and approve bonuses. The bonus types addressed in this Policy are the following: Additional Responsibility Bonus (ARB), Out-of-Class Bonus (OCB),

Temporary Assignment Bonus, Superior Subordinate Pay, Certification Bonus, Bilingual Bonus, and Shift Differential Pay. This policy identifies participants, their responsibilities, and specifies the required documentation to support the award of the bonus. The previous draft Policy only addressed the ARB and OCB.

Management Commitment: The approved policy will be distributed to staff members via email and posted on LACERA Connect (intranet).

> Action: Not completed. While using the bonus requests submitted in June and July to pilot test the policy, the Executive Office requested changes to the review process and a flowchart for users. The changes were incorporated into the policy and the flowchart is being developed. Once complete, the policy will be released to all staff members and posted on LACERA Connect. The estimated date of completion is August 31, 2022.

Management Commitment: Human Resources will conduct a compliance review to ensure the applied bonuses are consistent with the approved policy.

> Action: Ongoing. Since the policy was created so close to the policy's stated renewal timeline, Human Resources is conducting a compliance review in real-time. All current renewal requests (submitted in June and July 2022) are being evaluated against the standards and processes outlined in the policy.

Management Commitment: 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.

> Action: Not complete. The Bonus Policy was presented to the MAC team on June 30, 2022. The presentation reviewed Division Manager, Human Resources and Executive responsibilities. While using the bonus requests submitted in June and July to pilot test the policy, the Executive Office requested changes to the review process and a flowchart for users. The changes were incorporated into the policy and the flowchart is being developed. Once complete, training will be provided to the SAC Team. The estimated date of completion is August 31, 2022.

Management Commitment: To supplement the Bonus 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).

> Action: Ongoing. Human Resources developed guidelines that outline the bonus review process, provides templates, and reference materials. Human Resources' staff training on how to review and apply bonuses is being done with the real-time review.

Finding Two: *Bonus reporting to Executive Management and Division Managers is insufficient.*

Management Commitment: 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.

> Action: Ongoing. Human Resources provided bonus quarterly reports to the Executive Office on March 9, 2022 and June 21, 2022. Additionally, Systems Division added a new bonus report to the HR Data Manager. No quarterly bonus report was provided to Division Managers, but Division Managers were provided a notice in June and directed to submit their requests for FY 2022-2023. Going forward, the Division Managers will be provided the quarterly bonus report.

PENDING ACTIONS

Management commitments pending action include:

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

The above listed pending actions will be completed by August 31, 2022.

CONCLUSION

Management commitments have been partially implemented. The remaining actions are critical to ensuring transparency and consistency of application. Internal Audit will continue to monitor and report on management's progress and implementation of the new policy and procedures.

SK:CN

L///CERA

August 1, 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: Kristina Sun KS
Senior Internal Auditor

FOR**:** August 18, 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 underlying finding of the recommendation.

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.

Quarterly Reporting Update for Fiscal Year Ended 2022
At the beginning of the fourth quarter for Fiscal Year Ended (FYE) 2022, we reported 26 outstanding recommendations. During this quarter, Internal Audit verified two recommendations implemented by management. Further, Internal Audit closed but did not verify implementation for seven recommendations, as we plan to perform an audit that addresses the risk area covered by the recommendations, discussed in further detail below. As of June 30, 2022, the total number of outstanding recommendations is 17. The full report of recommendations for the fourth quarter is attached in **Appendix A**. Reports and

recommendations issued in FYE 2023 will be included in quarterly reporting at the next Audit Committee meeting.

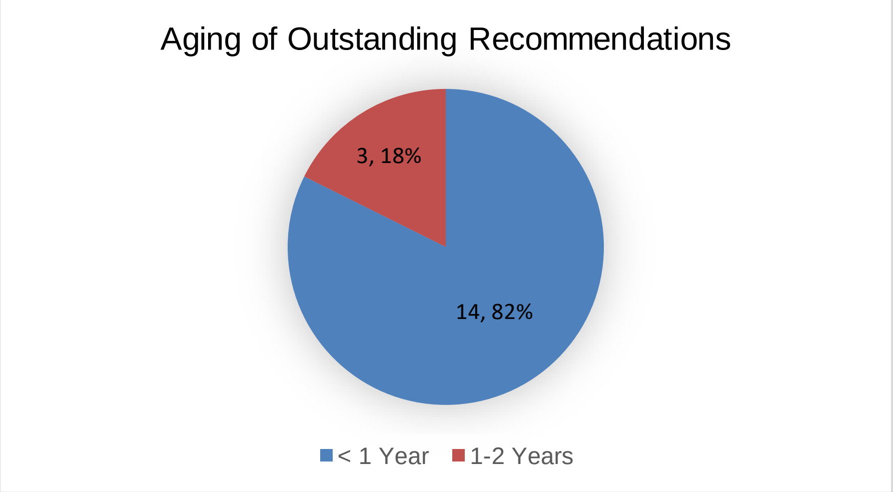
Monitoring Outstanding Recommendations

Internal Audit actively monitors the outstanding recommendations. The chart below provides the status of outstanding recommendations by divisions as of June 30, 2022.

	Divisions						
Current Recommendation Status	**Benefits**	**FASD**	**HR**	**Investments**	**QA**	**Systems**	**Total**
On Track	-	1	12	1	-	-	**14**
On Track - Approved 1st Extension	-	-	-	-	-	-	**0**
On Track - Approved 2nd Extension	-	-	-	-	2	-	**2**
Behind Schedule	-	-	1	-	-	-	**1**
Closed - Not Verified	-	-	-	-	-	(7)	**(7)**
Implemented	(1)	-	(1)	-	-	-	**(2)**

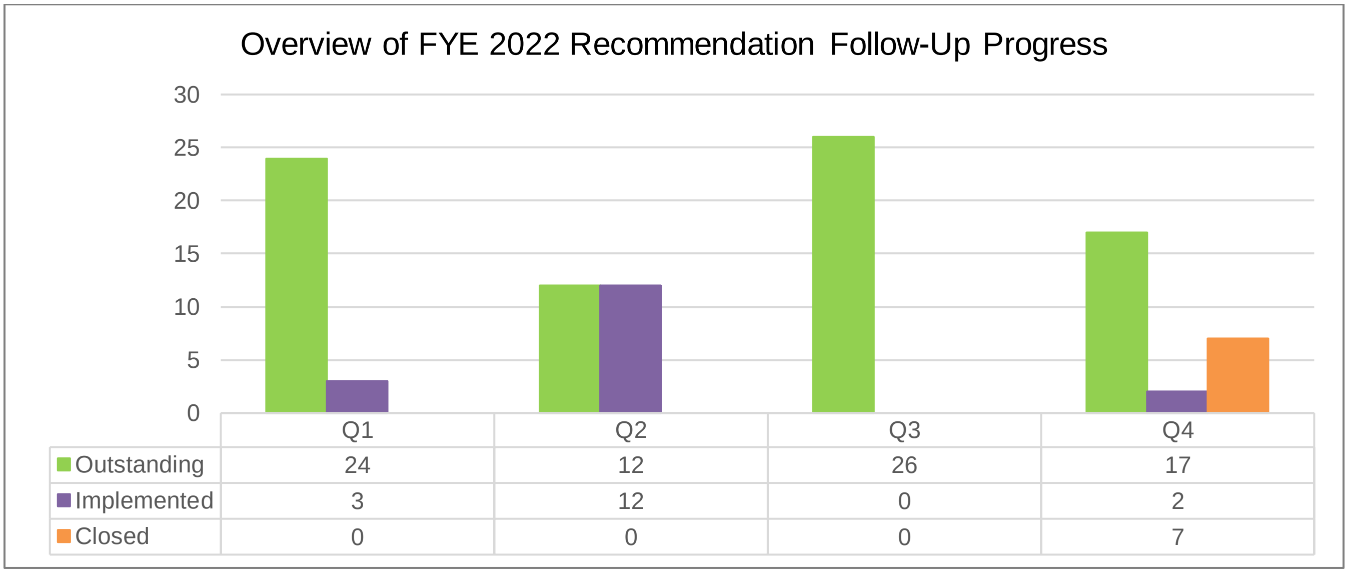
The “Closed – Not Verified” status is a new status added for this reporting period for the recommendations related to the Mobile Device Management (MDM) Audit from June 2020. Internal Audit did not verify implementation of the recommendations but reviewed the related policies and procedures created in response to the MDM Audit to ensure they addressed the findings. We did not verify the implementation of each recommendation because we plan to audit Property and Equipment Management, which includes MDM, during FYE 2023. The audit will assess if the findings and recommendations are still applicable given any changes to the process, and if so, will verify the implementation and effectiveness.

Of the seventeen currently outstanding recommendations, fourteen (74%) recommendations are less than one year old, and three (26%) recommendations have been outstanding between one to two years.



Overview of FYE 2022 Recommendation Follow-Up Progress

We started with 27 outstanding recommendations at the beginning of FYE 2022. During this fiscal year, Internal Audit verified 17 recommendations were implemented by management. Further, Internal Audit closed 7 recommendations but did not verify implementation. The graph below shows the FYE 2022 recommendation follow-up progress for each quarter.



	Q1	Q2	Q3	Q4
🟩 Outstanding	24	12	26	17
🟪 Implemented	3	12	0	2
🟧 Closed	0	0	0	7

Staff from the respective divisions will be present at the August 18, 2022 Audit Committee meeting to address any questions.

KS

Attachment

Noted and Reviewed:

Richard P. Bendall
Chief Audit Executive

APPENDIX A

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Benefits Division						
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	**IMPLEMENTED** As of May 2022, 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 Audit reviewed the documents and they appear reasonable, all documents along with the verification of implementation have been uploaded.

Legend

🟩	On Track
🟨	Behind Schedule
🟧	Closed - Not Verified
🟥	Overdue
🟪	Implemented

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
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	**ON TRACK** Certify AP module implementation slightly delayed which may impact timing of drafting the AP Policy. Still on track since AP Policy target implementation date is more than 6 months away.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Human Resources Division						
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	**BEHIND SCHEDULE** The Bonus Policy was presented to the MAC team on June 30, 2022. The presentation reviewed Division Manager, Human Resources and Executive responsibilities. While using the bonus requests submitted in June and July to pilot test the policy, the Executive Office requested changes to the review process and a flowchart for users. The changes were incorporated into the policy and the flowchart is being developed. Once complete, training will be provided to the SAC Team. The estimated date of completion is August 31, 2022.
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	**IMPLEMENTED** Human Resources provided bonus quarterly reports to the Executive Office on March 9, 2022 and June 21, 2022. Additionally, Systems Division added a new bonus report to the HR Data Manager. No quarterly bonus report was provided to Division Managers, but Division Managers were provided a notice in June and directed to submit their requests for FY 2022-2023. Going forward, the Division Managers will be provided the quarterly bonus report.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
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.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.	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.	Strategic Plan, 12/31/2022, Succession Plan, 6/30/2023 Diversity Equity and Inclusion Program, 6/30/2024	**ON TRACK** The Workforce and Talent Management action planning team is meeting regularly.
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.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	**ON TRACK** The Workforce and Talent Management action planning team is meeting regularly.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
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	**ON TRACK** The Workforce and Talent Management action planning team is meeting regularly.
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	**ON TRACK** HR is outlining the recruitment manual.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
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 functionally 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	**ON TRACK** Management is working on remediating the finding.
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	**ON TRACK** HR is outlining the recruitment manual.
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	**ON TRACK** The exam to hire more HR staff is in development.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022						
Project Name **Project Number** **Report Date** **Audit Rating**	**Risk Rating**	**Finding**	**Recommendation**	**Management Response**	**Target Implementation Due Date**	**Monthly Status Update**
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	**ON TRACK** The exam to hire more HR staff is in development.
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	**ON TRACK** Management is working on remediating the finding.
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	**ON TRACK** HR is outlining the recruitment manual.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
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	**ON TRACK** This will be done after new HR staff are hired.
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	**ON TRACK** The Workforce and Talent Management action planning team is meeting regularly.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Investments Division						
THC Stale Check Review 2021 47 June 15, 2021 Unsatisfactory	High	Inadequate controls over the THC check process allowed 104 checks to go stale	The Investment Office should: 2. Address the remaining stale checks by: a.logging and recordings the status of each check until new checks are received and deposited or written off as a loss of funds, b.performing a monthly review by Real Estate team management of the Stale Check Summary Log and the status of efforts made to obtain reissued checks and the determination of checks that are uncollectable for write-off, and c.dispositioning uncollectable checks with the Executive Office to determine appropriate reporting.	The Investment Office agrees to both the finding and recommendation. 2. The real estate team continues to work diligently to resolve all 104 of these checks. Many of them have already been deposited. a. As of 6/10/21, 46 checks totaling $180,498 have been deposited, 58 checks totaling $88,034 are still in progress, and none have been deemed unrecoverable. b. Members of the real estate team and its management meet weekly to review the status of pending and reissued checks. Checks in progress that are being reissued by state or local governments can take up to 24 months. c. Staff will provide quarterly updates to Investment Office Management, Executive Office, and Internal Audit division.	6/30/2023	🟩 **ON TRACK** Investments management is still in the process of remediating the finding. As of 7/22/22, 4 checks have been reissued and deposited, 47 checks are in process of recovery, and 7 checks have reached an inpasse for recovery efforts.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Quality Assurance (QA) Division						
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Medium	Finding #1 - The QA Division's independence is weakened when reporting to the same AEO over the operational areas in which they perform quality assurance audits.	Develop a plan and timeline for a) relocating training and metrics out of the QA Division to an operational division, and b) changing the reporting structure such that the QA Division reports independently to the Administrative AEO.	QA Management agrees with the recommendation. QA Management agrees that greater separation between the operations of the MOG and the QA Division will enhance the inherent objectivity and independence of the QA Division. QA Management will work with the Executive Office to develop a transition plan, including a timeline, to achieve greater separation while promoting and maintaining the synergy and efficiency of both the MOG and QA. To do this, we anticipate that the plan will coincide with a plan to move the Process Management Group (PMG) out of the Benefits Division, and must include the infusion of adequate staffing and tools into the QA Division and MOG operations so that the coordination and capacity of the two groups does not suffer. Such an increase requires analysis and metrics, which are currently being developed, as well as the support of LACERA's Board of Retirement. We anticipate that this plan, which will include a process for gathering support for metrics, can be drafted by October 31, 2021.	10/31/2021 6/30/2022 **Approved 2nd Extension 12/31/2023**	**ON TRACK - Approved 2nd Extension** The organizational restructuring of QA and MOG Divisions are on hold until other organizational issued are addressed. Specifically, LACERA has a strategic plan under development and an ongoing lawsuit between LACERA and L.A. County. The QA restructuring is dependent on a budget that specifies the new positions and other related expenditures required to implement the change. Considering these hurdles, the projected implementation of this recommendation should be postponed for one or two fiscal years.
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 6/30/2022 **Approved 2nd Extension 12/31/2023**	**ON TRACK - Approved 2nd Extension** Due to other organizational priorities, QA Management is behind schedule with the development of metrics, KPIs, and audit plan for the division. Currently, management is finalizing the drafts of the audit plan and KPIs. The draft still needs to be reviewed and approved by the Executive Office. Due to the strategic plan efforts currently underway, the metrics may not be finalized until the strategic plan is completed.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
Systems Division						
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 -** **OVERDUE**	**CLOSED - NOT VERIFIED** Internal Audit did not verify implementation of the recommendation but reviewed the related policies and procedures created in response to the MDM Audit, to ensure they addressed the finding. We did not verify the implementation of each recommendation because we plan to audit Property and Equipment Management, which includes MDM, during FYE 2023. The audit will assess if the findings and recommendations are still applicable given any changes to the process, and if so, will verify the implementation and effectiveness.
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 -** **OVERDUE**	**CLOSED - NOT VERIFIED** Internal Audit did not verify implementation of the recommendation but reviewed the related policies and procedures created in response to the MDM Audit, to ensure they addressed the finding. We did not verify the implementation of each recommendation because we plan to audit Property and Equipment Management, which includes MDM, during FYE 2023. The audit will assess if the findings and recommendations are still applicable given any changes to the process, and if so, will verify the implementation and effectiveness.
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 -** **OVERDUE**	**CLOSED - NOT VERIFIED** Internal Audit did not verify implementation of the recommendation but reviewed the related policies and procedures created in response to the MDM Audit, to ensure they addressed the finding. We did not verify the implementation of each recommendation because we plan to audit Property and Equipment Management, which includes MDM, during FYE 2023. The audit will assess if the findings and recommendations are still applicable given any changes to the process, and if so, will verify the implementation and effectiveness.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
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 - OVERDUE**	**CLOSED - NOT VERIFIED** Internal Audit did not verify implementation of the recommendation but reviewed the related policies and procedures created in response to the MDM Audit, to ensure they addressed the finding. We did not verify the implementation of each recommendation because we plan to audit Property and Equipment Management, which includes MDM, during FYE 2023. The audit will assess if the findings and recommendations are still applicable given any changes to the process, and if so, will verify the implementation and effectiveness.
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 - OVERDUE**	**CLOSED - NOT VERIFIED** Internal Audit did not verify implementation of the recommendation but reviewed the related policies and procedures created in response to the MDM Audit, to ensure they addressed the finding. We did not verify the implementation of each recommendation because we plan to audit Property and Equipment Management, which includes MDM, during FYE 2023. The audit will assess if the findings and recommendations are still applicable given any changes to the process, and if so, will verify the implementation and effectiveness.
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 - OVERDUE**	**CLOSED - NOT VERIFIED** Internal Audit did not verify implementation of the recommendation but reviewed the related policies and procedures created in response to the MDM Audit, to ensure they addressed the finding. We did not verify the implementation of each recommendation because we plan to audit Property and Equipment Management, which includes MDM, during FYE 2023. The audit will assess if the findings and recommendations are still applicable given any changes to the process, and if so, will verify the implementation and effectiveness.

RECOMMENDATION FOLLOW-UP REPORT AS OF JUNE 30, 2022

Project Name Project Number Report Date Audit Rating	Risk Rating	Finding	Recommendation	Management Response	Target Implementation Due Date	Monthly Status Update
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 - OVERDUE**	**CLOSED - NOT VERIFIED** Internal Audit did not verify implementation of the recommendation but reviewed the related policies and procedures created in response to the MDM Audit, to ensure they addressed the finding. We did not verify the implementation of each recommendation because we plan to audit Property and Equipment Management, which includes MDM, during FYE 2023. The audit will assess if the findings and recommendations are still applicable given any changes to the process, and if so, will verify the implementation and effectiveness.

LACERA

August 1, 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 CL
Principal Internal Auditor

Gabriel Tafoya
Senior Internal Auditor

FOR**:** August 18, 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. We most recently added the first project listed, Moss Adams External Network Penetration Testing and Social Engineering Assessment (Pen and Social Engineering), in April 2022. The seventh project, 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 two (2) recommendations implemented during this reporting period.

Staff will be available to address questions at the August 18, 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 **Recommendation Status by Risk Level**	**Total Recos**	**Implemented During Prior Periods**	**Implemented May 2022 – Jul 2022**	**In Progress Jul 2022**
Moss Adams Pen and Social Engineering April 2022				
High	3	—	—	3
Medium	3	—	—	3
Low	1	—	—	1
PM SOC FY2021 September 2021				
High	—	—	—	—
Medium	5	1	1	3
Low	—	—	—	—
PM SOC Readiness Assessment February 2020				
High	—	—	—	—
Medium	10	8*	—	2
Low	—	—	—	—
Clear Skies Penetration Test and VeraCode Report March 2020				
High	1	1	—	—
Medium	25	15	—	10
Low	17	8	—	9
Tevora 2019 Penetration Test June 2019				
High	—	—	—	—
Medium	—	—	—	—
Low	5	3	—	2
Tevora 2018 Security Risk Assessment July 2018				
High	—	—	—	—
Medium	3	3	—	—
Low	6	3	1	2
Consolidated Recos January 2021				
High	2	2	—	—
Medium	2	1	—	1
Low	—	—	—	—
Totals	**83**	**45**	**2**	**36**

*****In the report to the May Audit Committee meeting, we had reported a total of 7 recommendations related to the PM SOC Readiness project that had been implemented. We determined during our preparation for this meeting that the number should have been 8 and have corrected it.

For Fiscal Year Ended June 2022, Systems Division and Information Security implemented 26 recommendations. They implemented:

- Many of the medium and low-level Tevora and Clear Skies Penetration Test recommendations through the re-design of LACERA.com and the development life cycle for the member portal.
- A monthly review of software development changes as recommended by the SOC Readiness Assessment.

For recommendations which are listed as **In Progress**, Systems Division and Information Security provided a summary of work to be performed and a timeline. They intend to address the high and medium-level recommendations related to Moss Adams Pen and Social Engineering Test in the first half of this fiscal year.

RECOMMENDATIONS CATEGORIZED

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

ITGC	Description of control
Data Backup and Recovery	Controls provide reasonable assurance that data and systems are backed upsuccessfully, completely, stored offsite, and validated periodically.
Environmental	Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
Information Security	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
Logical Access	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
Physical Security	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.
System Development & Change Management	Controls provide reasonable assurance that changes to or development of applications is authorized, tested, and approved. Controls also, provide reasonable assurance that segregation of duties exist.
System Monitoring & Maintenance	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.

Table 2: Recommendations Status – By IT General Control Areas

	Total Recos	Implemented During Prior Periods	Implemented May 2022 – Jul 2022	In Progress Jul 2022
Data Back Up & Recovery	1	1	—	—
Environmental	—	—	—	—
Information Security	12	3	—	10
Logical Access	48	30	1	16
Physical Security	2	—	—	2
System Development & Change Management	2	1	—	1
System Monitoring & Maintenance	18	10	1	7
Total # Recos by Implementation Status	**83**	**45**	**2**	**36**

LACERA

FOR INFORMATION ONLY

August 1, 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 KT
Senior Internal Auditor

FOR**:** August 18, 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, LACERA has received eight case reports since the inception of the Ethics Hotline, 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