

IN PERSON & VIRTUAL BOARD MEETING



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TO PROVIDE PUBLIC COMMENT

Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit the above link and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

Attention: If you have any questions, you may email PublicComment@lacera.com. If you would like to make a public comment during the committee meeting, review the Public Comment instructions.

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, CA 91101

9:00 A.M., THURSDAY, JUNE 1, 2023

This meeting will be conducted by the Audit Committee and Board of Retirement and Board of Investments both in person and by teleconference under California Government Code Section 54953 (f).

Any person may view the meeting in person at LACERA's offices or online at <https://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.

COMMITTEE TRUSTEES:

Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

AUDIT COMMITTEE CONSULTANT
Robert H. Griffin

- I. CALL TO ORDER
- II. PLEDGE OF ALLEGIANCE
- III. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449, California Government Code Section 54953 (f)
 - A. Just Cause
 - B. Action on Emergency Circumstance Requests
 - C. Statement of Persons Present at Teleconference Locations

IV. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Special Meeting of March 2, 2023

V. PUBLIC COMMENT

(Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit <https://LACERA.com/leadership/board-meetings> and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

If you select oral comment, we will contact you via email with information and instruction as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Committee. Oral comment requests will be accepted up to the close of the Public Comment item on the agenda.

If you select written comment, please input your written public comment or documentation on the above link as soon as possible and up to the close of the meeting. Written comment will be made part of the official record of the meeting. If you would like to remain anonymous at the meeting without stating your name, please leave the name field blank in the request form. If you have any questions, you may email PublicComment@lacera.com.)

VI. NON-CONSENT ITEMS

A. **Fiscal Year Ending June 30, 2024 Audit Plan**

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Committee approve the proposed Fiscal Year Ending June 30, 2024 Audit Plan. (Memo dated May 16, 2023)

B. **Review and Selection of the System and Organization Controls (SOC) Auditor – Other Post-Employment Benefits Program**

Recommendation as submitted by Christina Logan, Principal Internal Auditor and Kimberly D. Hines, Senior Internal Auditor: That the Committee approve the engagement of Moss Adams LLP to perform a System and Organization Controls (SOC) 1 Type 2 audit of LACERA's 2024 – 2028 with an option to extend the contract for up to two one-year terms. (Memo dated May 10, 2023)

VI. NON-CONSENT ITEMS

C. **Los Angeles County's Compliance with Requirements for Rehired Retirees – Fiscal Year Ended June 30, 2022**

Recommendation as submitted by George Lunde, Senior Internal Auditor: That the Committee review and discuss the Los Angeles County's Compliance with Requirements for Rehired Retirees – Fiscal Year Ended June 30, 2022 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 May 12, 2023)

D. **Audit of Disability Retirement Services' Business Processes**

Recommendation as submitted by Kristina Sun, Senior Internal Auditor: That the Committee review and discuss the Audit of Disability Retirement Services' Business Processes 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 May 10, 2023)

E. **Third-Party Data Security Review**

Recommendation as submitted by George Lunde, Senior Internal Auditor: That the Committee review and discuss the Third Party Data Security Review and take the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees;

VI. NON-CONSENT ITEMS (Continued)

3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or
4. Provide further instruction to staff.
(Memo dated May 16, 2023)

VII. REPORTS

- A. **FYE 2023 Audit Plan Status Report**
Nathan K. Amick, Senior Internal Auditor
(Presentation) (Memo dated May 15, 2023)
- B. **Los Angeles County Employee Retirement Association Audit Committee Pre-Audit Communication**
Nathan K. Amick, Senior Internal Auditor
(Presentation) (Memo dated May 12, 2023)
- C. **Recommendation Follow-Up**
Kristina Sun, Senior Internal Auditor
(Memo dated May 16, 2023)
- D. **Recommendation Follow-Up Sensitive Information Technology Areas**
Gabriel Tafoya, Senior Internal Auditor
(Memo dated May 11, 2023)
- E. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit**
Richard P. Bendall, Chief Audit Executive
(Verbal Update)
- F. **Internal Audit Staffing Activity Report**
Richard P. Bendall, Chief Audit Executive
(Verbal Update)
- G. **Ethics Hotline Status Report**
Richard P. Bendall, Chief Audit Executive
(For Information Only) (Memo dated May 19, 2023)

VIII. CONSULTANT COMMENTS

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

IX. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agenda item at a future meeting.)

X. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

XI. GOOD OF THE ORDER

(For Information Purposes Only)

XII. 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.

Any documents subject to public disclosure that relate to an agenda item for an open session of the Committee, that are distributed to members of the Committee 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 Committee, at LACERA's offices at 300 North Lake Avenue, Suite 820, Pasadena, California during normal business hours from 9:00 a.m. to 5:00 p.m. Monday through Friday and will also be posted on lacera.com at the same time, [Board Meetings | LACERA](#).

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 SPECIAL MEETING OF THE AUDIT COMMITTEE
AND BOARD OF RETIREMENT AND BOARD OF INVESTMENTS
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

1:00 P.M., THURSDAY, MARCH 2, 2023

This meeting was conducted by the Audit Committee, Board of Investments, and Board of Retirement both in person and by teleconference under California Government Code Section 54953 e(f).

*Teleconference Location for Trustees and the Public
Estancia La Jolla Hotel & Spa - 9700 N. Torrey Pines Rd, La Jolla, CA 92037*

COMMITTEE TRUSTEES

PRESENT: Onyx Jones, Chair (In-Person)
 Keith Knox, Vice Chair (In-Person)
 Patrick L. Jones, Secretary (In-Person)
 Jason E. Green (In-Person)
 Shawn R. Kehoe (In-Person) (Left the meeting at 3:00 p.m.)
 Gina V. Sanchez (Teleconference)

ABSENT: Antonio Sanchez

STAFF, ADVISORS AND PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer

Luis A. Lugo, Deputy Chief Executive Officer

Jonathan Gabel, Chief Investment Officer

Laura Guglielmo, Assistant Executive Officer

STAFF, ADVISORS, PARTICIPANTS (Continued)

JJ Popowich, Assistant Executive Officer

Steven P. Rice, Chief Counsel

Richard P. Bendall, Chief Audit Executive

Christina Logan, Principal Internal Auditor

Nathan K. Amick, Senior Internal Auditor

George Lunde, Senior Internal Auditor

Kristina Sun, Senior Internal Auditor

Kathryn Ton, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Ted Granger, Interim Chief Financial Officer

Summy Voong, Interim Assistant Information Systems Manager

Crowe LLP

Jen Aras, Engagement Partner

Hamzeh Qattan, Engagement Manager

Clifton Larson Allen LLP

Chris Rogers, Engagement Principal

Brittany Smith, Engagement Manager

Plante Moran

Kristin Hunt, Colleague Partner

Amanda Cronk, Audit Senior Manager

Robert H. Griffin, Audit Committee Consultant

I. CALL TO ORDER

This meeting was called to order by 2022 Secretary, Trustee P. Jones at 1:00 p.m. in the Board Room of Gateway Plaza.

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

A. Chair of the Audit Committee

Trustee Onyx Jones was nominated to the position of Chair of the Audit Committee by Trustee G. Sanchez. Hearing no other nominations, the nominations were closed. Trustee P. Jones declared Ms. O. Jones as Chair of the Audit Committee for 2023.

B. Vice Chair of the Audit Committee

Trustee Knox was nominated to the position of Vice Chair of the Audit Committee by Trustee Kehoe. Hearing no other nominations, the nominations were closed. Trustee P. Jones declared Trustee Knox as Vice Chair of the Audit Committee for 2023.

C. Secretary of the Audit Committee

Trustee P. Jones was nominated to the position of Secretary of the Audit Committee by Trustee G. Sanchez. Hearing no other nominations, the nominations were closed. Trustee P. Jones declared himself as Secretary of the Audit Committee for 2023.

III. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449

- a. Just Cause
- b. Action on Emergency Circumstance Requests
- c. Statement of Persons Present at Teleconference Locations

Mr. Rice provided a brief update to the Committee.

A physical quorum was present at the noticed meeting location. No requests were received for Just Cause or Emergency Circumstances.

IV. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of November 17, 2022

Trustee G. Sanchez made a motion, Trustee Knox seconded, to approve the minutes of the regular meeting of November 17, 2022. The motion passed by the following roll call vote:

Yes: J. Green, P. Jones, Kehoe, Knox, G. Sanchez, O. Jones

Absent: A. Sanchez

V. PUBLIC COMMENT

There were no requests from the public to speak.

VI. CONSENT ITEMS

A. **Approval of the Use of Teleconference Meeting**

If the State of Emergency is in effect on March 2, 2023, 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 other public agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days as part of hybrid meetings also in person, so long as the State of Emergency remains

VI. CONSENT ITEMS (Continued)

in effect, and direct staff to comply with the agenda and public comment requirements of the statute.

(Memo dated February 15, 2023)

This Item was pulled from the agenda.

VII. NON-CONSENT ITEMS

A. **Proposed 2023 Audit Committee Meeting Dates**

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: The Audit Committee review and approve the proposed 2023 Audit Committee meeting dates.

(Memo dated February 1, 2023)

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

Trustee O. Jones made a motion, Trustee Knox seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: J. Green, P. Jones, Kehoe, Knox, G. Sanchez, O. Jones

Absent: A. Sanchez

B. **Selection of LACERA's External Financial Auditor**

Recommendation as submitted by Nathan K. Amick, Senior Internal Auditor: Internal Audit recommends the Audit Committee discuss the merits of the three firms noted below and select a firm to be LACERA's external financial auditor for fiscal years ending (FYE) June 30, 2023 – 2027. (Memo dated February 10, 2023)

Mr. Amick provided a brief presentation. Mr. Rogers, Ms. Smith from Clifton Larson Allen, LLP; Ms. Aras, Mr. Qattan from Crowe, LLP; Ms. Hunt, Ms. Cronk from Plante & Moran, PLLC; and Messrs., Bendall, Griffin, Kreimann, Grabel and Rice were present to answer questions from the Committee.

VII. CONSENT ITEMS (Continued)

Trustee Knox made a motion, Trustee G. Sanchez seconded, to select Plante Moran as LACERA's External Financial Auditor with a three-year contract and a two 1-year renewal options. The motion passed by the following roll call vote:

Yes: J. Green, P. Jones, Kehoe, Knox, G. Sanchez, O. Jones

Absent: A. Sanchez

C. **Request for Proposal for a System and Organization Controls (SOC) Audit** (Trustee Kehoe left the meeting at 3:00 p.m.)

Recommendation as submitted by Christina Logan, Principal Internal Auditor and Kimberly D. Hines, Senior Internal Auditor: Internal Audit recommends that the Audit Committee authorize staff to release a Request for Proposal (RFP) to select a qualified certified public accounting firm to perform a System and Organization Controls 1 Type 2 (SOC) audit of LACERA's Other Post-Employment Benefits (OPEB) program for fiscal years ending June 30, 2024 – 2028, with an option to extend for up to two years. (Memo dated February 2, 2023)

Ms. Logan provided a brief presentation. Mr. Bendall, Mr. Kreimann and Ms. Guglielmo were present to answer questions from the Committee.

Trustee G. Sanchez made a motion, Trustee Knox seconded, to approve staff's recommendation and make the scoring criteria align with the criteria that was applied to the Financial Auditor RFP scoring. The motion passed by the following roll call vote:

Yes: J. Green, Knox, G. Sanchez, O. Jones

No: P. Jones

Absent: A. Sanchez, Kehoe

VII. NON-CONSENT ITEMS (Continued)

- D. **Internal Audit Proposed Fiscal Year 2022 - 2023 Budget Request**
Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: The Audit Committee approve the Proposed Internal Audit Fiscal Year 2023 - 2024 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval. (Memo dated February 13, 2023)

Mr. Bendall, Ms. Guglielmo and Mr. Kreimann were present to answer questions from the Committee.

Trustee Knox made a motion, Trustee J. Green seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: J. Green, P. Jones, Knox, G. Sanchez, O. Jones

Absent: A. Sanchez, Kehoe

- E. **Fiscal Year 2023 Internal Audit Plan Amendments**
Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: The Audit Committee review and approve the Fiscal Year 2023 Amended Internal Audit Plan. (Memo dated January 28, 2023)

Mr. Amick provided a brief presentation. Mr. Bendall was present to answer questions from the Committee.

Trustee G. Sanchez made a motion, Trustee Knox seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: J. Green, P. Jones, Knox, G. Sanchez, O. Jones

Absent: A. Sanchez, Kehoe

- F. **Audit Committee Annual Report to Boards**
Recommendation as submitted by Gina V. Sanchez, Audit Committee Chair and Richard P. Bendall, Chief Audit Executive: The Audit Committee provide suggested revisions and/or approve the issuance

VII. NON-CONSENT ITEMS (Continued)

of the Audit Committee Annual Report to the Boards and direct staff to issue the report to the boards at their respective April 2023 Board meetings. (Memo dated February 8, 2023)

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

Trustee Knox made a motion, Trustee G. Sanchez seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: J. Green, P. Jones, Knox, G. Sanchez, O. Jones

Absent: A. Sanchez, Kehoe

G. **Contract Operations Audit Report**

Recommendation as submitted by Kathryn Ton, Senior Internal Auditor: That the Committee review and discuss the Contract Operations Audit 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 February 1, 2023)

Ms. Ton provided a brief presentation and was present to answer questions from the Committee.

Trustee Knox made a motion, Trustee J. Green seconded, to accept and file this item. The motion passed by the following roll call vote:

Yes: J. Green, P. Jones, Knox, G. Sanchez, O. Jones

Absent: A. Sanchez, Kehoe

VII. NON-CONSENT ITEMS (Continued)

H. **Review of Chief Executive Officer's Credit Card Expenditures**

Recommendation as submitted by Gabriel Tafoya, Senior Internal Auditor: That the Committee review and discuss the Chief Executive Officer Credit Card 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 February 10, 2023)

Mr. Tafoya was present to answer any questions from the Committee.

Trustee Knox made a motion, Trustee J. Green seconded, to accept and file this item. The motion passed by the following roll call vote:

Yes: J. Green, P. Jones, Knox, G. Sanchez, O. Jones

Absent: A. Sanchez, Kehoe

VIII. REPORTS

A. **2023 Audit Committee Orientation**

Christina Logan, Principal Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

(Presentation) (Memo dated February 7, 2023)

Mr. Tafoya and Ms. Logan provided a brief presentation. Mr. Bendall was present to answer questions from the Committee. This item was received and filed.

VIII. REPORTS (Continued)

B. **Management's Compliance Report**

Santos H. Kreimann, Chief Executive Officer
Luis A. Lugo, Deputy Chief Executive Officer
(Memo dated February 15, 2023)

Mr. Lugo, Mr. Bendall, Mr. Kreimann and Mr. Rice were present to answer questions from the Committee. This item was received and filed.

C. **Recommendation Follow-Up Report**

Kristina Sun, Senior Internal Auditor
(Memo dated February 10, 2023)

Ms. Sun provided a brief presentation. Mr. Granger and Mr. Bendall were present to answer questions from the Committee. This item was received and filed.

D. **Recommendation Follow-Up Sensitive Information Technology Areas**

Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Memo dated February 10, 2023)

Mr. Tafoya was present to answer questions from the Committee. This item was received and filed.

E. **Status of Other External Audits not conducted at the Discretion of Internal Audit**

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

Mr. Bendall was present to answer questions from the Committee. This item was received and filed.

F. **Internal Audit Staffing Activity Report**

Richard P. Bendall, Chief Audit Executive
Gabriel Tafoya, Senior Internal Auditor
(Verbal Presentation)

VIII. REPORTS (Continued)

Mr. Bendall was present to answer questions from the Committee.
This item was received and filed.

G. **Ethics Hotline Status Report**

Kathryn Ton, Senior Internal Auditor

(For Information Purposes Only) (Memo dated October 31, 2022)

Mr. Bendall was present to answer questions from the Committee.
This item was received and filed.

IX. ITEMS FOR STAFF REVIEW

Trustee O. Jones requested that actual numbers be reflected in future budget requests. In addition, she requested that audits being revisited be stated in the memo.

X. ITEMS FOR FUTURE AGENDAS

There was nothing to report.

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

The Committee thanked staff for their work.

XII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 4:16 p.m.



May 16, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard Bendall 
Chief Audit Executive

FOR: June 1, 2023 Audit Committee Meeting

SUBJECT: **Fiscal Year Ending June 30, 2024 Audit Plan**

RECOMMENDATION

Approve the proposed Internal Audit Plan for the Fiscal Year Ending (FYE) June 30, 2024.

BACKGROUND / DISCUSSION

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 Internal Audit Plan (*Audit Plan*) for FYE 2024 (Attachment A).

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 proposed Strategic Plan, risk meetings with division managers, and identifying risk areas from prior internal and external audits.

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

Please note, the redline version of the Audit Plan (Attachment B) indicates those audits or projects that were determined to be included on this year's Audit Plan but were removed to better align with our current staffing resources.

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 June 1, 2023 to address any questions.

Attachments

- A. FYE 2024 Internal Audit Plan
- B. FYE 2024 Internal Audit Plan Redline

FYE 2024 INTERNAL AUDIT PLAN				
ENTERPRISE RISK MANAGEMENT (ERM) PLAN				10 Percent
ERM TASKS				BASIS FOR INCLUSION
1	ERM Program Plan			Strategic Plan
AUDIT PLAN				90 Percent
	DIVISION	AUDIT / PROJECT NAME	TYPE	BASIS FOR INCLUSION
EXECUTIVE/LEGAL/ORGANIZATIONAL				
1	Exec Office	Document Retention	Audit	FY 2023 Carryover
2	Exec Office	Organizational Ethics/Culture	Audit	Risk Based
3	Exec Office	LA County Rehired Retiree	Audit	Annual
4	Exec Office	Board Education and Travel	Audit	Risk Based
5	Exec Office	Business Continuity Plan	Audit	Risk Based
6	Organizational	Continuous Audit Processing (CAP)	Audit	Risk Based
7	Organizational	Recommendation Follow-Up	Other Projects	Continuous
8	Organizational	Risk Assessment	Other Projects	Continuous
ADMINISTRATION - Admin Services, HR, Systems				
9	Systems	IT Risk Assessment	Audit	FY 2023 Rollover
10	Admin/Systems	Inventory Asset Management	Audit	FY 2023 Carryover
11	Admin Services	Procurement of Goods	Audit	Risk Based
12	HR	LACERA Rehired Retiree	Audit	Annual
13	Systems	Oversight of SOC Audits FYE 23 & 24	Oversight	Annual
14	HR / Systems	Follow-up Assessment of Recruitment and Hiring	Audit	Risk Based
INVESTMENTS & FASD				
15	FASD	Wire Transfers (BofA)	Audit	FY 2023 Rollover
16	FASD	CEO Credit Card	Audit	Annual
17	FASD	Oversight of Financial Audit FYE 23 & 24	Oversight	Annual
18	Investments	RFP - Actuarial Services	Advisory	Cyclical
19	Investments	Oversight of Actuarial Audit FYE 23 & 24	Oversight	Annual
20	Investments	Oversight THC Financial Audits - FYE 23 & 24	Oversight	Annual
OPERATIONS - Benefits, DRS, RHC, Member Services				
21	Benefits	Death Claims Process	Audit	FY 2023 Rollover
22	Benefits	Account Settlement Collections (Overpayments)	Audit	Risk Based
23	Benefits	LA County Payroll	Audit	Risk Based
INTERNAL AUDIT OPERATIONS				
24	Internal Audit	RFP - Audit Committee Consultant	Other Projects	Continuous
25	Internal Audit	Professional Development / CPE	Other Projects	Continuous
26	Internal Audit	Quality Assurance Improvement Program	Other Projects	Continuous
27	Internal Audit	Audit Committee Support	Other Projects	Continuous

FYE 2024 INTERNAL AUDIT PLAN			
ENTERPRISE RISK MANAGEMENT (ERM) PLAN			10 Percent
1	ERM Charter	ERM Program Plan	Program
2	Internal Control Training		Training
AUDIT PLAN			90 Percent
	DIVISION	AUDIT / PROJECT NAME	PROJECT TYPE
EXECUTIVE/LEGAL/ORGANIZATIONAL			
1	Exec Office	Document Retention	Audit
2	Exec Office	Organizational Ethics/Culture	Audit
3	Exec Office	LA County Rehired Retiree	Audit
4	Exec Office	Board Education and Travel	Audit
5	Exec Office	Business Continuity Plan	Audit
6	Organizational	Continuous Audit Processing (CAP)	Audit
7	Exec Office	Org Cash / Check Mgmt Review	Audit
8	Organizational	Reco Follow-Up	Other Projects
9	Internal Audit	Risk Assessment	Other Projects
ADMINISTRATION - Admin Services, HR, Systems			
10	Systems	IT Risk Assessment	Audit
11	Admin/Systems	Inventory Asset Management	Audit
12	Admin Services	Procurement of Goods	Audit
13	HR	LACERA Rehired Retiree	Audit
14	Systems	Oversight of SOC Audits FYE 23 & 24	Oversight
15	HR / Systems	Termination Access	Audit
16	HR / Systems	Follow-up Assessment of Recruitment and Hiring	Audit
INVESTMENTS & FASD			
17	FASD	Wire Transfers (BoFA)	Audit
18	FASD	CEO Credit Card	Audit
19	FASD	Oversight of Financial Audit FYE 23 & 24	Oversight
20	FASD	Census Data	Audit
21	Investments	RFP - Actuarial Services	Oversight
22	Investments	Oversight of Actuarial Audit FYE 23 & 24	Oversight
23	Investments	Oversight THC Financial Audits - FYE 23 & 24	Oversight
OPERATIONS - Benefits, DRS, RHC, Member Services			
24	Benefits	Death Claims Process	Audit
25	Benefits	Felony Forfeiture	Audit
26	Benefits	Account Integrity Unit	Audit
27	Benefits	Acct Settlement Collections (Overpayments)	Audit
28	Mbr Services	Member Communications (Risk & Controls Rvw)	Audit
29	Benefits	LAC Payroll Audit	Audit
INTERNAL AUDIT OPERATIONS			
30	Internal Audit	RFP - Audit Committee Consultant	Other Projects
31	Internal Audit	Professional Development / CPE	Other Projects
32	Internal Audit	Quality Assurance Improvement Program	Other Projects
33	Internal Audit	AC Support	Other Projects



May 10, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Christina Logan 
Principal Internal Auditor
Kimberly D. Hines 
Senior Internal Auditor

FOR: June 1, 2023 Audit Committee Meeting

SUBJECT: **Review and Selection of the System and Organization Controls (SOC)
Auditor – Other Post-Employment Benefits Program**

RECOMMENDATION

Internal Audit recommends that the Audit Committee approve the engagement of Moss Adams LLP to perform a System and Organization Controls (SOC) 1 Type 2 audit of LACERA's Other Post-Employment Benefits (OPEB) program for Fiscal Years Ending (FYE) June 30, 2024 – 2028 with an option to extend the contract for up to two one-year terms.

DISCUSSION

LACERA administers the Los Angeles County (County) medical and dental retiree health benefits program. In April 1982, the County adopted an ordinance pursuant to the County Employees Retirement Law of 1937 (CERL) that provided for a retiree healthcare benefits program which is also referred to as the OPEB Program offering a variety of medical and dental/ vision healthcare plans for retired members and their eligible dependents. In that same year, the County and LACERA entered into an agreement whereby LACERA would administer the OPEB Program subject to the terms and conditions of the Agreement.

In October 2017, the County requested that LACERA's OPEB Plan change its structure from a cost sharing multiple employer plan to an agent multiple employer plan beginning in Fiscal Year 2018-2019. This change allows participating employers to continue to pool their assets for investment purposes in LACERA's OPEB Trust, but LACERA will now maintain separate accounting records for each employer's pay-as-you-go costs. This change allows LACERA to identify financial activities attributable to the employers' distinct retired population.

As a result of the OPEB plan restructure, and in accordance with the American Institute of Certified Public Accountants (AICPA), LACERA has a SOC audit performed annually to demonstrate to the plan sponsors and their auditors that LACERA has effective controls in place over the OPEB program.

LACERA's current contract with Plante Moran for SOC audit services will expire with the conclusion of the SOC audit for FYE 2023. At the March 2023 Audit Committee, the Committee authorized the release of a Request for Proposal (RFP) for certified public accounting firms to submit bids to provide SOC audit services.

In March 2023, we released an RFP and actively began to solicit bids for the SOC Auditor.

In April 2023, we received eight (8) bids from:

CliftonLarsonAllen (CLA), LLP	Lazarus Alliance Inc
Davis Farr LLP	Moss Adams LLP
Eide Bailly LLP	Plante & Moran, PLLC
EisnerAmper LLP	RSM US LLP

Internal Audit reviewed the bids and confirmed that the eight (8) firms met the required minimum requirements.

We assembled an evaluation team consisting of LACERA staff from Internal Audit, Retiree Healthcare, and the Systems Division to independently review and score each bid based on the criteria listed in the following chart:

Scoring Criteria	%
Firm Background	30
Team Experience	30
Audit Methodology	30
Proposed Fees	10
TOTAL	100

We pared down the eight (8) initial firms to two (2) candidates through the process of initial proposal screening, proposal evaluation and scoring by the Evaluation Team. The top two (2) scoring firms were Moss Adams (8.91) and Plante Moran (8.80).

Both firms provided excellent responses and are qualified to perform the audit. Based on the Evaluation Team's discussions of the two firms' team experience and audit approach, staff recommend selecting Moss Adams. Switching firms provides LACERA with a new perspective which could aid in strengthening and improving controls for LACERA's OPEB program.

May 10, 2023

Page 3 of 3

Additional due diligence for Moss Adams included reaching out to client references to solicit work performance feedback, vetting their IT posture by having LACERA's Information Security Office (ISO) perform a high-level review of their SOC report, and vetting their edits to LACERA's contract terms with the Legal Office. We received positive feedback from their client references, and both the ISO and Legal Office did not report any concerns with moving forward with Moss Adams. Additionally, the Evaluation Team interviewed Moss Adams to learn more about their strengths, discuss our concerns, and understand their audit approach.

We have prepared a brief presentation, providing an overview of our evaluation process and highlighting Moss Adams, the firm we are recommending to the Committee for approval to perform the SOC audit.

CONCLUSION

Internal Audit recommends that the Audit Committee approve the engagement of Moss Adams LLP to perform a System and Organization Controls (SOC) 1 Type 2 audit of the Other Post-Employment Benefits (OPEB) program for fiscal years ending June 30, 2024 – 2028 with an option to extend the contract for up to two one-year terms.

Attachment

Noted and Reviewed



Richard P. Bendall
Chief Audit Executive

CL:kdh



**Review and Selection of the
System and Organization Controls (SOC)
Auditor -
Other Post-Employment Benefits Program**

Presented by:

Christina Logan, Principal Internal Auditor
Kimberly D. Hines, Senior Internal Auditor

Recommendation

Internal Audit recommends that the Audit Committee approve the engagement of Moss Adams LLP to perform a System and Organization Controls (SOC) 1 Type 2 audit of LACERA's Other Post-Employment Benefits (OPEB) program for Fiscal Years Ending (FYE) June 30, 2024 – 2028 with an option to extend the contract for up to two one-year terms.



Background

In October 2017, Los Angeles County requested LACERA to change its OPEB plan structure from a cost sharing multiple employer plan to an agent multiple employer plan. The County requested this new reporting structure to separate itself from the other employers to better manage its own retiree healthcare costs.

As a result of the OPEB plan restructure, LACERA is required to provide the employers and their auditors with sufficient audit evidence that LACERA has effective controls over its OPEB program, which we do through the SOC audit.

At the March 2, 2023, Audit Committee meeting, the Committee approved the release of the Request for Proposal (RFP) for hiring a SOC Auditor.



Evaluation Team



Richard Bendall
Chief Audit Executive
Internal Audit



Cassandra Smith
Director Retiree Healthcare
Retiree Healthcare



Christina Logan
Principal Internal Auditor
Internal Audit

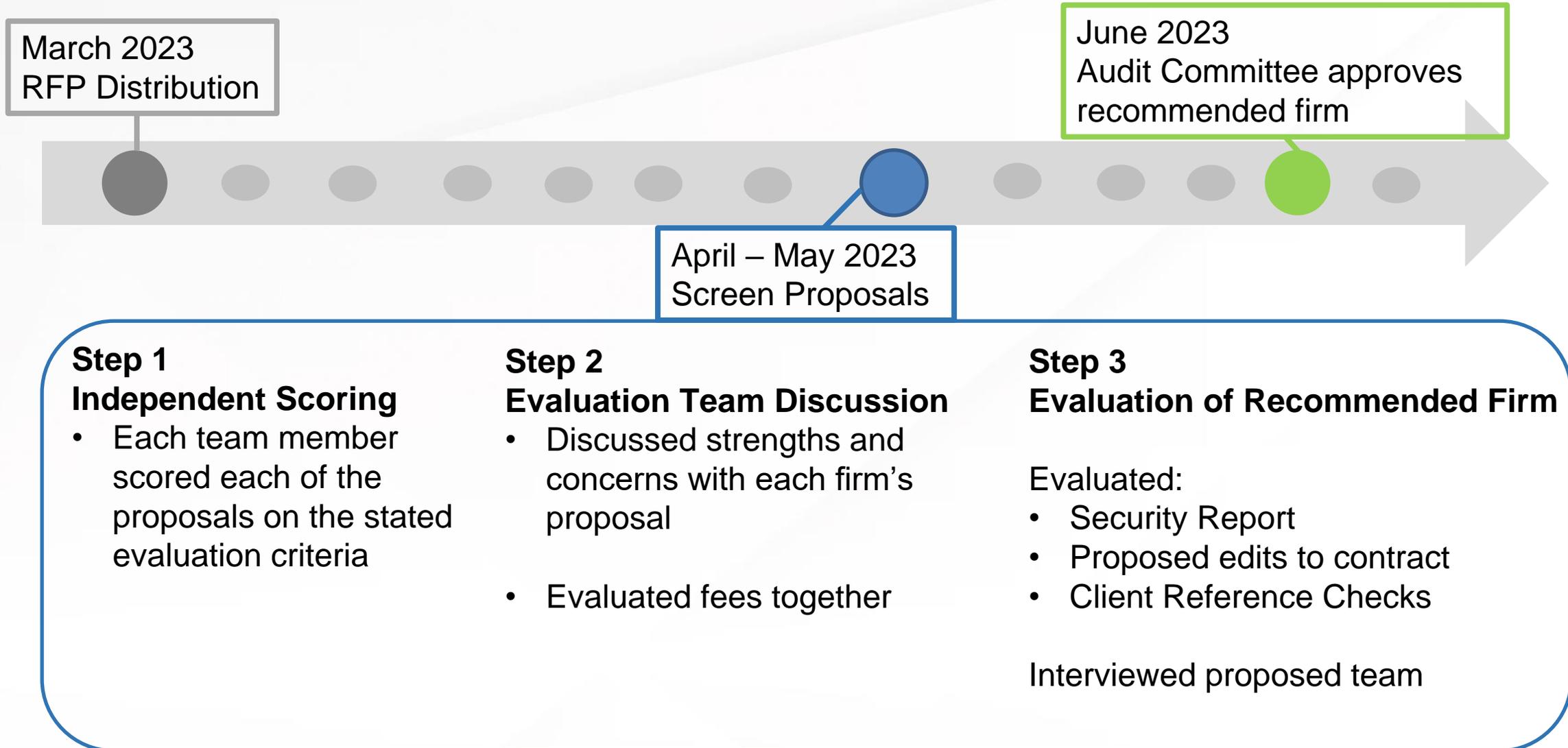


Summy Voong
Interim Assistant Manager
Systems Division



Kimberly Hines
Senior Internal Auditor
Internal Audit

Overview of Process for Selecting Firm



RFP Distribution Strategy and Results

To attract as many qualified firms as possible, we sent the RFP to:

1. Top 20 Nationwide CPA Firms with SOC Audit Experience
2. Institute of Internal Auditors Diversity Partners

We received bids from the eight firms listed below:

- CliftonLarsonAllen (CLA), LLP
- Davis Farr LLP
- Eide Bailly LLP
- EisnerAmper LLP
- Lazarus Alliance Inc
- Moss Adams LLP
- Plante & Moran, PLLC
- RSM US LLP



Evaluation Criteria

30%

Firm Qualifications and Experience

- Firm history and structure
- Firm qualifications
- Firm experience
- Required reporting
- Diversity Equity and Inclusion
- Conflicts and legal matters

30%

Methodology

- Audit plan and methodology
- Timetable resource allocation

30%

Staff Qualifications and Experience

- Professional and academic qualifications
- Professional experience
- Professional experience relevant to this engagement

10%

Fees

- Fees and hours proposed to complete engagement
- Average hourly rate

Firm Ratings – after Team Discussion

Below were the two highest scoring firms based on an independent review of the proposals and subsequent Evaluation Team discussion.

Scoring Criteria	%	Weighted Points	Points Moss Adams	Points Plante Moran
Firm Background	30	3	2.75	2.72
Team Experience	30	3	2.64	2.66
Audit Methodology	30	3	2.67	2.67
Proposed Fees	10	1	0.85	0.75
TOTAL	100	10	8.91	8.80

Proposed Fee Schedule

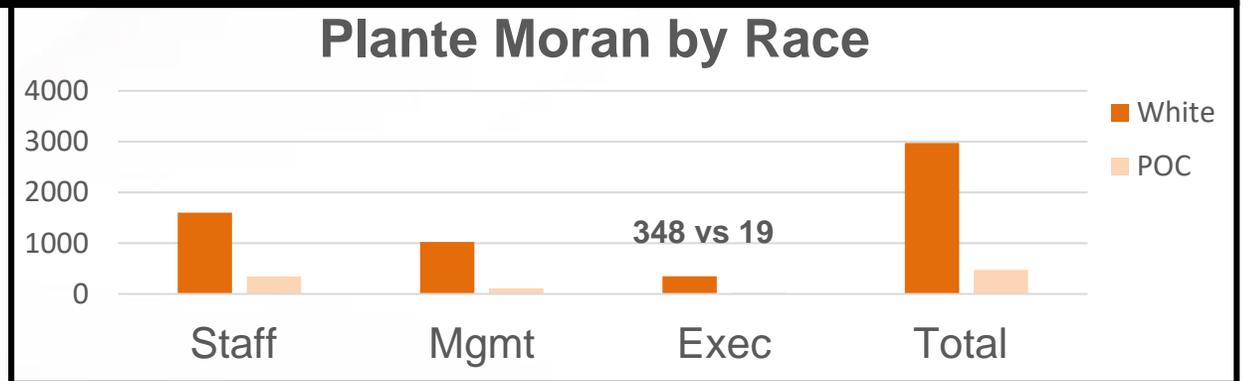
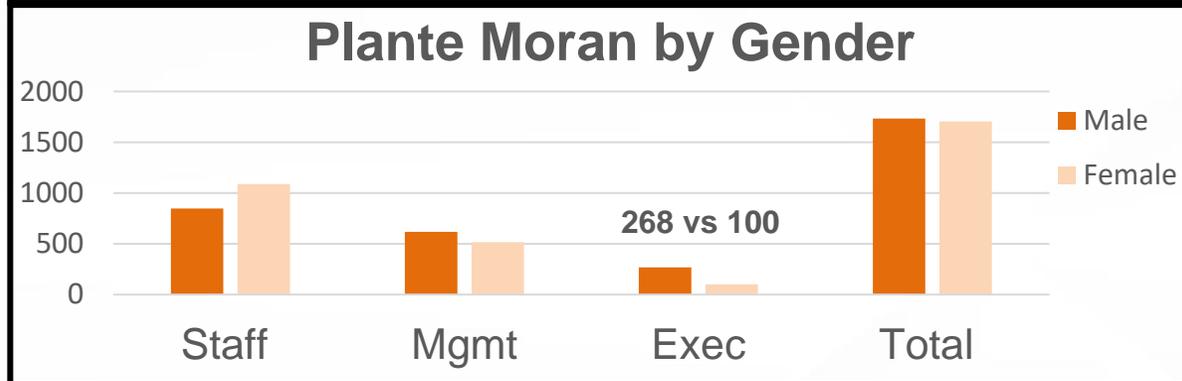
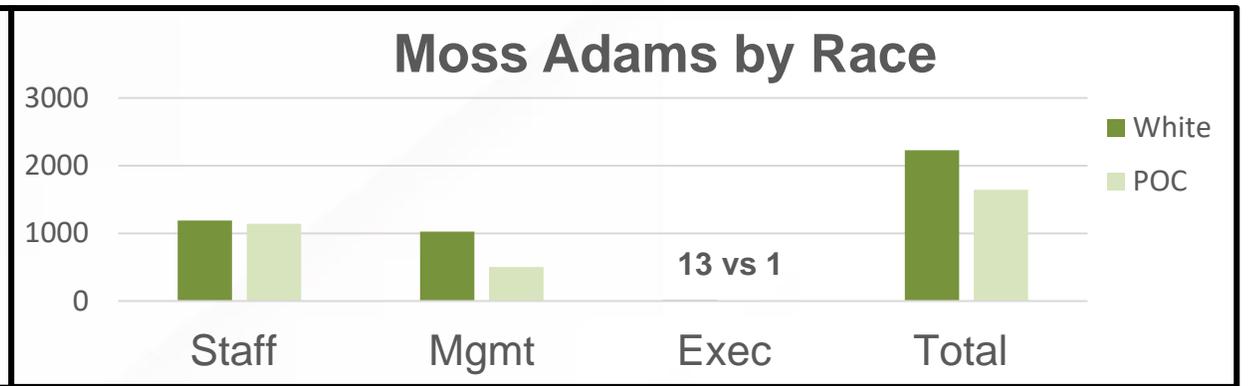
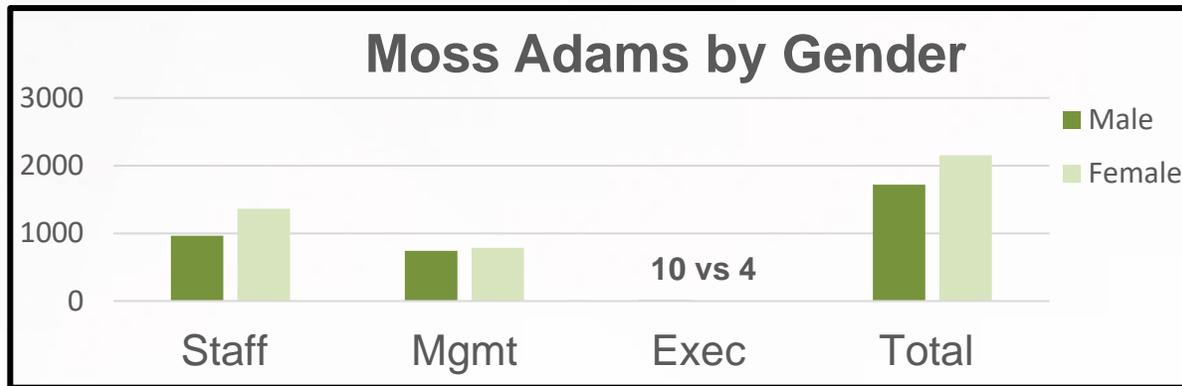
	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	Total
Moss Adams *						
SOC Fee	\$78,985	\$78,985	\$82,900	\$82,900	\$87,100	\$410,870
Travel (Max)	\$3,950	\$3,950	\$4,145	\$4,145	\$4,355	\$20,545
Other (Max)	\$3,950	\$3,950	\$4,145	\$4,145	\$4,355	\$20,545
TOTAL	\$86,885	\$86,885	\$91,190	\$91,190	\$95,810	\$451,960
Plante Moran **						
SOC Fee	\$93,000	\$94,000	\$95,000	\$96,000	\$97,000	\$475,000
Travel (Max)	\$9,300	\$9,400	\$9,500	\$9,600	\$9,700	\$47,500
Other (Max)	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$102,300	\$103,400	\$104,500	\$105,600	\$106,700	\$522,500

* Moss Adams has capped its Travel Fee at 5% of the engagement fee and will charge an Other Fee (copying, postage, technology expenses) at 5% of the engagement fee.

** Plante Moran has capped its Travel Fee at 10% of the engagement fee. It estimates travel to be approximately \$5,000.

Firm Diversity, Equity, and Inclusion (DEI)

DEI Items	Moss Adams	Plante Moran
Equal employment opportunity and non-discrimination policies	Yes	Yes
Anti-harassment policy and procedures	Yes	Yes
Board oversight of DEI	Yes	Yes



Side by Side Comparison

	Extensive Firm Experience Providing SOC Services	Extensive Staff Experience Providing SOC Services	Detailed Audit Approach / Methodology	Competitive Fees	Verified Credentials
Moss Adams	X	X	X	X	X
Plante Moran	X	X	X	X	X

Although both firms possess the skill and experience to perform this audit, the Evaluation Team recommends selecting Moss Adams.

Switching firms to Moss Adams will provide LACERA with a new perspective which could aid in strengthening and improving the controls for LACERA's OPEB program's financial controls.

Analysis of Moss Adams

Strengths:

Has provided accounting services for 110 years.

Has a branch office in Pasadena, CA.

Has extensive experience providing financial audit services to peer public retirement systems.

Has had an IT Practice since 2001.

Has provided SOC services since 2003 with over 100 professionals dedicated to SOC engagements.

Proposed Team has extensive SOC experience.

Provided detailed audit approach / methodology which include a strong transition plan.

Concerns:

Limited experience providing SOC services to a public retirement systems.

Discussed with Moss Adams and Evaluation Team – extensive experience providing SOC services to governmental agencies. Controls should be similar.

Transitioning to a new SOC provider.

Discussed in proposal and with Moss Adams Team – can have an interim test period to ensure no surprise issues come up.

Moss Adams' SOC Team

Kimberly A. Koch, CPA, *Partner*



Kimberly has practiced public accounting since 2001 and has over 15 years of experience in conducting SOC audits, compliance audits, attestation examinations, and internal control assessments. She serves clients in a variety of industries including technology companies, publicly traded entities, private businesses, third party administrators, and government agencies.

Priya V. Kumar, CISA, *Senior Manager*



Priya is a senior manager in the Risk Advisory & Compliance group for Moss Adams, focusing on System and Organization Control (SOC) readiness assessments and SOC 1 and SOC 2 engagements, in addition to evaluating and testing the design and operating effectiveness of IT general controls.

Bosco Yuen, CPA, CISA, CIA, PMP, CCSA, CSX, CISSP, *Managing Director*



Bosco serves as the firm's SOC Practice Leader in California and has over 15 years of experience (including 12 years with a Big Four firm). He specializes in SOC-specific services for clients in the technology, financial services, health care, and government space, including for publicly traded companies, private businesses, and third-party administrators.

Tiffany Ng, PMP, *Manager*



Tiffany is a manager in the SOC and IT Assurance group at Moss Adams. She has worked in accounting since 2012 and focuses on SOC engagements.

QUESTIONS

Thank You



May 12, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez
Jason E. Green

Audit Committee Consultant
Robert H. Griffin

FROM: George Lunde 
Senior Internal Auditor

FOR: June 1, 2023 Audit Committee Meeting

SUBJECT: **Los Angeles County's Compliance with Requirements for Rehired Retirees -
Fiscal Year Ended June 30, 2022**

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

Los Angeles County's Compliance with Requirements for Rehired Retirees - Fiscal Year Ending June 30, 2022 (Report Issued: April 28, 2023)

Attachments

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

GL



LACERA INTERNAL AUDIT DIVISION

**Los Angeles County's Compliance with
Requirements for Rehired Retirees –
Fiscal Year Ended June 30, 2022**

April 28, 2023

AUDIT PERFORMED BY:

George Lunde, CIA, CISA
Senior Internal Auditor

AUDIT REPORT

Audit Name:	Los Angeles County's Compliance with Requirements for Rehired Retirees - FYE June 30, 2022
Responsible Division:	Executive Office
Audit Rating*:	Unsatisfactory
Prior Audit Rating*:	Unsatisfactory
Prior Report Date:	November 2022

BACKGROUND

As part of our Audit Plan, we conducted an audit of Los Angeles County's (County) compliance with requirements for hiring County retirees for fiscal year ended June 30, 2022. We perform this audit annually as failure to adhere to the regulations and requirements not only violates the state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law.

The State of California's County Employees Retirement Law of 1937 (CERL) and Public Employees' Pension Reform Act of 2013 (PEPRA) provides that the County has the option to employ retirees as "Rehired Retirees" subject to certain requirements. Under Government Code Section 31680.3 of CERL and Section 7522.56, Rehired Retirees may work up to 960 hours per fiscal year, on a temporary basis, without affecting their retirement status or benefits.

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

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

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

PEPRA added additional restrictions for Rehired Retirees regarding break in service. PEPRA requires 180 continuous days separation from the date of retirement before a retiree may be rehired. PEPRA does allow the following two limited exceptions to the 180-day requirement:

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

* See Appendix 1 for Audit Rating

Those who are eligible for the PEPRA 180-day break-in-service exceptions still must comply with the IRS's "bona fide" break-in-service of 90 days if under normal retirement age. In the event of a conflict between the CERL and PEPRA provisions, PEPRA's requirements take precedence over CERL.

PEPRA section 7522.56 (c) provides that appointing employers may only rehire retirees either during an emergency to prevent stoppage of public business or because the rehired person has skills needed to perform work of "limited duration."

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

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

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

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

The COVID-19 waivers as described above were terminated under the Governor's Executive Order N-08-21 dated June 11, 2021 and then later reinstated under Executive Order N-12-21 dated August 16, 2021, under which the waivers were in place through March 31, 2022.

AUDIT OBJECTIVE & SCOPE

For Fiscal Year Ended June 30, 2022, LACERA Internal Audit received payroll detail from the County Auditor-Controller identifying 381 retirees who worked as Rehired Retirees during that Fiscal Year.

We tested all 381 (100%) for compliance with:

- CERL's 960-hour requirement, hours worked did not exceed 960 hours for the Fiscal Year except where the Rehired Retiree's time was coded as COVID-19 related work as permitted under the Executive Orders with respect to such work performed during the Fiscal Year through March 31, 2022,

- IRS' "bona fide" break-in-service requirement, defined as 90 days by LACERA's Board of Retirement, except where the Rehired Retiree's assignment was coded as COVID-19 related work and the Rehired Retiree was hired during the Fiscal Year through March 31, 2022, and
- PEPRA's 180-day break in service requirement, except where the Rehired Retiree's assignment was coded as COVID-19 related work and the Rehired Retirees was hired during the Fiscal Year through March 31, 2022.

Additionally, to test the PEPRA requirement of "limited duration," we stratified all 381 retirees, based on continuous years worked. We used the data that we have accumulated over the last 10 years, to perform this compliance test. In performing this work, we considered that certain work was performed during the period of the COVID waivers.

AUDIT RATING & SUMMARY OF FINDINGS

Since we completed our audit of Fiscal Year Ended June 30, 2021, after the end of the Fiscal Year of this audit (FYE June 30, 2022), we expected that the results of this audit would be similar to the prior year and that proved true. We are hopeful that management's attention to the recommendations made for the FYE June 30, 2021 audit will affect improvement in our audit results beginning with the next audit for FYE June 30, 2023.

For this audit of FYE June 30, 2022, the audit rating remains **Unsatisfactory**, and the Findings are the same as the prior year. As a result, while we are not issuing new recommendations, the findings this year support us reiterating the recommendations issued for the prior year audit, and we requested Management update responses.

Summary of Findings

Finding#	Page	Description of Finding	Risk Rating**
F1	5	Continued year-over-year increase in the number of Rehired Retirees violating 960-hour limit with respect to non-COVID-related work	High
F2	8	Continued Violation of PEPRA's "limited duration" language	High

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

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

REVIEWED AND APPROVED


 Richard P. Bendall
 Chief Audit Executive

Date: April 28, 2023

** See Appendix 2 for Finding's Risk Rating

REPORT DISTRIBUTION

2023 Audit Committee	Santos H. Kreimann, CEO
Steven P. Rice, Chief Legal Counsel	Luis A. Lugo, DCEO
Robert Griffin, Audit Committee Consultant	JJ Popowich, AEO
Internal Audit Group	Laura Guglielmo, AEO

FINDING #1

Continued year-over-year increase in the number of Rehired Retirees violating 960-hour limit with respect to non-COVID-related work	Risk Level ** High
--	------------------------------

OBSERVATION

As indicated in the table below, our testing noted an increase in the number of Rehired Retirees who exceeded the 960-hour limit for non-COVID-related work relative to prior years. Internal Audit reported all 17 exceptions noted to the Benefits and Employee Relations Division (BCOMP) of the County's CEO office.

Fiscal Year Ended June 30	Rehired Retirees	Noncompliant Rehired Retirees	Noncompliance as a Percentage	Total Overage Hours	Average Hours Over
2022	381	17	4.46%	964	57
2021	408	10	2.4%	1778	177
2020	500	1	<1.0%	414	414
2019	482	5	1.0%	47	9.4
2018	476	6	1.3%	145	24

According to BCOMP, County departments for three of the 17 staff with overage violations indicated they were on COVID related assignments, an indication their timecards were not coded properly. The remaining 14 violations were not explained. Overall selected departments were not effectively using the available, "**120-Day Retirees For FY 2022**" report to monitor Rehired Retiree employees as they approach the 960-hour policy limit. Following is the list of departments with the associated number of employees that exceeded the 960-hour limit.

Department Name	Count	Hours
Agricultural Comm/Weights	1	10
Alternate Public Defender	1	173
Assessor	1	92
Chief Executive Office	5	345
District Attorney	2	11
Fire Department	1	16
Human Resources	1	54
LAC USC Medical Center	1	11
Public Defender	2	106
Public Health Program	1	146
Superior Court Judges	1	2
Total Violations FYE 2022	17	
Total Hours Over		964

** See Appendix 2 for Finding's Risk Rating

RISK

Failure to adhere to the 960-hour limit is a violation of CERL Section 31680.3, LA County PPG 505, the IRS and PEPRA for non-COVID-related work. Non-compliance with CERL, IRS regulations and/or PEPRA could risk LACERA's qualified plan status. Non-compliance also place the affected employees at risk in terms of potential impact on their pension and/or potential responsibility to repay overpaid amounts.

RECOMMENDATION

We continue with our recommendations from our previous audit report of November 4, 2022.

1. LACERA's CEO should formally request the County CEO in conjunction with the County Director of Human Resources and Auditor-Controller to prepare a corrective action plan that consolidates and actively monitors the Rehired Retiree (960-hour limit) reporting requirements for all County departments as to non-COVID-related work and properly identifies and tracks COVID-related work.
2. We recommend LACERA's Executive Office, Systems, and Benefits work with the County's CEO Office and Auditor-Controller to establish an automated feed of Rehired Retirees' hours as part of payroll data.
3. We recommend LACERA's Executive Office, Legal Office, and Benefits develop a policy and procedure to address both preventing overages and taking the required action on the retirement payroll of retirees that violate the 960-hour limit for non-COVID-related work.

MANAGEMENT'S RESPONSE

March 2023 Update

LACERA has partnered with the Auditor Controller office to have the 120-day report automatically populate into retiree Workspace accounts. We will be programming Workspace to flag retirees that have been rehired under the 120-day program, send notification letters to inform these members of the limits of their employment, and provide warning letters to the member and department when nearing the 960-hour limit. This is scheduled to be in place on July 1, 2023.

For the current fiscal year, the Benefits division has been reaching out to members that are approaching the 960-hour limit via phone calls or emails. We have also partnered with the County's CEO office to provide the departments training on how to onboard a Rehired Retiree. This will include the consequences for violating the 960-hour limit.

Processes are currently being developed to address members that violate the 960-hour limit. These processes will include a suspension of benefits to prevent members from double dipping. Our focus will remain to educate members and their departments to avoid a suspension of benefits.

(November 4, 2022, Response)

LACERA management supports the outlined recommendation(s) in working with the County's CEO office, Auditor Controller, and County Human Resource department to determine if we're able to obtain (preferable in an automated fashion) Rehired Retirees' hours to ensure compliance against the 960-hour limit for non-COVID-related work and properly identifies and tracks COVID-related work.

In terms of actionable steps, management will set-up a meeting with County CEO, Auditor Controller, and Human Resources to explore data feed options. The County is currently in the process of a "black-out" year-end system maintenance and will not take on new data projects until mid-January 2023, as described by the Auditor Controller Division Chief. We're not able to provide an exact timeframe for when this recommendation will be implemented, since it's predicated on the County's bandwidth and willingness to provide data. We commit to engaging the County in January 2023 and providing an update by March 30, 2023.

After conferring with the County and assessing the extent of their ability to track employee time, LACERA will develop and implement a policy and set of procedures to include the normal process as well the consequences and remediation needed to ensure compliance with CERL, PEPRA and the IRS requirements.

TARGET COMPLETION DATE

July 1, 2023

FINDING #2

Continued Violation of PEPRA's "limited duration" language	Risk Level ** High
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OBSERVATION

Using data from the Auditor-Controller (AC), we stratified the Rehired Retiree population based on continuous years worked. The following table breaks out the 381 Rehired Retirees, who worked during FYE June 30, 2022, by the number of consecutive years worked and identifies the average hours worked by each Rehired Retiree.

Consecutive Years RRs Worked Through FYE 2022	RR Count	Averaged Hours (per) RR (per) Year
1	84	480
2	32	670
3	50	660
4	38	689
5	29	653
6	24	659
7	31	687
8	27	731
9	16	512
10+	50	737

** See Appendix 2 for Finding's Risk Rating

The following table breaks down the 381 Rehired Retirees, who worked during FYE June 30, 2022, by department.

Department Name / RR Count	Consecutive Years										Total
	1	2	3	4	5	6	7	8	9	10+	
Alternate Public Defender	4										4
Chief Executive Office		12	4		1		1			2	20
Assessor	6			2	1			1		3	13
Auditor-Controller	1	1	1								3
Agricultural Comm/Weights			1								1
Beaches and Harbor								1			1
Board of Supervisors	1	3					1	1		2	8
Consumer Affairs										1	1
County Counsel		2									2
Children and Family Services	19		15	11	11	2	2	6	4	20	90
Community Services	1		1	1							3
District Attorney	14		3	3		1	1	1	4		27
Fire Department					1		1			2	4
LAC USC Medical Center		1									1
Human Resources	1	3	1			2	2	1		1	11
Ambulatory Care Network	1										1
Health Services Administration			1					1			2
Internal Services				1	1				2		4
Chief Medical Examiner Coroner							1		1		2
Mental Health	1										1
LACERA	1	2	1							1	5
Probation		1		1	1	1					4
Public Defender	15	1		2	1						19
Public Health Program	1	2	6		4	2	3	1			19
Parks and Recreation	1		1	1							3
Public Works	1						1				2
Registrar-Recorder	1										1
Superior Court	8	2	2		1	1		3		1	18
Sheriff	7	2	13	16	7	15	18	11	5	17	111
Grand Total	84	32	50	38	29	24	31	27	16	50	381

Of the 381 current Rehired Retirees, 50 (13%) have worked consecutively as Rehired Retirees for ten or more years, averaging 737 hours each, per year, over the past five years.

This situation violates PEPR section 7522.56 (c) where it states, "A person who retires from a public employer may serve without reinstatement from retirement or loss or interruption of benefits provided by the retirement system upon appointment by the appointing power of a public employer either during an emergency to prevent stoppage of public business or because the retired person has skills needed to perform work of **limited duration.**" LACERA, as benefit trust

fund administrator, could proceed with recovery of trust funds for benefits paid during the period of excessive, unlawful work duration.

RISK

The above chart highlights a situation which could potentially lead to headline risk regarding the lack of compliance with the PEPRA laws around the use of Rehired Retirees and gives the appearance of allowing “double dipping.” It also highlights a continued reliance on the Rehired Retiree to avert an implied risk of business disruption in their absence.

RECOMMENDATION

We continue with our recommendation from our previous audit report of November 4, 2022.

4. We recommend LACERA's Executive Office and Legal Office work with the Board of Retirement to determine a more defined “bright-line” definition, tracking, and annual review of limited duration to ensure compliance with PEPRA and provide for recovery of benefits paid during periods worked in violation of PEPRA law.

MANAGEMENT'S RESPONSE

March 2023 Update

We have been in contact with CalPERS and are monitoring their efforts to regulate limited duration employment for Rehired Retirees. CalPERS is developing updated regulations that they expect to submit to their Board for approval. LACERA is monitoring their process and may develop similar regulations that will generally limit re-employment to a two-year period.

LACERA's Legal Office was provided the proposed regulations and are monitoring CalPERS' progress. The Legal and the Executive Office will make a determination if LACERA will develop similar regulations by June 2023 or propose a different alternative.

(November 4, 2022, Response)

The current LACERA policy allows for a broad definition of limited duration for non-COVID-related work. We believe that most CERL systems have not yet “defined” limited duration in terms of a specified timeline regarding Rehired Retirees, instead they focus on ensuring Retirees are meeting the annual 960-hour compliance.

For an employer as large as the County of Los Angeles, it's difficult to determine a one size fits all definition for “limited duration” due to the workforce complexities of the various departments (Sheriffs, Dept. of Health, Dept. Human Services, etc.). Instead, our revised recommendation is to provide the County CEO's office with education around PEPRA's intent behind limited duration for Rehired Retirees.

TARGET COMPLETION DATE

June 30, 2023.

APPENDIX 1 AUDIT RATING SCALE

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

Satisfactory

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

Opportunities for Improvement

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

Unsatisfactory

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

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

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

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



**Los Angeles County's Compliance with
Requirements for Rehired Retirees – Fiscal Year
Ended June 30, 2022**

Audit Report Date: April 28, 2023

Prepared By: George Lunde, Senior Auditor

Summary of Engagement



Responsible Division:	Executive Office
Type of Engagement:	Assurance
Audit Rating:	Unsatisfactory
Prior Audit Rating:	Unsatisfactory

Type of Engagements

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

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

Advisory: Provide Management with informal advice.

Background, Scope, Objective



Background: We perform this audit annually as failure to adhere to the regulations and requirements not only violates state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law



Scope: Internal Audit received payroll detail from the County Auditor-Controller identifying 381 retirees who worked as Rehired Retirees during the 2022 Fiscal Year

Objective:

Determine compliance with:

- CERL’s 960-hour work limit requirement
- IRS’ “bona fide” break-in-service requirement
- PEPRA’s 180-day break in service requirement
- PEPRA requirement of “limited duration

Summary of Findings



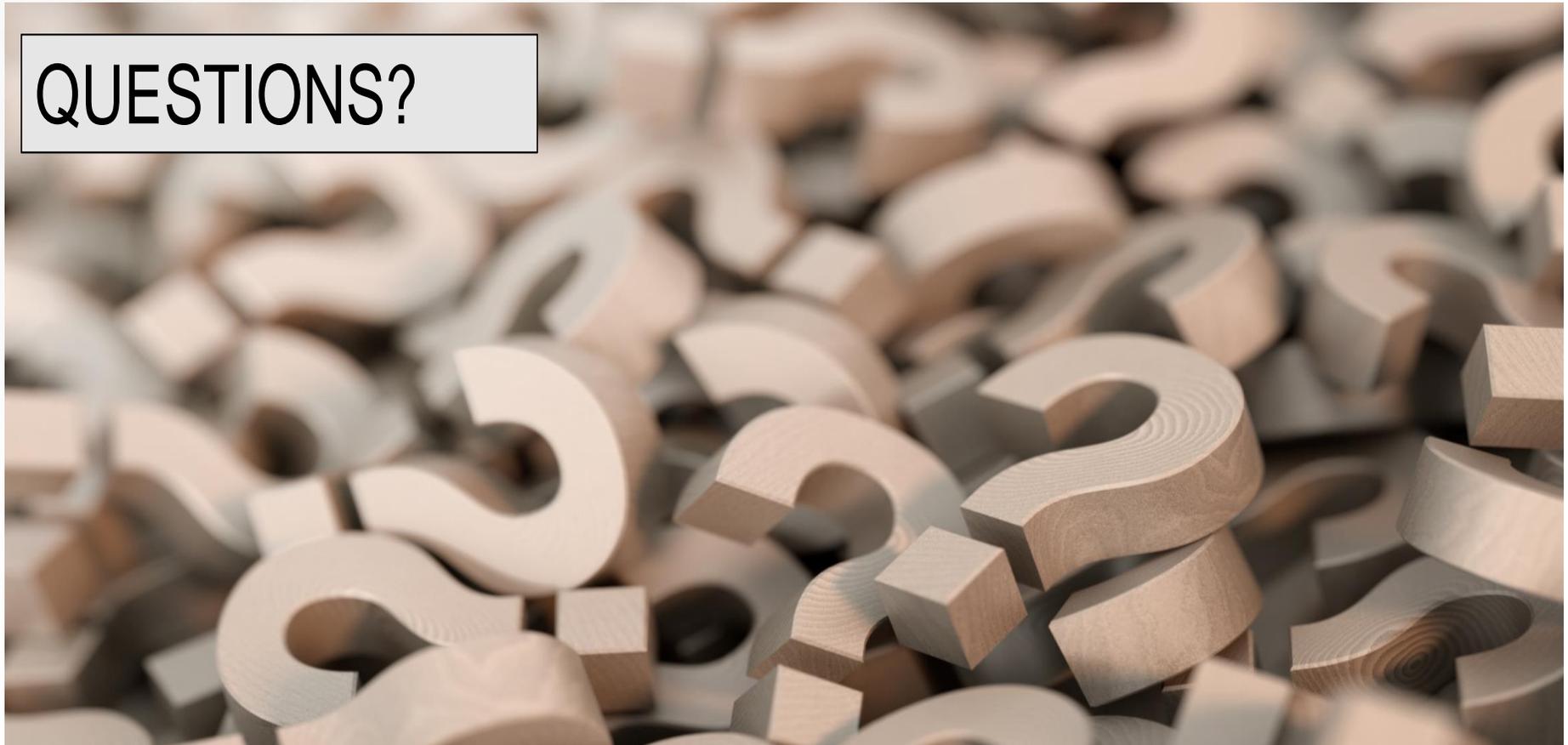
Finding #	Title of Finding	Rating	Management Response
1	Continued year-over-year increase in the number of Rehired Retirees violating 960-hour limit with respect to non-COVID-related work	High	Agree. Partnering with Auditor Controller for data to monitor hours
2	Continued Violation of PEPRAs “limited duration” language	High	Agree. Working with County CEO and BOR to establish guard rails and consequences

Thank You



We would like to thank the Executive Office and the Legal Office for their cooperation on this engagement and invite them to provide any comments.

QUESTIONS?





May 10, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Kristina Sun **KS**
Senior Internal Auditor

FOR: June 1, 2023 Audit Committee Meeting

SUBJECT: **Audit of Disability Retirement Services' Business Processes**

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

Audit of Disability Retirement Services Division's Business Processes
(Report Issued: May 10, 2023)

Attachments

Noted and Reviewed:

Richard P. Bendall
Chief Audit Executive

KS



LACERA INTERNAL AUDIT DIVISION

**Audit of Disability Retirement Services'
Business Processes**

Project #2023 38

AUDIT PERFORMED BY:

Kristina Sun, CPA, CIA
Senior Internal Auditor

May 10, 2023

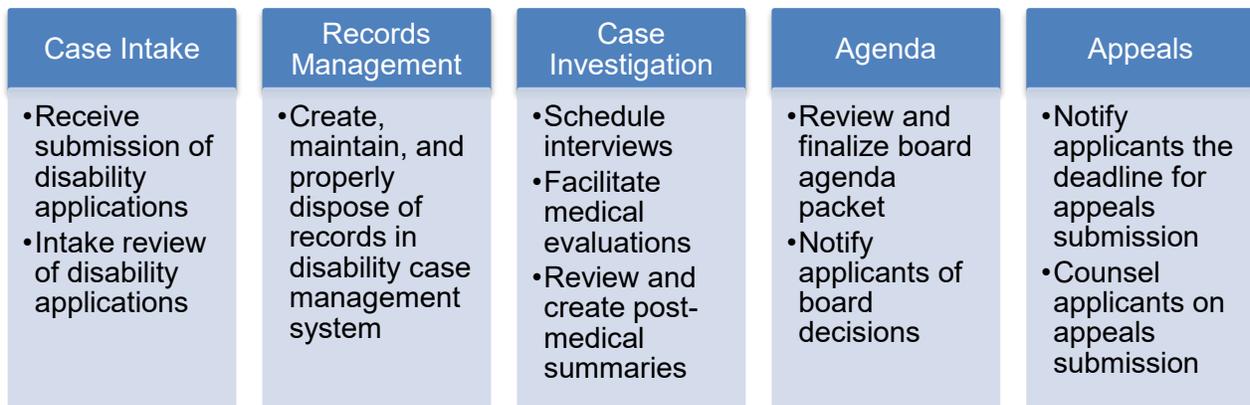
AUDIT REPORT

Audit Name:	Audit of Disability Retirement Services' Business Processes
Responsible Division:	Disability Retirement Services
Audit Rating*:	Opportunities for Improvement
Prior Audit Rating*:	N/A
Prior Report Date:	N/A

BACKGROUND

The Disability Retirement Services (DRS) Division Manager requested Internal Audit to independently evaluate DRS's business processes by assessing the relevant risks and controls, and adherence to internal and external policies and procedures.

The DRS Division is responsible for investigating, evaluating, and making recommendations to the Board of Retirement (BOR) for adjudicating disability retirement applications submitted by active, retired, and deferred members of LACERA. The mission of the DRS Division is to administer the LACERA Disability Retirement Program in an equitable, timely, accurate, and courteous manner consistent with applicable laws, policies, and procedures. The DRS staff work across five business functions: 1) disability case intake, 2) disability case investigation, 3) agenda, 4) disability case appeals, and 5) records management. The graph below shows the significant processes within each business function.



AUDIT OBJECTIVE & SCOPE

The objectives of this audit are to evaluate the significant DRS business processes for the following attributes:

- 1) Effectiveness and efficiency of operations and controls
 - i. Accuracy and completeness of application submission documentations
 - ii. Accuracy of manual data inputs
 - iii. Timeliness of processing application
 - iv. Timeliness of decision appeals

* See Appendix 1 for Audit Rating

- 2) Compliance with applicable policies, procedures, laws, and regulations
 - i. Compliance with LACERA policies and procedures for case intake, case investigations, agenda, and appeals
 - ii. Avoid conflict of interest between LACERA and disability case applicants
 - iii. Avoid conflict of interest between the BOR and disability case applicants
- 3) Safeguarding of resources and information
 - i. Safekeeping and maintenance of member records and data, including personal identifiable information (PII) and personal health information (PHI)
- 4) Reliability of reporting and data
 - i. Accuracy and completeness of the case agenda packet to the BOR
 - ii. Accuracy and completeness of management reports for monitoring disability cases

The scope of the engagement includes consideration of relevant systems such as Workspace, LACERA's in-house Benefits system that is used by DRS, and the DRS SharePoint site, disability application records and documentations, DRS personnel/staffing, and physical properties, including those under the control of third parties. Internal Audit reviewed disability case applications that were finalized in FY 2021-2022. The one scope exclusion pertains to evaluating elevated user access to SharePoint and Workspace, which will be covered in a future Privileged Access Audit.

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

AUDIT RESULTS

In general, Internal Audit found that DRS has adequately designed control activities to mitigate associated risks for most of the Division's key business processes. Three of DRS' strongest controls are:

- DRS developed and maintained over thirty divisional policies and procedures that are detailed, organized, up-to-date, and easy for staff to use. For example, the DRS Investigative Staff Training Policies & Procedures Manual (PPM) contains a comprehensive overview of the entire disability retirement application process while distinguishing internal controls for privacy considerations, case escalation, records management and retention, and quality control.
- DRS management emphasizes the risks and controls related to privacy in their divisional documentations and within their business processes. Applicable DRS policies and procedures highlight the importance of protecting members' confidential information including awareness of LACERA's Privacy Policy and HIPAA.
- DRS management created process flowcharts outlining its disability retirement business processes. Flowcharts are helpful to explain complex processes.

As part of fieldwork, Internal Audit tested a sample of 25 disability retirement cases, consisting of 5 nonservice-connected disability (NSCD) cases and 20 service-connected disability (SCD) cases. The sampled cases included a mix of general and safety members, employee and employer application, and application for survivor benefits. The selected samples covered cases with varying final status, such as completed, in appeal, closed, withdrawn, or subject to closure. Each sampled case was evaluated from an internal control perspective throughout the disability retirement application process from intake to board decision. Furthermore, we interviewed key personnel from DRS and the Legal Office, as well as reviewed applicable divisional and organizational documentations on disability retirement benefits.

AUDIT RATING & SUMMARY OF FINDINGS

Overall, the current effectiveness of the internal controls evaluated in the Audit of DRS Business Processes are generally adequate. However, we rated the audit as Opportunities for Improvement due to the findings identified below. The Audit Results Dashboard shows the audit objectives, the associated control attributes, and the test results.

Audit Results Dashboard - Audit of DRS Business Processes		
Audit Objective(s)	Associated Control Attributes	Test Results
Effectiveness and efficiency of operations and controls	Accuracy and completeness of application submission documentations	Finding #3
	Accuracy of manual data inputs	No exceptions noted
	Timeliness of processing application	No exceptions noted
	Timeliness of decision appeals	No exceptions noted
Compliance with applicable policies, procedures, laws, and regulations	Compliance with LACERA policies and procedures for case intake, case investigations, agenda, and appeals	No exceptions noted
	Avoid conflict of interest between LACERA and members	Finding #1 and #2
	Avoid conflict of interest between the BOR and members	
Safeguarding of resources and information	Safekeeping and maintenance of member records	No exceptions noted
Reliability of reporting and data	Accuracy of the DRS agenda packet to the Board of Retirement (BOR)	No exceptions noted
	Accuracy and completeness of management reports for monitoring active disability cases	Has system limitations

The one system limitation that Internal Audit identified was related to the reliability of reporting and data. DRS management currently lacks the reporting tools to produce data on disability case statuses in real-time for monitoring and tracking purpose. Workspace,

the DRS database system, does not incorporate all of the intricacies of the DRS business processes. DRS management acknowledged that they are utilizing SharePoint and other internal databases as a workaround. Yet, the challenge remains because DRS management has to manually track disability cases due to the source data being located in multiple databases. The identified limitation is a short-term risk for DRS. LACERA is in the process of developing and implementing Sol, a new integrated case management system that will become the master database storing all of DRS case data and active case information. The Sol case management system also has enhanced internal control features and user-friendly, real-time reporting capabilities. The Sol case management system is expected to go live in late 2023.

A total of three audit findings were issued related to operational controls. Each of the below Findings are detailed in the subsequent pages, including our Recommendations and Management Action Plans.

Summary of Findings

Finding #	Page	Finding Title	Risk Rating**
F1	6	The current practices for processing affiliated disability applications are not documented in a formal policy.	Medium
F2	8	A mechanism to identify affiliated disability applicants does not exist.	Medium
F3	9	Incomplete policy and procedures related to the DRS intake process for survivor applicants and affiliated disability applicants.	Low

We would like to thank the Disability Retirement Services Division and the Legal Office for their cooperation with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: May 10, 2023

**See Appendix 2 for Findings' Risk Rating

REPORT DISTRIBUTION

2023 Audit Committee	Santos H. Kreimann, CEO	Steven Rice, Chief Legal Counsel
Plante Moran Audit Team	Luis Lugo, DCEO	Ricki Contreras, DRS Division Manager
Robert H. Griffin, Audit Committee Consultant	Laura Guglielmo, AEO	Frank Boyd, Senior Legal Counsel
Internal Audit Group	J.J. Popowich, AEO	

FINDING #1

The current practices for processing affiliated disability applications are not documented in a formal policy.

Risk Level**

Medium

OBSERVATION

In May 2014, the Board of Retirement (BOR) approved the "Policy for Processing LACERA Employee and their Immediate Family Disability Applications and Related Appeals (Policy)". The Policy states that LACERA will send disability applications and related appeals submitted by LACERA employees and their immediate family to be evaluated by a third-party investigator, who is independent of LACERA. The purpose of the Policy is to ensure all disability applications are kept confidential and receive a fair and impartial review, including applications affiliated with LACERA.

However, since the inception of the Policy, LACERA's Legal Office has in practice expanded the coverage of the Policy to include secondary family members (e.g., *aunt, uncle, cousin, niece, nephew, or in-law*) of LACERA's Disability Retirement Services employees as well as applicants affiliated with the BOR (affiliated disability applicants). The Policy has not been reviewed or updated since 2014 to incorporate the current practices.

RISK

Risks include the potential for a conflict of interest in the processing of the applicant claim and/or a potential for breach of confidentiality of the applicant.

RECOMMENDATION #1

Update the Policy to include current practices for processing affiliated disability applicants.

DRS Management and LACERA's Legal Office should update its Policy to include current practices for processing disability applicants affiliated with LACERA employees or the BOR. A formal documented Policy will help prevent staff from processing affiliated applications that require outsourcing to third-party investigators.

Management's Response

LACERA's Legal Office and DRS management agree with the recommendation and Senior Staff Counsel will update the policy as follows:

*The current policy statement states: "Applications or appeals from a LACERA employee or an immediate relative (**defined as a spouse, ex-spouse, child, sibling, mother, or father**) require additional processing precautions to ensure the member's confidentiality is maintained and any appearance of potential bias is mitigated." (Emphasis added.)*

** See Appendix 2 for Findings' Risk Rating

The policy will be updated to also include secondary family members of a Disability-Retirement-Services employees (secondary family member will be defined as aunt, uncle, cousin, niece, nephew, or in-law), and Trustees of the Board of Retirement and the Board of Investments and their immediate and secondary family members. Currently, Senior Staff Counsel advises Trustees to recuse themselves from voting on applications involving family members. Senior Staff Counsel will incorporate this practice into the updated policy.

Updating the policy will require Board approval. Senior Staff Counsel will prepare a recommendation memo for the Board of Retirement to consider no later than the October 2023 Board of Retirement meeting.

*Target Completion Date:
October 31, 2023*

FINDING #2

A mechanism to identify affiliated disability applicants does not exist.

Risk Level**

Medium

OBSERVATION

A challenge that Disability Retirement Services (DRS) encounters is the difficulty in identifying affiliated disability applicants during the intake process. Per LACERA's internal policy and procedures, affiliated disability applicants require an external investigation independent from LACERA. However, LACERA does not have a formal method to identify the affiliated disability applications during the intake process. The current practice for flagging affiliated disability applications is through informal verbal notifications from internal LACERA employees.

The lack of a mechanism to identify affiliated applications could have caused conflicts of interest and confidentiality concerns. For example, in a recent situation, a DRS staff person had alerted their supervisor after seeing an application filed by that DRS staff person's sibling-in-law. The DRS staff person was unaware that the sibling-in-law had filed for disability retirement. Conversely, the sibling-in-law did not know they had to report their relationship with the DRS staff person while applying for disability retirement. As a result, the sibling-in-law's application was re-routed to the Legal Office and then outsourced for an external independent investigation.

RISK

Risks include the potential for a conflict of interest in the processing of the applicant claim and/or a potential for breach of confidentiality of the applicant.

RECOMMENDATION #2

Develop a mechanism for identifying affiliated disability applicants.

DRS Management should develop a formal control mechanism for identifying disability applicants affiliated with LACERA employees or the Board of Retirement.

Management's Response

LACERA's Legal Office and DRS management agree with the finding and will implement the following mechanisms for identifying affiliated disability applicants.

- 1) Incorporate question related to affiliated relationships during the introductory call.*
- 2) Update paper and online application to ask the question related to affiliated relationships.*
- 3) Query DRS staff members to inquire of a potential affiliated relationship and maintain a list that will be updated annually by our intake team.*

Target Completion Date:

December 31, 2023

** See Appendix 2 for Findings' Risk Rating

FINDING #3

Incomplete policy and procedures related to the DRS intake process for survivor applicants and affiliated disability applicants.

Risk Level**

Low

OBSERVATION

DRS management last updated and distributed its standard operating procedure "Intake Application Review and Acceptance Procedures (Intake SOP)" in April 2018. The Intake SOP contains extensive instructions to DRS staff on how to correctly review and process disability retirement applications. However, Internal Audit noted that the Intake SOP does not contain any specific instructions related to 1) applications submitted by a survivor in the case of a member's service-connected death, or 2) applications where the applicant is related to LACERA staff or the Board of Retirement trustees. Both of these situations would subject the applicants to special processing requirements which are not currently documented in the Intake SOP.

Furthermore, Internal Audit could not locate any documentation on the segregation of duties between the Legal Office and DRS for handling and monitoring affiliated applications. There is a current process in place to properly oversee the affiliated disability applications, but no formal documentation exists.

RISK

Risk of inconsistencies in processing disability retirement applications in compliance with organizational policies.

RECOMMENDATION #3

Update its intake policies and procedures, especially for special disability cases.

DRS Management should update its standard operating procedure "Intake Application Review and Acceptance Procedures (Intake SOP)" to include disability cases with special requirements or circumstances. Additionally, DRS management should delineate and document the roles and responsibilities between the Legal Office and DRS for handling and monitoring affiliated disability applications.

Management's Response

DRS management agrees with the finding and SOP will be updated to include disability cases with special requirements and circumstances as well as delineate and document the roles and responsibilities between LACERA's Legal Office and Disability Retirement Services for handling and monitoring affiliated disability applications.

*Target Completion Date:
June 30, 2023*

** See Appendix 2 for Findings' Risk Rating

APPENDIX 1 AUDIT RATING SCALE

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

Satisfactory

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

Opportunities for Improvement

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

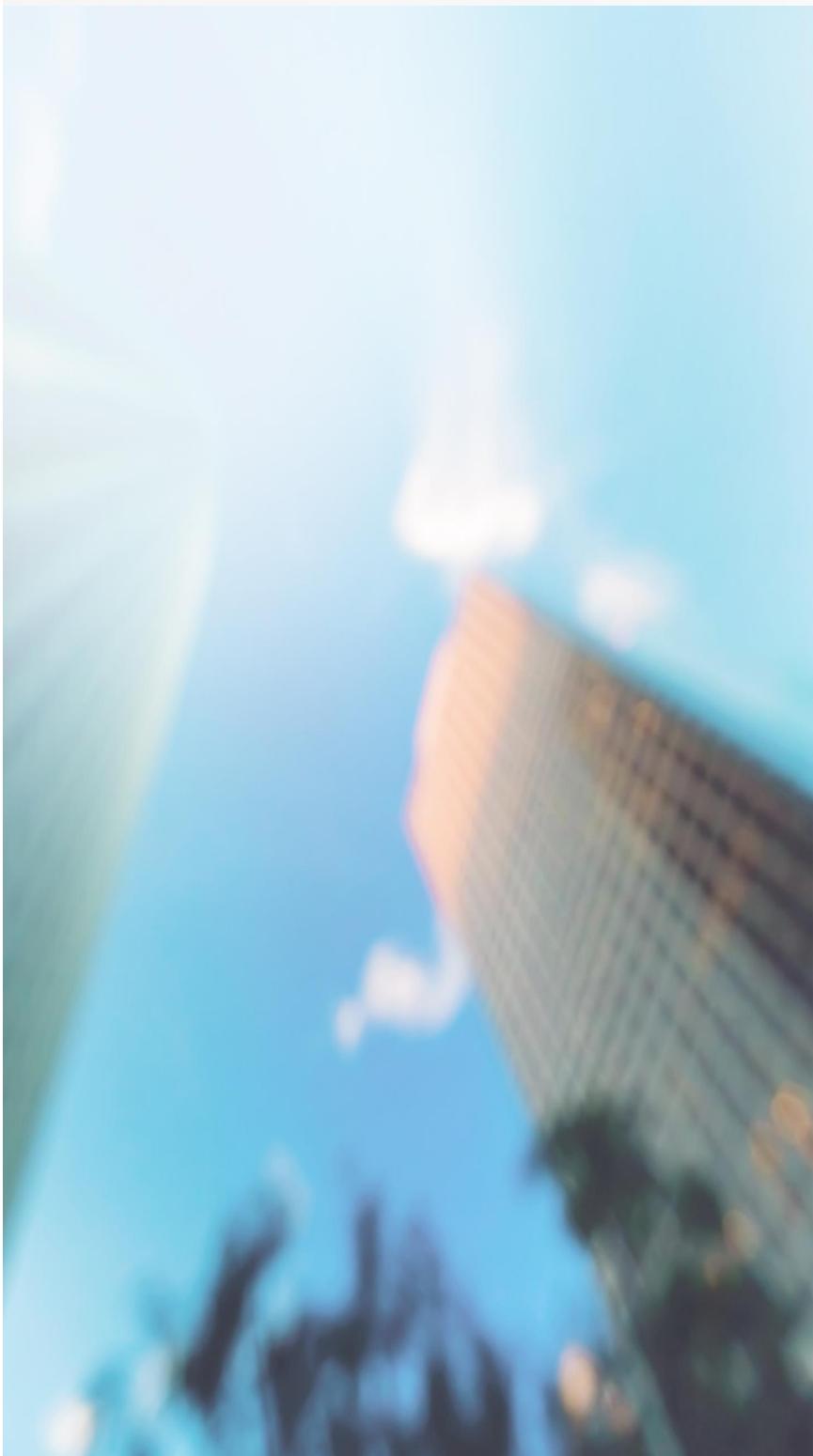
Unsatisfactory

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

APPENDIX 2
FINDING'S RISK RATING SCALE

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

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



Audit of Disability Retirement Services' Business Processes

Audit Report Date: May 10, 2023

Presented by: Kristina Sun, Senior Internal Auditor

Summary of Engagement



Responsible Division:	Disability Retirement Services
Type of Engagement:	Assurance
Audit Rating:	Opportunities for Improvement
Prior Audit Rating:	None

Type of Engagements

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

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

Advisory: Provide Management with informal advice.

Background



Background

The Disability Retirement Services (DRS) Division Manager requested Internal Audit to independently evaluate DRS's business processes by assessing the relevant risks and controls, and adherence to internal and external policies and procedures. The DRS staff work across five business functions: 1) disability case intake, 2) disability case investigation, 3) agenda, 4) disability case appeals, and 5) records management.

Objectives

We evaluated the significant DRS business processes for the following attributes:

1. DRS' Effectiveness and efficiency of operations and controls
2. DRS' compliance with applicable policies, procedures, laws, and regulations
3. DRS' safeguarding of resources and information
4. Reliability of reporting and data within DRS



Scope

The scope of the engagement includes consideration of relevant systems such as Workspace and the DRS SharePoint site, disability application records and documentations, DRS personnel/staffing, and physical properties, including those under the control of third parties. Internal Audit reviewed disability case applications that were finalized in Fiscal Year 2021-2022. The one scope exclusion pertains to evaluating elevated user access to SharePoint and Workspace, which will be covered in a future Privileged Access Audit.

Audit Results



Audit Results Dashboard - Audit of DRS Business Processes		
Audit Objective(s)	Associated Control Attributes	Test Results
Effectiveness and efficiency of operations and controls	Accuracy and completeness of application submission documentations	Finding #3
	Accuracy of manual data inputs	No exceptions noted
	Timeliness of processing application	No exceptions noted
	Timeliness of decision appeals	No exceptions noted
Compliance with applicable policies, procedures, laws, and regulations	Compliance with LACERA policies and procedures for case intake, case investigations, agenda, and appeals	No exceptions noted
	Avoid conflict of interest between LACERA and members	Finding #1 and Finding #2
	Avoid conflict of interest between the BOR and members	
Safeguarding of resources and information	Safekeeping and maintenance of member records	No exceptions noted
Reliability of reporting and data	Accuracy of the DRS agenda packet to the Board of Retirement (BOR)	No exceptions noted
	Accuracy and completeness of management reports for monitoring active disability cases	System limitations exist

Summary of Findings



Finding #	Title of Finding	Rating	Management Response
1	The current practices for processing affiliated disability applications are not documented in a formal policy	Medium	Management agrees. Senior Staff Counsel will prepare a recommendation memo for the Board of Retirement (BOR) to consider no later than the October 2023 BOR meeting. Target completion date is 10/31/2023.
2	A mechanism to identify affiliated disability applicants does not exist	Medium	Management agrees. Mechanisms will be developed to identify affiliated disability applicants during the introductory call, on the paper and online application, and inquire with internal staff of potential affiliated relationship. Target completion date is 12/31/2023.
3	Incomplete policy and procedures related to the DRS intake process for survivor applicants and affiliated disability applicants	Low	Management agrees. SOP will be updated to include disability cases with special requirements and circumstances as well as delineate and document the roles and responsibilities between LACERA's Legal Office and Disability Retirement Services for handling and monitoring affiliated disability applications. Target completion date is 6/30/2023.

Thank you



We would like to thank the DRS and the Legal Office for their cooperation on this engagement and invite them to provide any comments.





May 16, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez
Jason E. Green

Audit Committee Consultant
Robert H. Griffin

FROM: George Lunde 
Senior Internal Auditor

FOR: June 1, 2023 Audit Committee Meeting

SUBJECT: **Third Party Data Security Review**

RECOMMENDATION

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

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

ENGAGEMENT REPORT

Third Party Data Security Review
(Report Issued: May 12, 2023)

Attachments

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

GL



LACERA INTERNAL AUDIT DIVISION

Third Party Data Security Review

May 12, 2023

AUDIT PERFORMED BY:

George Lunde, CIA, CISA
Senior Internal Auditor

AUDIT REPORT

Audit Name:	Third-Party Data Security
Responsible Division:	Information Security Office and Administrative Services Division
Audit Rating*:	Opportunities for Improvement
Prior Audit Rating*:	Opportunities for Improvement
Prior Report Date:	July 10, 2015

BACKGROUND

This review is part of the Fiscal Year End (FYE) 2023 Audit Plan. Third-party data security is a foundational element of vendor risk management. It addresses both cybersecurity and data privacy risks, which are two strategic risks all organizations face.

Internal Audit conducted the last third-party data security audit in 2015 and reported issues with initial due diligence and continuing due diligence of third-party security practices. In the seven years since the 2015 audit, there have been major technology changes and LACERA has contracted with new vendors who have access to member personal identifiable information (PII), protected health information (PHI), and other confidential LACERA-data (high-risk vendors). Additionally in August 2020, the Executive Office established an Information Security Office.

AUDIT OBJECTIVE & SCOPE

After preliminary research and analysis, including an engagement-level risk assessment, the objective(s) of this audit were to:

- * Determine whether appropriate language exists in contracts for high-risk vendors (vendors that receive confidential LACERA data, either business or member PII or PHI).
- * Assess LACERA's process for performing initial due diligence of high-risk vendors' systems, policies, and practices to ensure their ability to comply with LACERA's security requirements.
- * Assess LACERA's process for performing on-going due diligence of existing high-risk vendors to ensure that adequate controls continue to protect confidential data and member information.
- * Assess LACERA's process for ensuring that confidential data has been returned or adequately disposed of for terminated high-risk vendors.

The scope of this engagement included:

- Current approved and authorized policies and procedures
- New, ongoing, and terminated high-risk vendors from July 1, 2021 – March 31, 2023

Based on our analysis, there was one new, eight ongoing, and no terminated high-risk vendors.

* See Appendix 1 for Audit Rating

The scope did not include data transferred as part of public records requests, member-driven requests to credit unions, unions, or health insurance providers, or government requests. Also excluded from the review were Investments and Disability Retirement Services contracts.

Based on discussions with the Information Security Office and our own research, we used the following source criteria to assess LACERA's Third-Party Data Security processes:

- LACERA's Purchasing and Contract Administration Manual
- Institute of Internal Auditors' (IIA) Practice Guide
- National Institute of Standards and Technology (NIST) Framework

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

AUDIT RATING & SUMMARY OF FINDINGS

In our opinion, the key controls applicable to the Audit Scope have **Opportunities for Improvement**.

LACERA's third-party data security process has matured since our last audit, with the creation of an Information Security Office, enhanced contract requirements regarding data security, and the expanded use of a contract management system to store and monitor contracts.

- We reviewed the nine active contracts for high-risk vendors and found that all contracts included the language and clauses recommended in the IIA's Practice Guide.
- We found the initial data security due diligence for the new high-risk vendor was compliant with LACERA's Procurement Policy.

However, we found opportunities for improvement in this inherently high-risk area, as detailed on the following page:

Summary of Findings

Finding#	Page	Finding Title	Risk Rating**
F1	5	Inadequate communication regarding non-compliance with vendor contracts	High
F2	7	No formal procedures for review of vendor security reports.	Low

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

We would like to thank the Information Security Office and Administrative Services for their cooperation with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: May 12, 2023

**See Appendix 2 for Findings' Risk Rating

REPORT DISTRIBUTION

2023 Audit Committee	Santos H. Kreimann, CEO	Steven Rice, Chief Legal Counsel
2022 Plante Moran Audit Team	Luis Lugo, DCEO	Roberta Van Nortrick Interim Admin. Svc. Mgr
Robert H. Griffin, Audit Committee Consultant	Laura Guglielmo, AEO	Carmelo Marquez Interim CISO
Internal Audit Group	J.J. Popowich, AEO	

FINDING #1

Inadequate communication regarding non-compliance with vendor contracts

Risk Level**
High

OBSERVATION

We noted LACERA had eight on-going contracts with vendors that received confidential data during the scope period of the audit. Based on test work, we observed that of those eight vendors:

- Three vendors' SOC2 reports, ITSC/ITGC reports or SOC2 bridge letters (security reports) were current and approved by the Information Security Office (InfoSec), and in the contract management system.
- Four vendor security reports were received between one and eight months after the previous security report's expiration date but have now been reviewed and are in the contract management system.
- One vendor's (Vendor X) security report was the original report received when the contract was initiated in 2018.
 - During the audit, Administrative Services contacted the Contract Administrator in August 2022 and provided information about the security report requirement.
 - The Contract Administrator contacted the vendor in September 2022 and the vendor stated they would provide the report in a few weeks.
 - In November 2022, the vendor provided the report to the Contract Administrator.
 - In April 2023, when Internal Audit was finishing fieldwork, we requested the updated security report and learned Administrative Services had not inquired about it and the Contract Administrator had not provided it.
 - The updated security report has now been received and sent to InfoSec for their review.

Based on the email communications from the Contract Administrator for Vendor X and Administrative Services staff, we noted the Contract Administrator was unaware of the security report requirement and did not understand the nature of the security report, did not respond timely to either of the contract management system or Administrative Services' request to obtain the security report, and did not provide the updated security report when it was received from the vendor.

We also noted that Administrative Services did not raise the issue to the Executive Office, and did not stop vendor payments for having a non-compliant contract.

** See Appendix 2 for Findings' Risk Rating

RISK

We rated this finding as a high risk because without adequate controls, LACERA cannot effectively ensure vendor compliance with contract requirements, which are in place to manage vendor risks.

RECOMMENDATION #1

Enhance controls for non-compliance with vendor contracts.

Administrative Services should build into its control process additional warnings to Contract Administrators, escalating non-compliance to the Executive Office, and implementing consequences, like stopping payments for vendors with non-compliance contracts.

Management's Response

Agrees with the recommendation.

The Administrative Services and Systems Divisions will be rolling out a new enterprise contract lifecycle management system (ECLM) with advanced controls to manage contract risks. The target date for this rollout is July 2023. The new ECLM will have the following advanced controls to help LACERA manage contract risks identified in this finding:

- **Automated alerts:** *The ECLM will send automated alerts to specific LACERA staff and vendors when a SOC-2 report is expiring. The alerts will include instructions and a disclaimer warning of potential stop payment for non-compliant contracts.*
- **Real-time reports:** *The ECLM will create real-time reports that will be shared with the Contract Administrator, Division Manager, and Executive Management. These reports will ensure that critical information related to non-compliance is shared with the right people in a timely manner.*

The new ECLM will be a valuable tool for LACERA to help manage contract risks and ensure compliance.

Target Completion Date:

July 31, 2023

FINDING #2

No formal procedures for review of vendor security audit reports

Risk Level**

Low

OBSERVATION

Security Audit Review Forms are part of LACERA's vendor contracting process to ensure a vendor's security control environment can safeguard data LACERA entrusted to the vendor. InfoSec is charged with reviewing vendor security audit reports such as SOC2 reports and bridge letters, and ITSC/ITGC reports. After reviewing the security audit reports, InfoSec completes a Security Audit Review Form which is used by contract managers and administrators to evaluate the suitability of a vendor to be entrusted with LACERA's data.

Our review of contracts for high-risk vendors found that while InfoSec had completed the required Security Audit Review Forms and retained copies of related vendor security audit reports, there was no indication of the process steps taken during the review to support InfoSec's approval of a vendor.

It is a best practice to create an internal checklist for reviewing the reports to ensure that reviews consistently cover key areas:

- Is the issuing firm reputable? Does the firm or individual issuing the report have information technology or information security certifications?
- Is the auditor's opinion unqualified?
- Is the report covering the correct part of the vendor's business?
- Does the time period covered meet LACERA's needs?
- Are there control exceptions that impact LACERA?
- Are user (LACERA) control considerations in the report adequately addressed by LACERA ?

RISK

We rated this finding a low risk because internal controls are in place to ensure LACERA reviews vendor security reports that are received. Additionally, based on our review of selected security reports, we did not disagree or find exceptions with InfoSec's review and approval. However, InfoSec's process could be enhanced to provide specific guidance on how to document the review of the vendor security reports and ensure InfoSec's reviews consistently cover key areas.

RECOMMENDATION #2

Document review of vendor security reports.

InfoSec management should document its review when approving vendor security reports. The documentation should include a checklist of key areas reviewed and any additional research and communications needed to obtain adequate assurance about the vendor's security posture.

** See Appendix 2 for Findings' Risk Rating

Management's Response:

Agrees with the recommendation.

InfoSec will create a SOC review checklist, document it's analysis and maintain the documentation and checklist with the SOC reports.

Target Completion Date:

July 31, 2023

APPENDIX 1 AUDIT RATING SCALE

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

Satisfactory

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

Opportunities for Improvement

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

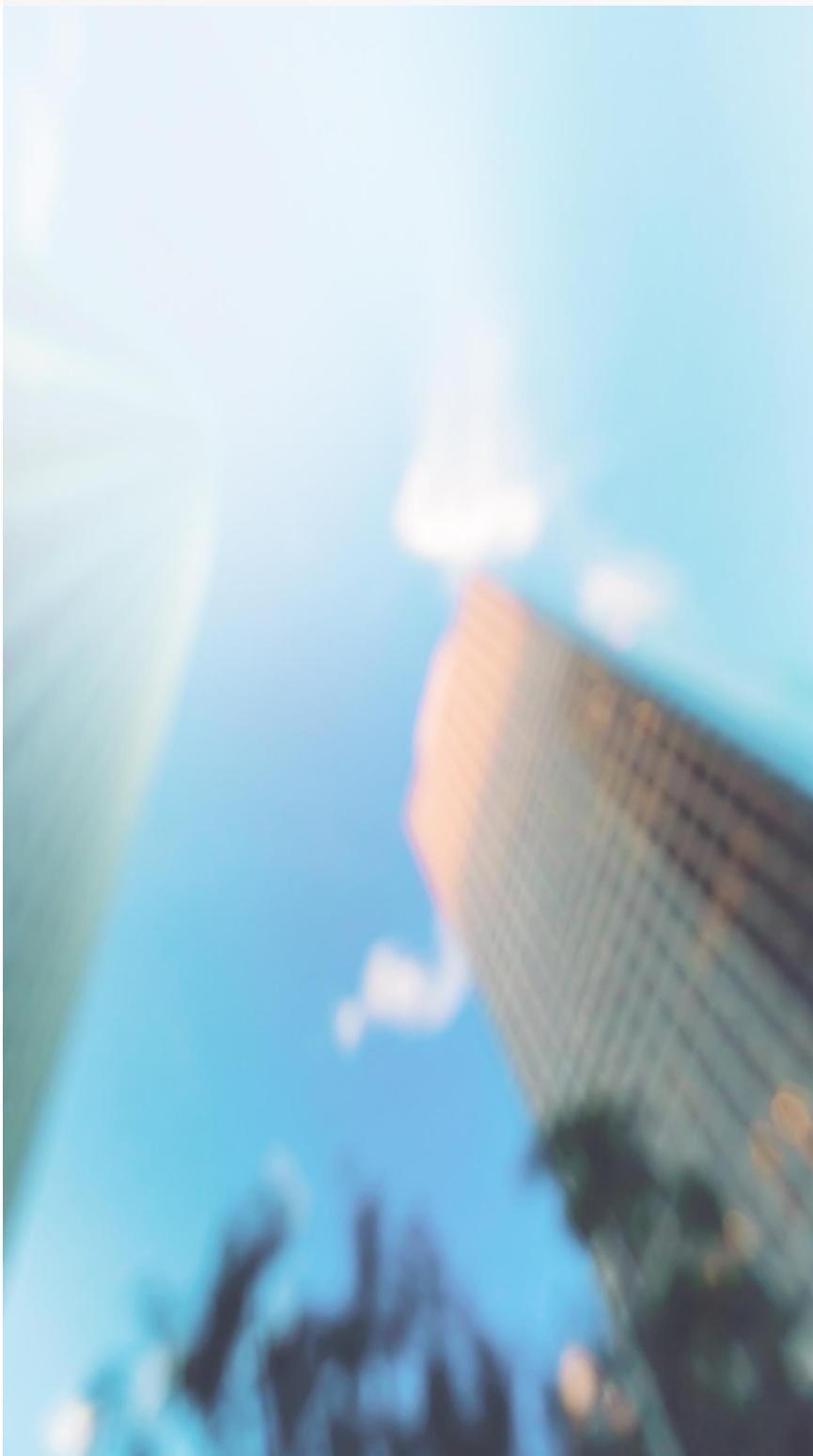
Unsatisfactory

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

APPENDIX 2 FINDING'S RISK RATING SCALE

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

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



Third-Party Data Security Review

Audit Report Date: May 12, 2023

Prepared By: George Lunde, Senior Internal Auditor

Summary of Engagement



Responsible Division:	Executive Office
Type of Engagement:	Assurance
Audit Rating:	Opportunities for Improvement
Prior Audit Rating:	Opportunities for Improvement

Type of Engagements

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

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

Advisory: Provide Management with informal advice.

Background, Scope, Objective



Background:

Third-party data security is a foundational element of vendor risk management. It addresses both cybersecurity and data privacy risks, which are two strategic risks all organizations face.

Scope:

New, ongoing, and terminated high-risk vendors from July 1, 2021 to March 31, 2023

Objective:

- * Determine whether appropriate language exists in contracts for high-risk vendors (vendors that receive confidential LACERA data, either business or member PII or PHI).
- * Assess LACERA's process for:
 - * performing initial due diligence of high-risk vendors' systems, policies, and practices to ensure their ability to comply with LACERA's security requirements
 - * performing on-going due diligence of existing high-risk vendors to ensure that adequate controls continue to protect confidential data and member information
 - * ensuring the confidential data has been adequately disposed of or returned for terminated high-risk vendors.



Summary of Findings



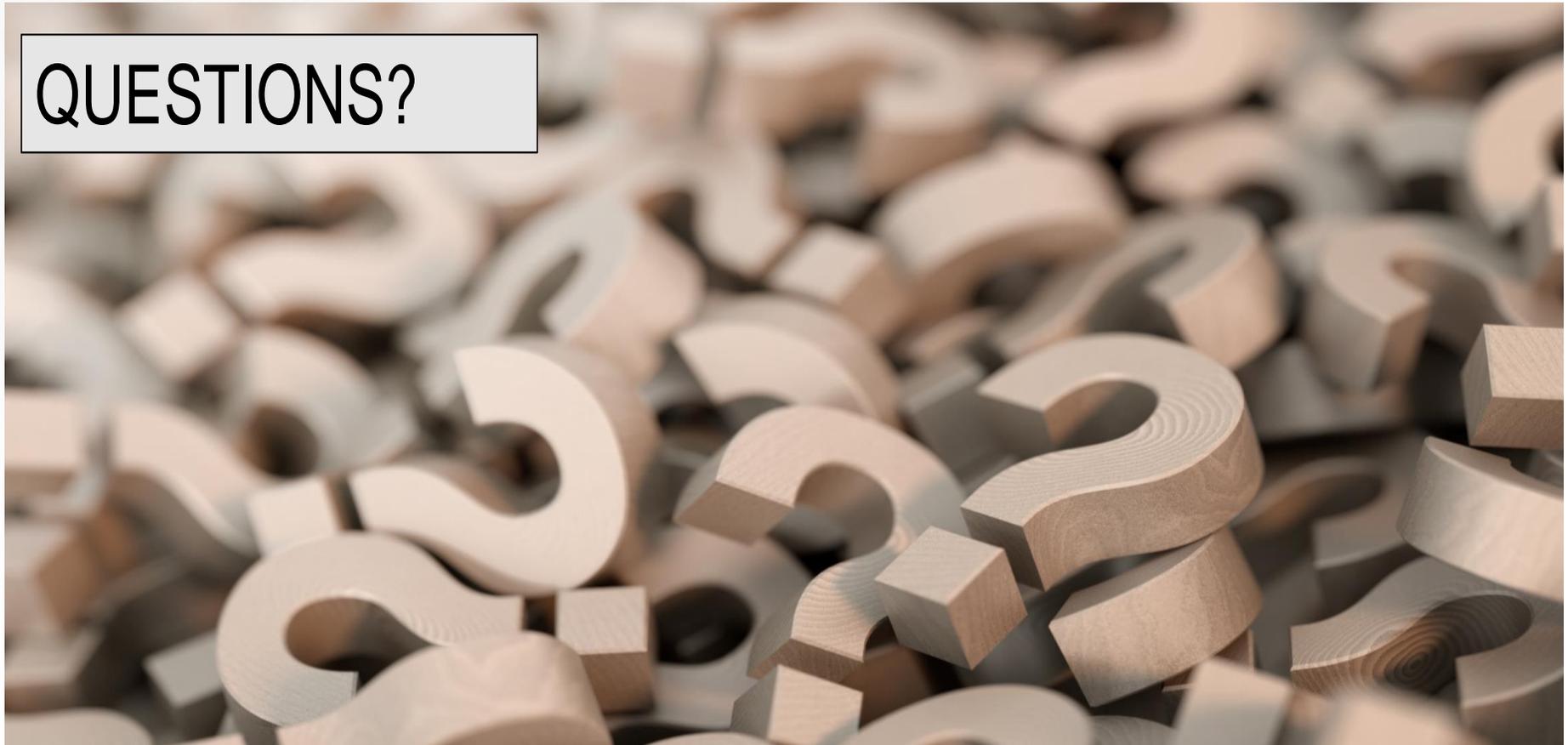
Finding #	Title of Finding	Rating	Management Response
1	Inadequate communication regarding non-compliance with vendor contracts	High	Agree. New system in July'23 will automate non-compliance alerts and Management reporting
2	No formal procedures for review of vendor security reports	Low	Agree. InfoSec to create a SOC review checklist, document it's analysis and maintain the documentation and checklist with the SOC security reports

Thank You



We would like to thank the InfoSec Team and the Administrative Services Divisions for their cooperation on this engagement and invite them to provide any comments.

QUESTIONS?





May 15, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Nathan K. Amick 
Senior Internal Auditor

FOR: June 1, 2023 Audit Committee Meeting

SUBJECT: **FYE 2023 Audit Plan Status Report**

BACKGROUND

According to the Institute of Internal Auditor's Standard 2010 (Standard) on audit planning¹, the Chief Audit Executive (CAE) must establish risk-based plans to determine the priorities of the internal audit activity and ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization. To remain in compliance with the Standard, Internal Audit developed the FYE 2023 Audit Plan (Audit Plan) which the Committee approved at the August 2022 meeting. At the March 2023 meeting the Committee approved the amended Audit Plan at the request of Internal Audit. See page 2 for the updated Audit Plan.

Staff has also prepared the attached slides on the Audit Plan Status for presentation to the Committee at the June 1, 2023 meeting.

Attachment

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

NKA

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

FYE 2023 Audit Plan Status Report

May 15, 2023

Page 2 of 2

FYE 2023 AUDIT PLAN				
	DIVISION	AUDIT/PROJECTS	PROJECT	STATUS/STAGE
EXECUTIVE OFFICE/ORGANIZATIONAL				
1	Exec Office	LA County 960 Rehired Retiree Audit FYE 22	Audit	Completed
2	Exec Office	Document Retention	Audit	Planning
3	Exec Office	Organization Governance Ethics Follow-Up	Advisory	Pending
4	Exec Office	Review of Privacy Audit Recommendations	Advisory	Completed
ADMINISTRATION				
5	Admin Services	Procurement of Services - Contract Operation	Audit	Completed
6	Admin Services	Inventory Asset Management	Audit	Planning
7	HR	LACERA 960 Rehired Retiree FYE 2022	Audit	Draft Report
8	Info Sec	Third-Party Data Security	Audit	Completed
9	Systems	Termination of Access	Audit	Rollover FYE 24
10	Systems	Privileged Access	CAP	Pending
11	Systems	IT Risk Assessment	Ext Audit	Rollover FYE 24
12	Systems	SOC Audit FYE 2022	Oversight	Completed
13	Systems	RFP SOC	Oversight	Bid Scoring
FASD & INVESTMENTS				
14	FASD	Wire Transfers Audit - State Street	Audit	Draft Report
15	Investments	Wire Transfers Audit- B of A (possible FY 24)	Audit	Rollover FYE 24
16	FASD	Organizational Credit Card Review	Audit	Fieldwork
17	FASD	CEO Credit Card Review	Audit	Completed
18	FASD	SS Bank - (limited scope)	CAP	Draft Report
19	FASD	Financial Audit RFP	Oversight	Completed
20	FASD	Financial Audit FYE 2022	Oversight	Completed
21	FASD	Duplicate Vendor Payments	CAP	Completed
22	FASD	Financial Audit Controls Review	Assurance	Planning
23	Investments	Investments Due Diligence Consulting Rvw	Ext Audit	Draft Report
24	Investments	Actuarial Audit FY 22 & 23	Oversight	Continuous & Current
25	Investments	THC Financial Audits - FY 22 & 23	Oversight	Continuous & Current
MEMBER OPERATIONS GROUP (MOG)				
26	Benefits	Death Claims Calc & Documentation	Audit	Rollover FYE 24
27	Benefits	Replacement Plan 415B	Audit	Fieldwork
28	Benefits	Felony Forfeiture	Audit	Rollover FYE 24
29	Benefits	Duplicate Member Special Payment (Limited Scope)	CAP	Completed
30	Benefits	New Payees (limited scope)	CAP	Continuous & Current
31	Benefits	SSNVS	CAP	Transitioned
32	MOG	Implementation of Case Management	Assurance	Continuous & Current
33	DRS	Disability Process Review	Audit	Completed
INTERNAL AUDIT ADMINISTRATION				
34	Internal Audit	Reco Follow-Up - Org + Administrative	Other Projects	Continuous & Current
35	Internal Audit	Reco Follow-Up - Systems	Other Projects	Continuous & Current
36	Internal Audit	Professional Development / CPE	Other Projects	Continuous & Current
37	Internal Audit	QAIP	Other Projects	Continuous & Current
38	Internal Audit	AC Support	Other Projects	Continuous & Current
39	Internal Audit	Risk Assessment	Other Projects	Continuous & Current
40	Internal Audit	TeamMate	Other Projects	Continuous & Current
ADDED PROJECTS				
41	Systems	SOC Audits FYE 2023	Oversight	Continuous & Current
42	FASD	Financial Audit FYE 2023	Oversight	Continuous & Current

Completed
 Continuous/Current
 In-Progress
 Not Started



FYE 2023 Audit Plan Status Report

(through May 15, 2023)

Nathan Amick, Senior Internal Auditor

Completed Audit Engagements & Projects (since July 1, 2022)



Completed Since Last Audit Committee Meeting	Audit Assignment	Report
LA County Rehired Retirees	Internal Audit	May 1, 2023
External Financial Auditor RFP	Internal Audit	Contract Signed May 16, 2023
Disability Process Audit	Internal Audit	May 10, 2023
Third Party Data Security	Internal Audit	May 12, 2023
Previously Completed	Audit Assignment	Report
Risk & Control Assessment - Retiree Healthcare*	Internal Audit	July 22, 2022
Organizational Governance Assessment*	Weaver	August 1, 2022
LACERA Rehired Retirees FYE June 30, 2021*	Internal Audit	August 8, 2022
BoardVantage Audit *	Internal Audit	October 21, 2022
Review of Privacy Audit Recommendations	Internal Audit	October 25, 2022
Duplicate Member Payment	Internal Audit	October 27, 2022
Duplicate Vendor Payment	Internal Audit	October 27, 2022
LA County Rehired Retiree FYE June 30, 2021	Internal Audit	November 7, 2022
Oversight of SOC Audit FYE June 30, 2022	Plante Moran	November 4, 2022
Contract Operations	Internal Audit	December 23, 2022
CEO Credit Card Audit	Internal Audit	February 10, 2023

* These four projects were from the FYE 2022 Audit Plan; however, they were not completed until FYE 2023. These projects are not reflected as part of the 2023 Audit Plan.

Continuous and Current Audit Engagements



The projects below (13) are perpetual, and the work is up to date as of May 15, 2023. All projects will be completed June 30, 2023, and will recommence July 1, 2023 for FYE 2024. Projects with an asterisk (*) are Internal Audit administrative responsibilities.

Continuous Audit Engagements/Projects	Audit Assignment
Actuarial Audit FYE June 30, 2023	CavMac
Financial Audit FYE June 30, 2023	Plante Moran
New Payees (limited scope)	Internal Audit
SOC Audits FYE June 30, 2023	Plante Moran
THC Financial Audits FYE June 30, 2023	Audit Pool
Implementation of Case Management	Internal Audit
Organization Wide Risk Assessment*	Internal Audit
AC Support *	Internal Audit
Professional Development / CPE*	Internal Audit
QAIP*	Internal Audit
Recommendation Follow-Up - Org + Administrative*	Internal Audit
Recommendation Follow-Up – Systems*	Internal Audit
TeamMate*	Internal Audit

In Progress Audit Engagements & Projects



In Progress - Engagement/Project	Audit Assignment	Estimated Completion	Planning Scope	Prelim Audit Work	Audit Field Work	Draft Report	Exit Meeting
LACERA Rehired Retirees	Internal Audit	May 2023					
Wire Transfer State Street Bank*	Internal Audit	June 2023					
State Street Bank User Access*	Internal Audit	June 2023					
Investments' Operational Due Diligence	KPMG	June 2023					
Organization-wide Credit Card Review	Internal Audit	June 2023					
Replacement Plan 415B	Internal Audit	June 2023					
SOC Audit RFP	Internal Audit	June 2023	Pending Audit Committee approval of selected firm				
Financial Audit Controls Review	Internal Audit	July 2023					
Document Retention	Internal Audit	July 2023					
Inventory Asset Management	Internal Audit	September 2023					

* Due to proximity of processes and data, these two projects have been combined into one audit.

Pending Audit Engagements & Projects



As of May 15, 2023, Internal Audit has yet to begin work on these FYE 2023 Audit Plan projects.

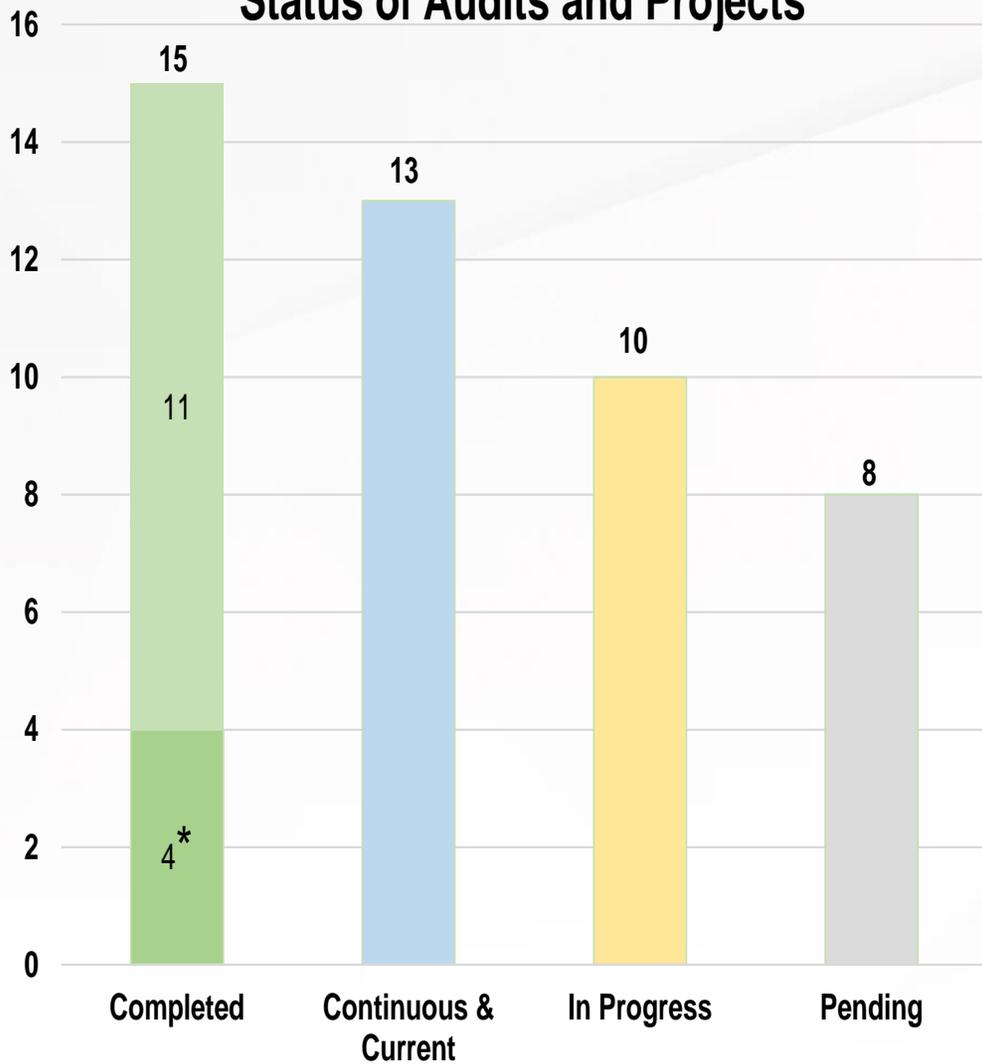
Pending Engagement/Project	Audit Assignment	Estimated Start
Org. Governance Ethics Follow-Up	Internal Audit	June of 2023
Privileged Access	Internal Audit	June of 2023
Felony Forfeiture	Internal Audit	June of 2023
Death Claims Calc & Documentation	Internal Audit	Rollover to FYE 2024 Audit Plan
IT Risk Assessment	Internal Audit	Rollover to FYE 2024 Audit Plan
Wire Transfer Audit - Bank of America	Internal Audit	Rollover to FYE 2024 Audit Plan
Termination of Access	Internal Audit	Rollover to FYE 2024 Audit Plan
SSNVS*	Internal Audit	Transitioned to Benefits Protection Unit in Benefits

* SSNVS – Social Security Number Verification System (Control process for validating member SSNs and living status)

FYE 2023 Audit Project Dashboard

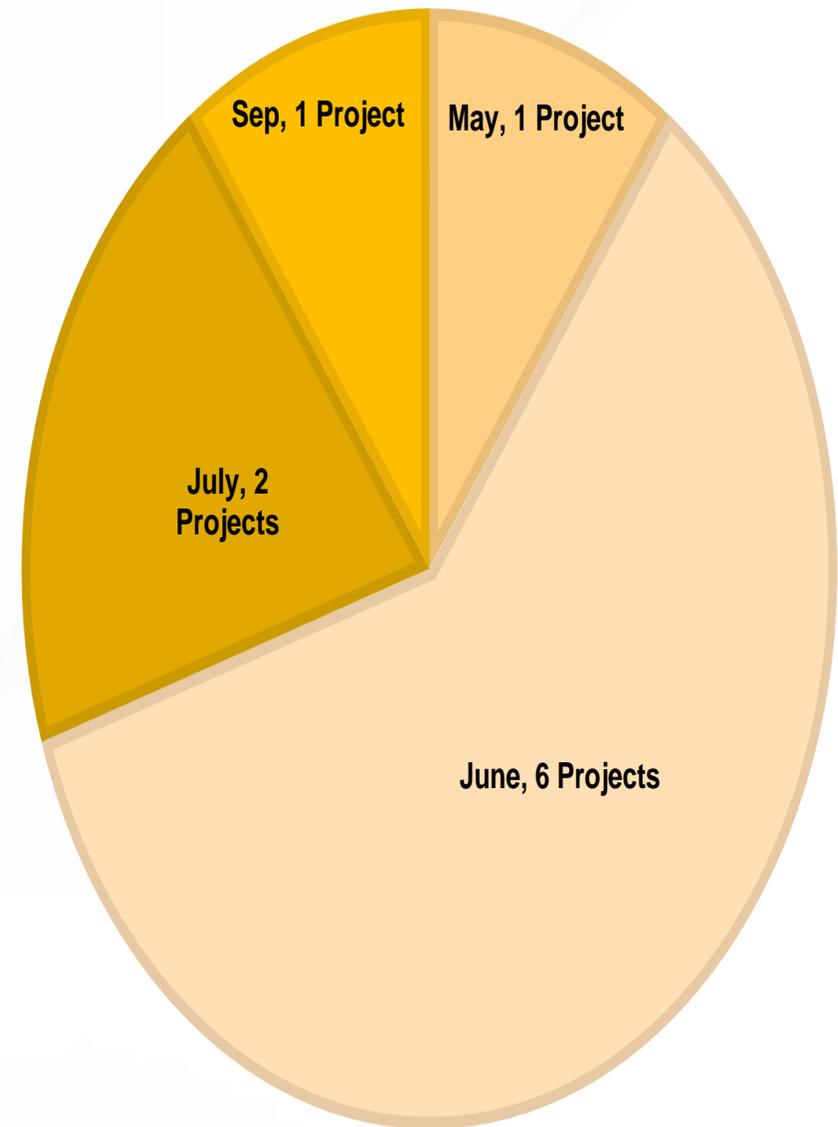


Status of Audits and Projects



* These four projects were from the FYE 2022 Audit Plan; however, they were not completed until FYE 2023. These projects are not reflected as part of the 2023 Audit Plan.

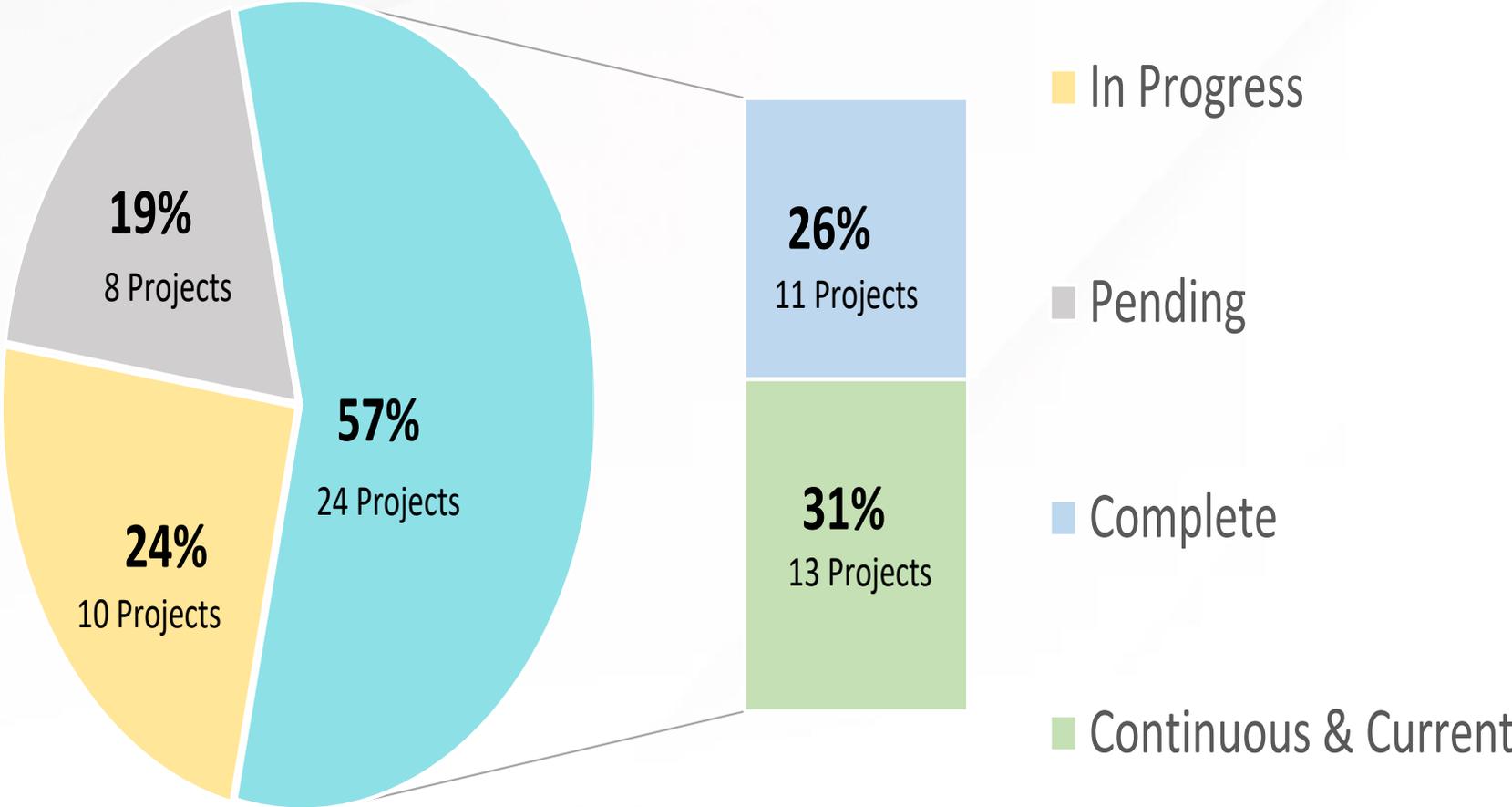
Seven of the 10 “In Progress” projects are planned to be completed by June 30, 2023





FYE 2023 Audit Plan - Percentage of Completion

The FYE 2023 Audit Plan consists of 42 projects. As of May 15, 2023, 11 projects have been completed and 13 continuous projects are up to date. Resulting in 57% of the Audit Plan as complete to date.





Progress Implementing IA Recommendations

23 Recommendations were issued from our External Quality Assessment in March 2022

- 7 recommendations were previously implemented
- 1 recommendation was newly implemented In May of 2023
 - Revise Operational Manual
- 15 recommendations remain open
 - Prioritized 7 foundational recommendations. Target December 2023
 - Remaining 8 recommendations relate to strategic planning. Target Post-Foundational



Foundational Recommendations Milestones

- Ensure more timely review - Ongoing
- Better define engagement planning – Target June 2023
- Standardize workpapers – Target December 2023
- Ensure QC on audits – Target December 2023

Summary of Significant Advisory Work



Engagement Title	Overview
Policy Committee	Working on sub-committee to create a project charter for a policy management solution, includes researching Knowledge Management vs. Policy Management solutions, presenting to ITCC.
Strategic Planning	Working on a sub-committee to define Risk and Compliance steps and timelines, and Fiduciary responsibility steps and timelines.
Member Services Voice Authentication Project	Participate in meetings on the development and implementation of adding a voice authentication component to the Member Services call center.
Implementation of Automated Accounts Payable	Participate in the internal stakeholder team meetings on the development and implementation of an automated Accounts Payable solution.
Social Engineering Awareness Training	Provide social engineering awareness training to call center specialists in the Member Services Division and the Retiree Healthcare Division as part of the organization's effort to increase privacy training.

Questions





May 12, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Nathan K. Amick 
Senior Internal Auditor

FOR: June 1, 2023 Audit Committee Meeting

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

BACKGROUND

To initiate communication with the Audit Committee for Fiscal Year Ending June 30, 2023 Financial Audit, Plante Moran will be at the June 1, 2023 meeting to present the timing, scope, and approach to the upcoming audit.

Attachment

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

NKA



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

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

Representing Plante Moran:
Jean Young & Amanda Cronk



Agenda



- Pre-Audit Communication
 - Audits to Perform
 - Auditor Responsibilities
 - Identification of Significant Risks
 - Plante Moran's Approach to Internal Control
 - Materiality Concept
 - Audit Committee Member Views
- Accounting standard changes for FY 2023
- Questions



Pre-Audit Communication



Pre-Audit Communication

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

- LACERA's Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2023 (target issuance date of October 12, 2023)
- Schedule of Employer Allocations and Schedule of Pension Amounts of the LACERA Cost-Sharing Multiple-Employer Defined Pension Plan (March/April 2024)
- Schedule of Changes in Fiduciary Net Position by Employer of the LACERA Agent Plan Multiple-Employer Retiree Healthcare Plan (Spring 2024)



Pre-Audit Communication

Auditor Responsibilities

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



Pre-Audit Communication

Identification of Significant Risks

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



Pre-Audit Communication

Plante Moran's Approach to Internal Control

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

Materiality Concept

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



Accounting Standards Changes

GASB Statement No. 96, Subscription-Based Information Technology Arrangements

- What is the scope and potential impact?
 - Similar to GASB Statement No. 87, *Leases* (implemented by LACERA during FY 6/30/22, impact was immaterial)
 - Defined as a contract that conveys control of the right to use another party's information technology software over a period of time in an exchange or exchange-like transaction
 - Could have a more significant impact than GASB 87 due to various software packages utilized by LACERA
 - Management working on evaluation of the impact of this new standard
- When is this effective?
 - LACERA's Fiscal Year Ending June 30, 2023



Questions?

We greatly appreciate the opportunity to serve you!



Contact Information:

Jean Young, CPA

Engagement Partner

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517.336.7458

Amanda Cronk, CPA

Senior Manager

Amanda.Cronk@plantemoran.com

810.766.6045



May 16, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Kristina Sun **KS**
Senior Internal Auditor

FOR: June 1, 2023 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, Management 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.

Recommendations are classified based on the responsible party's progress:

- **On Track** – The responsible party began implementing the recommendation and currently on track to meet the target implementation due date. Management has the option to extend the target implementation due date with the Executive Office's approval.

- **At Risk / Behind Schedule** – The responsible party has not made enough progress to implement the recommendation by the target implementation due date.
- **Implemented** – The responsible party provided documentation and the Internal Auditor verified the satisfactory implementation of the audit recommendation.
- **Overdue** – The responsible party has failed to implement the recommendation by the target implementation due date and has not completed the extension request.
- **Pending Internal Audit's Verification** – The responsible party has submitted documentation to support that the recommendation was but Internal Audit has not yet verified the implementation. Internal Audit does not close out a recommendation without completing internal verification procedures.

Monitoring and Reporting for Fiscal Year 2023

As a result of the audit and consulting projects completed in the recent months, Internal Audit is tracking both audit recommendations and long-term strategic recommendations. Audit recommendations are focused on improving internal controls while strategic recommendations are centered on organizational risks that may impact LACERA in the future. The reporting period is from January 16, 2023 through May 15, 2023. Audit reports and recommendations released after May 15, 2023 will be included in the next quarterly reporting to the Audit Committee.

	# of Audit Recommendations	# of Strategic Recommendations
Balance as of 7/1/2022	11	6
+ New Findings	5	13
- Accepts Risk	0	0
- Implemented Findings	-1	0
Balance as of 9/30/2022	15	19
+ New Findings	8	0
- Accepts Risk	0	0
- Implemented Findings	0	0
Balance as of 1/15/2023	23	19
+ New Findings	5	0
- Accepts Risk	0	0
- Implemented Findings	-5	0
+ Separation of Prior Audit Recommendations	4	0
- Pending Internal Audit's Verification	-6	0
Balance as of 5/15/2023	21	19

Included in this memo are the following attachments for the Audit Committee to review:

- Attachment A – Progress of outstanding audit recommendations, including operational and strategic recommendations, for the period from January through May 2023.
- Attachment B – Details of the outstanding operational audit recommendations as of May 2023.
- Attachment C – Details of the outstanding long-term strategic recommendations as of May 2023.

Staff from the respective divisions will be present at the June 1, 2023 Audit Committee meeting to address any questions.

Attachments

- A. Reco Follow Up Presentation
- B. Operational Recommendations
- C. Strategic Recommendations

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

KS



ATTACHMENT A

Recommendation Follow-Up Progress As Of May 15, 2023

June 2023 Audit Committee Meeting

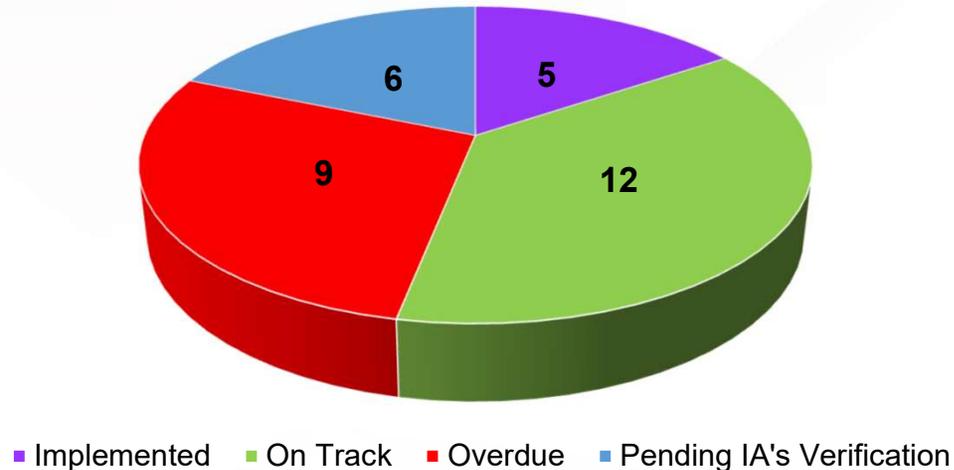
Presented by: Kristina Sun, Senior Internal Auditor

Status of Open Audit Recommendations



Outstanding audit recommendations are classified based on the responsible party's progress and assigned categories based on the fundamental intent of the recommendation. The reporting period is January 16, 2023 through May 15, 2023. Audit reports and recommendations released after May 15, 2023 will be included in the next quarterly reporting to the Audit Committee. All the outstanding audit recommendations are current and have not exceeded beyond the original target implementation dates set by management.

Status of Outstanding Audit Recommendations
as of May 15, 2023



Status of Open Audit Recommendations



Audit recommendations address operational risks and focus on improving internal controls. These recommendations are directed towards specific divisions within the organization. In some cases, implementation requires extensive coordination between multiple divisions. Figure below illustrates the outstanding audit recommendations as of May 15, 2023. Refer to Attachment B for details.

Recommendation Status By Divisions

Division	Implemented	On Track	Overdue	Pending IA's Verification	Grand Total
Administrative Services Division	2	1			3
Disability Retirement Services Division (DRS)		3			3
Financial Accounting & Services Division (FASD)			1		1
Executive Office	1	2	2		5
Human Resources Division (HR)	1	3	6	5	15
Information Security Office		2			2
Investments Office		1			1
Retiree Healthcare Division (RHC)	1			1	2
Grand Total	5	12	9	6	32

Status of Open Strategic Recommendations



Strategic recommendations cover the broader operating risks and control gaps that require attention from the Executive Office. Due to the nature of these recommendations, Executive Office is currently evaluating them during the current strategic planning efforts. A year-end update will be provided at the August 2023 Audit Committee meeting. Refer to Attachment C for details.

Strategic COSO Area*	Project Name	Total
Organizational Structure	Organizational Governance Review	3
	Quality Assurance Operations Review	1
Resource Capacity	Risk & Controls Assessment - Retiree Healthcare	1
Training and Development & Talent Management	Organizational Governance Review	2
	Review of HR Recruiting & Hiring Process	4
	Risk & Controls Assessment - Retiree Healthcare	1
Forecasting/Budget	Risk & Controls Assessment - Retiree Healthcare	1
Policies/Procedure Development & Maintenance	Organizational Governance Review	1
Risk Assessment	Organizational Governance Review	1
General Information Technology (IT) Controls	Risk & Controls Assessment - Retiree Healthcare	1
Internal and External Reporting	Organizational Governance Review	1
Performance Measures	Organizational Governance Review	1
	Quality Assurance Operations Review	1
Grand Total		19

*COSO refers to the internal control framework developed by the Committee of Sponsoring Organizations of the Treadway Commission.

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Administrative Services Division					
Audit of Contract Operations (Procurement of Services)	2019 Policy and 2020 Manual are past review dates	Medium	Administrative Services Division Management should review and update the 2019 Policy for Purchasing Goods and Services and 2020 Purchasing and Contract Administration Manual accordingly.	ON TRACK - Admin Services is waiting for the ECLM and AP application implementations to be complete. Once complete, Admin Services will update the policy and procedures.	12/31/2023
Audit of Contract Operations (Procurement of Services)	Data errors found in the Contract Management System	Medium	The Contract Unit should work with Contract Administrators to ensure that the CMS data is consistent, current, correct, and complete.	IMPLEMENTED - Based on Internal Audit's review of the updated CMS data file, this recommendation has been implemented on 2/8/2023.	1/31/2023
Audit of Contract Operations (Procurement of Services)	Minimal training provided to Contract Administrators	Medium	We recommend the Contract Unit develop a training framework: 3a. Provide training to Contract Administrators when the Policy is updated every two years, or if the process changes significantly. 3b. Provide an overview of the contract administration process through its Contract Resources page on LACERA Connect.	IMPLEMENTED - Management already provided training to Contract Administrators. Additionally, management will roll out the Contract Resource Page around the same time as the new contract management application with Cobblestone, which expected to complete in May/June 2023.	2/28/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Disability Retirement Services Division (DRS)					
Audit of Disability Process	Incomplete policy and procedures related to the DRS intake process for survivor applicants and affiliated disability applicants.	Low	DRS Management should update its standard operating procedure "Intake Application Review and Acceptance Procedures (Intake SOP)" to include disability cases with special requirements or circumstances. Additionally, DRS management should delineate and document the roles and responsibilities between the Legal Office and DRS for handling and monitoring affiliated disability applications.	ON TRACK - Report was issued in May 2023. Management is currently addressing the recommendation.	6/30/2023
Audit of Disability Process	The current practices for processing affiliated disability applications are not documented in a formal policy.	Medium	DRS Management and LACERA's Legal Office should update its Policy to include current practices for processing disability applicants affiliated with LACERA employees or the BOR. A formal documented Policy will help prevent staff from processing affiliated applications that require outsourcing to third-party investigators.	ON TRACK - Report was issued in May 2023. Management is currently addressing the recommendation.	10/31/2023
Audit of Disability Process	A mechanism to identify affiliated disability applicants does not exist.	Medium	DRS Management should develop a formal control mechanism for identifying disability applicants affiliated with LACERA employees or the Board of Retirement.	ON TRACK - Report was issued in May 2023. Management is currently addressing the recommendation.	12/31/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Executive Office					
Board Vantage Security Settings	Expected application access control restrictions were not validated	High	<p>1. LACERA's OneMeeting (PrimeGov) application owners/developers should ensure that during implementation, in the beta phase, when first placed into production, and periodically thereafter, they perform tests of access controls to ensure that the application is appropriately setup and aligned with planned and expected application controls for restricting access to documents to only those authorized and intended to have access.</p> <p>2. LACERA's Information Security Office should require and ensure that appropriate and available audit trails are built and/turned on, and periodically reviewed for all LACERA [OneMeeting] applications.</p>	OVERDUE - Currently One Meeting (PrimeGov) does not have this type of audit trail. Internal Audit will work with Executive Office and InfoSec to address the risk.	2/28/2023
Board Vantage Security Settings	User Access Lists Not Current	Low	Executive Board Assistants should ensure the new OneMeeting (PrimeGov) cloud-based web application incorporates reports each month on user access changes, to confirm access controls for viewing confidential documents are in place and the application appropriately restricts access to only authorized individuals.	IMPLEMENTED - Quarterly verification and use of the revised SEAF form minimizes exposure to users having unauthorized access to OneMeeting documents and functions.	2/28/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Board Vantage Security Settings	Support Application Audit Trails and Restrictions were Deficient	High	LACERA's OneMeeting (PrimeGov) application owners/developers should ensure the new PrimeGov cloud-based web application has audit logging functions in place when confidential documents are accessed. Audit trail reports should be automatically generated to notify the Executive staff of users accessing confidential documents.	OVERDUE - Current OneMeeting audit trails are inadequate in addressing the IA recommendation. Internal Audit will work with Executive Office and InfoSec to address the risk.	2/28/2023
LA County Rehired Retirees FYE 2021	Lack of adherence to PEPRA's "limited duration" language	High	We recommend LACERA's Executive Office and Legal Office work with the Board of Retirement to determine a more defined "bright-line" definition of limited duration to ensure compliance with PEPRA and provide for recovery of benefits paid during periods worked in violation of PEPRA law.	ON TRACK - Received updated management comments in the audit of Los Angeles County's Compliance with Requirements for Rehired Retirees – FYE June 30, 2022. Internal Audit found the same issues persisted therefore, the findings and recommendations remain open.	6/30/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
LA County Rehired Retirees FYE 2021	Spike in the number of Rehired Retirees Exceeding 960-Hour Limit	High	<p>1. We recommend LACERA’s CEO formally request the County CEO in conjunction with the County Director of Human Resources and Auditor-Controller to prepare a corrective action plan that consolidates and actively monitors the rehired retiree (960- hour limit) reporting requirements for all County departments.</p> <p>2. We recommend LACERA’s Executive Office, Systems, and Benefits work with the County’s CEO Office and Auditor-Controller to establish an automated feed of rehired retirees’ hours as part of payroll data.</p> <p>3. We recommend LACERA’s Executive Office, Legal Office, and Benefits develop a policy and procedure to address both preventing overages and taking the required action on the retirement payroll of retirees that exceed the 960-hour limit.</p>	<p>ON TRACK - Received updated management comments in the audit of Los Angeles County’s Compliance with Requirements for Rehired Retirees – FYE June 30, 2022. Internal Audit found the same issues persisted therefore, the findings and recommendations remain open.</p> <p>Due date was extended from 3/30/2023 to 7/1/2023.</p>	7/1/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Financial Accounting & Services Division (FASD)					
Accounts Payables Audit	Accounts Payable Policy	Low	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. Once the policy has been developed, FASD should communicate the Policy to the organization.	OVERDUE - FASD has drafted an Accounts Payable Policy which is in the process of being finalized. FASD expects to bring the Policy to the May - June 2023 Policy Committee meeting for their review and will then seek Executive Office approval.	3/31/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Human Resources Division (HR)					
LACERA Rehired Retirees Audit	#1 - Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	High	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.	OVERDUE - LACERA's Post Employment Rehired Retiree policy is being revised and expect to take it to OOC in June 2023.	9/30/2022
LACERA Rehired Retirees Audit	#1 - Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	High	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.	OVERDUE - Pending results from the FY2022 compliance audit. IA is currently conducting a compliance audit on LACERA 960.	9/30/2022
LACERA Rehired Retirees Audit	#1 - Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	High	HR Management to ensure that missing documentations identified in this audit are obtained for the rehired retirees that worked in FY 2020-2021.	OVERDUE - Pending results from the FY2022 compliance audit. IA is currently conducting a compliance audit on LACERA 960.	9/30/2022
LACERA Rehired Retirees Audit	#2 - Noncompliance With 960-Hour Limit Requirement	High	HR Management should coordinate and communicate with division managers, prior to and periodically during the year, to ensure compliance with the 960-hour limit.	Implemented - Based on Internal Audit's review and testing of the implementation, this recommendation is implemented. Implementation date is 12/31/2022	12/31/2022

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
LACERA Rehired Retirees Audit	#2 - Noncompliance With 960-Hour Limit Requirement	High	LACERA Executive Management should develop a process to remedy any overages due to payments for hours in excess of 960 hours.	OVERDUE - Pending results from the FY2022 compliance audit. IA is currently conducting a compliance audit on LACERA 960.	12/31/2022
LACERA Rehired Retirees Audit	#3 - Lack of Specific Limits in Defining Limited Duration	High	LACERA Executive Management should develop a more prescriptive policy around the rehiring of retirees which includes specific limits around the matter of limited duration.	OVERDUE - LACERA's Post Employment Rehired Retiree policy is being revised and expect to take it to OOC in June 2023.	12/31/2022
LACERA Rehired Retirees Audit	#3 - Lack of Specific Limits in Defining Limited Duration	High	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.	OVERDUE - Pending results from the FY2022 compliance audit. IA is currently conducting a compliance audit on LACERA 960.	12/31/2022
Review of HR Recruiting & Hiring Process	#2: Lack of Policies, Procedures & Automation	N/A	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.	PENDING INTERNAL AUDIT'S VERIFICATION - As of December 2022, HR team developed a manager-oriented recruiting manual and the HR Director reviewed the HR manual. Additionally, the HR manual has been reviewed by the Executive Office. The HR manual is being finalized.	12/31/2022

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Review of HR Recruiting & Hiring Process	#2: Lack of Policies, Procedures & Automation	N/A	HR should utilize the resources and tools available through automated systems such as NEOGov or alternative systems to obtain data contained within the Analytics and Reporting functionality of the system. This data should be used to monitor and assess performance, such as, time-to-hire.	PENDING INTERNAL AUDIT'S VERIFICATION - Systems and HR reviewed NeoGov and ServiceNow for reporting and analytics use in HR. The Information Technology Coordination Council approved the use of ServiceNow which will generate metrics. Systems is currently in development of ServiceNow's metrics reporting for HR purpose.	12/31/2022
Review of HR Recruiting & Hiring Process	#2: Lack of Policies, Procedures & Automation	N/A	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.	PENDING INTERNAL AUDIT'S VERIFICATION - As of December 2022, HR team developed a manager-oriented recruiting manual and the HR Director reviewed the HR manual. Additionally, the HR manual has been reviewed by the Executive Office. The HR manual is being finalized.	12/31/2022

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Review of HR Recruiting & Hiring Process	#3: Lack Structure, Culture & Service Level Agreements	N/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.	ON TRACK - HR management decided to continue using Generalist Human Resources Analysts to meet LACERA's long-term organizational needs. Applications for Generalist HR Analyst have been received and qualified. The first test part of the Sr. HR Assistant is complete.	6/30/2023
Review of HR Recruiting & Hiring Process	#3: Lack Structure, Culture & Service Level Agreements	N/A	HR should have recruiting specialists who are assigned specific Divisions as requested by organization stakeholders.	ON TRACK - HR management decided to continue using Generalist Human Resources Analysts to meet LACERA's long-term organizational needs. Applications for Generalist HR Analyst have been received and qualified. The first test part of the Sr. HR Assistant is complete.	6/30/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Review of HR Recruiting & Hiring Process	#3: Lack Structure, Culture & Service Level Agreements	N/A	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.	ON TRACK - HR management is still in the process of implementing this recommendation.	6/30/2023
Review of HR Recruiting & Hiring Process	#3: Lack Structure, Culture & Service Level Agreements	N/A	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.	PENDING INTERNAL AUDIT'S VERIFICATION - As of December 2022, HR team developed a manager-oriented recruiting manual and the HR Director reviewed the HR manual. Additionally, the HR manual has been reviewed by the Executive Office. The HR manual is being finalized.	12/31/2022

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Review of HR Recruiting & Hiring Process	#3: Lack Structure, Culture & Service Level Agreements	N/A	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.	PENDING INTERNAL AUDIT'S VERIFICATION - As of December 2022, HR team developed a manager-oriented recruiting manual and the HR Director reviewed the HR manual. Additionally, the HR manual has been reviewed by the Executive Office. The HR manual is being finalized.	12/31/2022

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Information Security Office					
Third-Party Data Security	Finding #1 Inadequate communication regarding non-compliance with vendor contracts	High	Administrative Services should build into its control process additional warnings to Contract Administrators, escalating non-compliance to the Executive Office, and implementing consequences, like stopping payments for vendors with non-compliance contracts.	ON TRACK - Report was issued in May 2023. Management is currently addressing the recommendation.	7/31/2023
Third-Party Data Security	Finding #2 No formal procedures for review of vendor security reports	Low	InfoSec management should document its review when approving vendor security reports. The documentation should include a checklist of key areas reviewed and any additional research and communications needed to obtain adequate assurance about the vendor's security posture.	ON TRACK - Report was issued in May 2023. Management is currently addressing the recommendation.	7/31/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Investments Office					
THC Stale Check	Inadequate controls	High	<p>The Investment Office should: Formalize and document procedures for receiving, tracking, and depositing checks, including appropriate levels of supervision and segregation of duties. Address the remaining stale checks by: logging and recordings the status of each check until new checks are received and deposited or written off as a loss of funds, 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 dispositioning uncollectable checks with the Executive Office to determine appropriate reporting.</p>	<p>ON TRACK - Of the 58 checks totaling \$88,034.05 identified as still in progress of recovery as of 6/10/21, \$17,843.45 has been recovered, \$6,218.66 has been written off, and the remaining \$63,971.94 is pending and in various stages of recovery. The bulk of the remaining amount in process of recovery is being claimed with two state agencies: the State of California and the California Franchise Tax Board.</p>	6/30/2023

Operational Recommendation Follow-Up Report As of May 15, 2023

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Retiree Healthcare Division (RHC)					
Risk & Controls Assessment - Retiree Healthcare	RHC division does not have a formal process for reviewing divisional policies and procedures.	Low	RHC management should develop a policy and procedures review process to ensure that the documents are current with applicable laws, organizational policies, and processes.	IMPLEMENTED - Based on Internal Audit's review of the implementation, this recommendation has been implemented. DRS management created a divisional policy "RHC Procedures Review Policy" for reviewing RHC procedures. Additionally, DRS management provided documentation evidencing that RHC internal policies and procedures have been reviewed and updated per the new RHC Procedures Review Policy. Implementation date is 2/28/2023.	6/30/2023
Risk & Controls Assessment - Retiree Healthcare	RHC management has not initiated or completed a majority of its divisional strategic goals.	Medium	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.	PENDING INTERNAL AUDIT'S VERIFICATION - RHC has been collaborating with other applicable divisions to ensure alignment of our goals. Also, RHC management will revisit the remaining divisional goals once the Strategic Plan is finalized.	3/31/2023

Strategic COSO Area	Project Name	Finding Title	Risk Rating	Recommendation	Status Update
Organizational Structure	Organizational Governance Review	OBS 1 - LACERA does not have an organizational wide strategic plan	High	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.	To be evaluated as part of FY22-23 strategic planning
Organizational Structure	Organizational Governance Review	OBS 5 - The LACERA CEO job description and the responsibilities of the Board Committees overlap/conflict	High	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.	To be evaluated as part of FY22-23 strategic planning
Organizational Structure	Organizational Governance Review	OBS 6 - LACERA does not have a formal enterprise fraud prevention and detection program	Medium	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.	To be evaluated as part of FY22-23 strategic planning

Strategic Recommendation Follow-Up Report As of May 15, 2023

Strategic COSO Area	Project Name	Finding Title	Risk Rating	Recommendation	Status Update
Organizational Structure	Quality Assurance Operations Review	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.	Medium	LACERA Executive Management should work with QA and the MOG Divisions to 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.	To be evaluated as part of FY22-23 strategic planning
Resource Capacity	Risk & Controls Assessment - Retiree Healthcare	OBS 1 - RHC has vacancies throughout the division, especially in the RHC Call Center	N/A	This was a strategic observation made by Internal Audit.	To be evaluated as part of FY22-23 strategic planning
Forecasting/ Budget	Risk & Controls Assessment - Retiree Healthcare	OBS 4 - RHC's administrative fee process is not formalized.	N/A	This was a strategic observation made by Internal Audit.	To be evaluated as part of FY22-23 strategic planning

Strategic Recommendation Follow-Up Report As of May 15, 2023

Strategic COSO Area	Project Name	Finding Title	Risk Rating	Recommendation	Status Update
Training and Development & Talent Management	Organizational Governance Review	OBS 3 - LACERA has not implemented a professional development plan	Medium	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.	To be evaluated as part of FY22-23 strategic planning
Training and Development & Talent Management	Organizational Governance Review	OBS 4 - LACERA does not have a succession plan	High	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.	To be evaluated as part of FY22-23 strategic planning
Training and Development & Talent Management	Review of HR Recruiting & Hiring Process	#1: Lack a Planned, Measured and Optimized Recruiting Approach	N/A	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.	To be evaluated as part of FY22-23 strategic planning

Strategic Recommendation Follow-Up Report As of May 15, 2023

Strategic COSO Area	Project Name	Finding Title	Risk Rating	Recommendation	Status Update
Training and Development & Talent Management	Review of HR Recruiting & Hiring Process	#1: Lack a Planned, Measured and Optimized Recruiting Approach	N/A	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.	To be evaluated as part of FY22-23 strategic planning
Training and Development & Talent Management	Review of HR Recruiting & Hiring Process	#1: Lack a Planned, Measured and Optimized Recruiting Approach	N/A	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.	To be evaluated as part of FY22-23 strategic planning

Strategic Recommendation Follow-Up Report As of May 15, 2023

Strategic COSO Area	Project Name	Finding Title	Risk Rating	Recommendation	Status Update
Training and Development & Talent Management	Review of HR Recruiting & Hiring Process	#3: Lack Structure, Culture & Service Level Agreements	N/A	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.	To be evaluated as part of FY22-23 strategic planning
Training and Development & Talent Management	Risk & Controls Assessment - Retiree Healthcare	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	N/A	This was a strategic observation made by Internal Audit.	To be evaluated as part of FY22-23 strategic planning

Strategic Recommendation Follow-Up Report As of May 15, 2023

Strategic COSO Area	Project Name	Finding Title	Risk Rating	Recommendation	Status Update
Policies/Procedure Development & Maintenance	Organizational Governance Review	OBS 2 - LACERA does not review and revise policies and procedures or internal controls in an effective manner	High	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.	To be evaluated as part of FY22-23 strategic planning

Strategic Recommendation Follow-Up Report As of May 15, 2023

Strategic COSO Area	Project Name	Finding Title	Risk Rating	Recommendation	Status Update
Risk Assessment	Organizational Governance Review	OBS 9 - LACERA does not have a formal enterprise risk management and compliance program	High	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.	To be evaluated as part of FY22-23 strategic planning
General Information Technology (IT) Controls	Risk & Controls Assessment - Retiree Healthcare	OBS 3 - RHC Manual Processes with Lack of IT Automated Controls	N/A	This was a strategic observation made by Internal Audit.	To be evaluated as part of FY22-23 strategic planning

Strategic Recommendation Follow-Up Report As of May 15, 2023

Strategic COSO Area	Project Name	Finding Title	Risk Rating	Recommendation	Status Update
Internal and External Reporting	Organizational Governance Review	OBS 7 - LACERA does not have a communication plan	Medium	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.	To be evaluated as part of FY22-23 strategic planning
Performance Measures	Organizational Governance Review	OBS 8 - LACERA lacks defined Key Performance Indicators (KPI)	Medium	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.	To be evaluated as part of FY22-23 strategic planning
Performance Measures	Quality Assurance Operations Review	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.	Medium	QA management should develop an annual quality assurance audit plan and key performance indicators (KPIs) to allocate and monitor QA staff resources.	To be evaluated as part of FY22-23 strategic planning



May 11, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Gabriel Tafoya 
Senior Internal Auditor

FOR: June 1, 2023, 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.

Table 1 on page 2 summarizes the status of recommendations related to seven sensitive information technology (IT) engagements and one category of recommendations in which we previously consolidated duplicated recommendations. Five (5) recommendations were implemented during this reporting period, February 2023 through April 2023.

Table 2 on page 4 summarizes the currently outstanding 24 recommendations by the different IT general controls areas.

Staff will be available to address questions at the June 1, 2023, Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

GT

SUMMARY OF OPEN RECOMMENDATIONS

Table 1: Recommendations Status – By Audit Engagement

Engagement Name Report Date	Total Recos	Implemented During Prior Periods	Implemented Feb 2023 – Apr 2023	In Progress Apr 2023
Recommendation Status by Risk Level				
PM SOC FYE 2022 June 2022				
Medium	5	—	2	3
Moss Adams Pen and Social Engineering April 2022				
High	3	2	—	1
Medium	3	1	—	2
Low	1	—	—	1
PM SOC FYE2021 September 2021				
Medium	5	2	1	2
PM SOC Readiness Assessment February 2020				
Medium	10	9	—	1
Clear Skies Penetration Test and VeraCode Report March 2020				
High	1	1	—	—
Medium	25	19	1	5
Low	17	11	—	6
Tevora 2019 Penetration Test June 2019				
Low	5	4	—	1
Tevora 2018 Security Risk Assessment July 2018				
Medium	3	3	—	—
Low	6	4	1	1
Consolidated Recos January 2021				
High	2	2	—	—
Medium	2	1	—	1
Totals	88	59	5	24

For the month ended April 2023, the Information Security Office, Human Resources and the Systems Division implemented five (5) recommendations as follows:

- Two (2) Oversight of SOC-1 Type 2 FYE June 30, 2022, recommendations that address employee acknowledgement of the Information Security Policies and Standards Manual, and attendance of security awareness training.
- One (1) Oversight of SOC-1 Type 2 FYE June 30, 2021, recommendation that addresses review of mainframe user access.
- One (1) Clear Skies Penetration Test recommendation that addresses password complexity rules.
- One (1) Tevora 2018 Security Risk Assessment recommendation that addresses logical access.

For recommendations which are listed as **In Progress**, the Systems Division, Information Security, and Administrative Services provided a summary of work to be performed and a timeline for completion. They plan to complete all remaining Moss Adams recommendations by June 30, 2023. Management is addressing the one remaining High-Risk recommendation with procedures that have been drafted and are awaiting final approval. Division Management expects this recommendation to be fully implemented by June 30, 2023.

RECOMMENDATIONS CATEGORIZED

IT General Controls (ITGC) are the basic controls that can be applied to IT systems such as applications, operating systems, databases, and supporting IT infrastructure. The general objective for ITGC is to ensure the integrity of the data and processes that systems support.

To provide additional insight into these sensitive recommendations, we categorized the recommendations from sensitive IT engagements into the following ITGC areas:

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

System Monitoring & Maintenance	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.
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Table 2: Recommendations Status – By IT General Control Areas

	Total Recos	Implemented During Prior Periods	Implemented Feb 2023 – Apr 2023	In Progress Apr 2023
Data Back Up & Recovery	1	1	—	—
Environmental	—	—	—	—
Information Security	16	3	2	11
Logical Access	48	40	3	5
Physical Security	3	—	—	3
System Development & Change Management	2	2	—	—
System Monitoring & Maintenance	18	13	—	5
Total by Implementation Status	88	59	5	24

Internal Audit will continue to update the Audit Committee on the status of recommendations at each Committee meeting.

**FOR INFORMATION ONLY**

May 19, 2023

TO: 2023 Audit Committee
Onyx Jones, Chair
Keith Knox, Vice Chair
Patrick L. Jones, Secretary
Jason E. Green
Shawn R. Kehoe
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard Bendall 
Chief Audit Executive

FOR: June 1, 2023 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. In 2023, LACERA received four case reports which have been closed at this time.

Issue Type	Count	Status
Hiring irregularities	4	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.