



Los Angeles County Employees Retirement Association

AUDIT COMMITTEE MEETING

OF THE
BOARD OF RETIREMENT & BOARD OF INVESTMENTS

APRIL 15, 2016

9:00 A.M.

| | |
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AGENDA

MEETING OF THE AUDIT COMMITTEE AND/OR BOARD OF RETIREMENT AND/OR BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. Lake Avenue, Suite 810
Pasadena, CA 91101

April 15, 2016 – 9:00 a.m.

2016 COMMITTEE MEMBERS

Vivian Gray
David Green
Shawn R. Kehoe
Joseph Kelly
Michael S. Schneider

AUDIT COMMITTEE CONSULTANT

Rick Wentzel

- I. **ELECTION OF AUDIT COMMITTEE CHAIR, VICE CHAIR, AND SECRETARY FOR CALENDAR YEAR 2016**
- II. **APPROVAL - MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF DECEMBER 3, 2015**
(Attached)
- III. **PUBLIC COMMENT**
- IV. **EXECUTIVE SUMMARY**
Richard Bendall, *Chief Audit Executive*
(Updated: March 30, 2016)
- V. **AUDIT COMMITTEE GUIDE AND ORIENTATION**
Richard Bendall, *Chief Audit Executive*
(Updated: March 30, 2016)
- VI. **ACTION ITEMS**
 - A. Recommendation that the Audit Committee review the Audit Committee Meeting Schedule and provide direction to staff on changes as submitted by Richard Bendall, *Chief Audit Executive*.
(Memo Dated: March 29, 2016)

AGENDA – REGULAR MEETING OF THE AUDIT COMMITTEE

April 15, 2016

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- B. Recommendation as submitted by Richard Bendall, *Chief Audit Executive*, Leisha Collins, *Principal Internal Auditor*, and Christina Logan, *Senior Internal Auditor* that the Audit Committee:
 - 1. Provide direction to staff on the proposed updates to the Audit Committee Charter,
 - 2. Upon approval, recommend to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter.
(Memo Dated: March 29, 2016)
- C. Recommendation that the Audit Committee review and approve the updated Internal Audit Charter as submitted by Richard Bendall, *Chief Audit Executive*, and Leisha Collins, *Principal Internal Auditor*, and Christina Logan, *Senior Internal Auditor*.
(Memo Dated: March 29, 2016)
- D. Recommendation, as submitted by Richard Bendall, *Chief Audit Executive*, and David Redman, *Senior Internal Auditor*, that the Audit Committee:
 - 1. Authorize staff to issue a Request For Proposal (RFP) for an external certified public accounting firm (Auditor) to perform the annual audit of LACERA's financial statements with a proposed contract term of 5 years, fiscal years ending 2017-2021, with an optional two-year extension; and
 - 2. Approve the attached RFP Draft with its "Firm (Auditor or Bidder) Minimum Qualifications"; and
 - 3. Provide direction to staff regarding the evaluation process of proposals received and the selection and interview of "finalists."
(Memo Dated: March 24, 2016)

VII. REPORTS

- A. **Risk Assessment Process**
Richard Bendall, *Chief Audit Executive*
(Updated: March 29, 2016)
- B. **Internal Audit Goal Report**
Richard Bendall, *Chief Audit Executive*
(Updated: March 23, 2016)
- C. **Audit Plan Status Report**
Richard Bendall, *Chief Audit Executive*
(Memo Dated: March 31, 2016)
- D. **Recommendation Follow-Up Report**
Quoc Nguyen, *Principal Internal Auditor*
(Memo Dated: March 22, 2016)

AGENDA – REGULAR MEETING OF THE AUDIT COMMITTEE

April 15, 2016

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

F. **Continuous Auditing Program (CAP)**
Gabriel Tafoya, *Senior Internal Auditor*
Nathan Amick, *Internal Auditor*
(Presentation Dated: March 28, 2016)

VIII. FOR INFORMATION ONLY

A. **Quality Assurance Review – 2016**
G. Shemo Consulting Inc.
(Report Issued: January 15, 2016)

B. **IRS Section 415b Adjustments Audit**
David Redman, *Senior Internal Auditor*
(Report Issued: January 8, 2016)

C. **Member Data File Exception Processing**
George Lunde, *Senior Internal Auditor*
(Report Issued: March 24, 2016)

D. **Duplicate Vendor Payments Audit**
Gabriel Tafoya, *Senior Internal Auditor*
(Report Issued: March 29, 2016)

IX. CONSULTANT COMMENTS

Rick Wentzel, *Audit Committee Consultant*
(Verbal Presentation)

X. GOOD OF THE ORDER

(For Information Purposes Only)

XI. EXECUTIVE SESSION

A. **Performance Evaluation – 2016 Goals & Expectations**
[Pursuant to Government Code Section 54957(b)(1)]

Title: Chief Audit Executive

XII. ADJOURNMENT

AGENDA – REGULAR MEETING OF THE AUDIT COMMITTEE

April 15, 2016

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

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

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MINUTES OF THE AUDIT COMMITTEE

REGULAR MEETING OF THE AUDIT COMMITTEE AND BOARD OF RETIREMENT AND/OR BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. Lake Avenue, Suite 810
Pasadena, CA 91101

December 3, 2015 – 1:03 p.m.

2015 COMMITTEE MEMBERS

PRESENT: Alan Bernstein – *Chair*
Joseph Kelly – *Vice Chair*
Diane A. Sandoval – *Secretary*
John Barger

ABSENT: David Green
Shawn Kehoe

BOARD MEMBERS AT LARGE

None

AUDIT COMMITTEE CONSULTANT

Timothy O'Brien

STAFF, ADVISORS, AND PARTICIPANTS

| | | |
|------------------|----------------------|--------------------------|
| Gregg Rademacher | Beulah Auten | Brown Armstrong |
| Robert Hill | Bernie Buenaflor | Andrew Paulden |
| John Popowich | Derwin Brown | Elena Sanchez |
| Richard Bendall | Roxana Castillo | |
| Nathan Amick | Calvin Chang | Alston & Bird |
| Sylvia Botros | Gloria Harriel | Dominique Shelton |
| Leisha Collins | Ted Granger | Paula Stannard |
| Elvia Gonzalez | Cynthia Guider | |
| Christina Logan | Kimberly Hines | Stroz Friedberg |
| George Lunde | Cookie Jaranilla | David Garrett |
| Quoc Nguyen | Dmitriy Khaytovich | |
| David Redman | Mary Phillips | |
| Gabriel Tafoya | James Pu | |
| Darla Vidger | Steven Rice | |
| | Cassandra Smith | |
| | Roberta Van Nortrick | |

MINUTES OF THE AUDIT COMMITTEE

DECEMBER 3, 2015

PAGE 2 OF 5

I. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF JULY 15, 2015

Mr. Bernstein called for a motion to approve the Minutes of the Audit Committee Meeting of July 15, 2015. A motion for approval was presented by Mr. Kelly. A second was provided by Ms. Sandoval. The Minutes were approved with one abstention by Mr. Barger.

II. PUBLIC COMMENT

No items to report.

III. EXECUTIVE SUMMARY

Richard Bendall, *Chief Audit Executive*

Mr. Bendall provided an overview of the December 3, 2015 Audit Committee meeting and updates to the Audit Committee meeting book.

IV. ACTION ITEMS

- A. Recommendation that the Audit Committee interview and select individual to hire for the Audit Committee Consultant position as submitted by Richard Bendall, *Chief Audit Executive*, and Leisha Collins, *Principal Internal Auditor*.

(Memo Dated: November 16, 2015)

Ms. Collins provided an overview of the Audit Committee search process as well as some background information on the two finalist candidates that will be presented for consideration of and selection by the Committee. Following the candidate interviews and some additional discussion of the Committee's changing needs. Mr. Barger moved that the Committee selected Rick Wentzel, a partner of Grant Thornton, to serve as the new Audit Committee Consultant provided that staff negotiated the fee. A second was provided by Ms. Sandoval. The motion was unanimously approved.

- B. Recommendation as submitted by Richard Bendall, *Chief Audit Executive*: That based on a review and consideration of staff's evaluation, candidate proposals, and presentations, Internal Audit recommends the Audit Committee forward a recommendation to the Board of Retirement and Board of Investments to select the law firm Alston & Bird and their subcontractor Stroz Friedberg to perform an audit and data mapping of LACERA's operations insofar as they involve private, confidential, and business critical information.

(Memo Dated: November 19, 2015)

Mr. Bendall provided a brief overview of LACERA's privacy program and practices and the need for an external audit of LACERA's privacy operations. Mr. Rice then provided a summary of LACERA's search and comprehensive due diligence process to evaluate potential firms to perform an audit and data mapping of LACERA's

MINUTES OF THE AUDIT COMMITTEE

DECEMBER 3, 2015

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operations insofar as they involve private, confidential, and business critical information. The candidate presentation immediately followed. Upon completion, Mr. Kelly moved that the Audit Committee forward a recommendation to the Board of Retirement and Board of Investments to select the law firm Alston & Bird and their subcontractor Stroz Friedberg. Mr. Barger provided a second. The motion was unanimously approved.

V. REPORTS

A. **Brown Armstrong Presentation of the Reports – June 30, 2015**

Agenda and Reports from Brown Armstrong et. al.

- *Independent Auditor's Report on the Audited Financial Statements re LACERA and the OPEB Trust for the Fiscal Year ended June 30, 2014*
 - *[included] Independent Auditor's Opinion*
- *Report on Internal Control Over Financial Reporting and on Compliance*
- *Required Communications to the Audit Committee*
- *Agreed Upon Conditions Report*

Andrew Paulden, *Managing Partner*

Elena Sanchez, *Senior Accountant*

Mr. Paulden informed the Committee that Connie Perez, former partner in Brown Armstrong, had left the firm to pursue a congressional office.

Ms. Sanchez and Mr. Paulden then presented the work performed by Brown Armstrong to audit LACERA's financial statements for the Fiscal Year-End of June 30, 2015. LACERA's financial statements were given an unqualified or clean opinion; there were no material weaknesses or significant deficiencies reported.

B. **Internal Audit Staffing Report**

Richard Bendall, *Chief Audit Executive*
(*Verbal Presentation*)

Mr. Bendall welcomed two new audit staff, Christina Logan and Gabriela Tafoya, both of whom are senior internal auditors.

C. **Audit Plan Status Report – November 20, 2015**

Richard Bendall, *Chief Audit Executive*
(*Report Dated: November 20, 2015*)

Mr. Bendall described the Audit Plan cycle and gave a high level recap of work performed since the last Audit Committee meeting.

D. **Recommendation Follow-up Report**

Quoc Nguyen, *Principal Internal Auditor*
(*Memo Dated: November 18, 2015*)

Mr. Nguyen described the nature and schedule of the Recommendation Follow-Up Report and how it provides the status of management's progress toward audit recommendations.

MINUTES OF THE AUDIT COMMITTEE

DECEMBER 3, 2015

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Mr. Nguyen then gave an overview of the Recommendation Aging Report and progress on any outstanding recommendations.

Mr. Kelly inquired about the progress of an outstanding recommendation which was addressed by Ms. Hines. Ms. Hines reported that the outstanding recommendation would be addressed during the coming fiscal year.

VI. FOR INFORMATION ONLY

A. Audit Reports

(Attached Under Separate Cover)

1. Foreign Payees Audit
Nathan Amick, *Internal Auditor*
(Report Issued: October 16, 2015)
2. Human Resources Audit
Liebert, Cassidy, Whitmore (LCW), External Audit
(Memo Dated: November 16, 2015)
3. PEPRA 960 Hours Testing
Nathan Amick, *Internal Auditor*
(Report Issued: November 20, 2015)
4. LACERA Building Renovation – Tenant Improvements Audit
Christina Logan, *Senior Internal Auditor*
(Report Issued: November 24, 2015)
5. Returned ADR Audit
Darla Vidger, *Internal Auditor*
(Report Issued: November 24, 2015)

Mr. Kelly had a question regarding the LACERA automatic deposit receipt mailings and associated costs. Mr. Bendall responded that the focus of the audit was actually the returned automatic deposit receipts. Mr. Rademacher clarified the purpose of the automatic deposit receipts and the benefits of the mailing process to stay in contact with members and mitigating certain risks.

6. Software License Compliance Audit
Gabriel Tafoya, *Senior Internal Auditor*
(Report Issued: November 24, 2015)

Mr. Kelly recommended that it would be appropriate for audit staff to review and comment on software license planning and administration.

MINUTES OF THE AUDIT COMMITTEE

DECEMBER 3, 2015

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VII. CHIEF AUDIT EXECUTIVE GOAL REPORT

(Memo Dated: November 18, 2015)

Mr. Bendall provided an overview of the Internal Audit divisional goals.

VIII. CONSULTANT COMMENTS

Timothy O'Brien, *Audit Committee Consultant*

(Verbal Presentation)

Mr. O'Brien recommended that the Audit Committee membership should be more permanent. He also noted that the Committee should continue to be vigilant and involved. Finally, Mr. O'Brien lauded the outstanding presentation skills of Mr. Andrew Paulden.

IX. GOOD OF THE ORDER

(For Information Purposes Only)

Mr. Bendall and the Committee thanked Mr. O'Brien for his service to the Committee.

X. EXECUTIVE SESSION

A. Performance Evaluation

[Pursuant to Government Code Section 54957(b)(1)]

Title: Chief Audit Executive

XI. ADJOURNMENT

The meeting adjourned at 3:20 p.m.

DV/dv

Executive Summary

LACERA AUDIT COMMITTEE MEETING

APRIL 15, 2016

This summary provides highlights for the April 15, 2016 meeting.

Talking Points

Orientation

Audit Committee Orientation

Staff will provide the committee with a presentation explaining their orientation guide, responsibilities and expectations for the year.

Meeting Dates

Audit Committee Meeting Dates

The Chief Audit Executive will lead a discussion of Committee meeting dates and moving forward with a possible amended Board Resolution.

Audit Charters

Audit Committee & Internal Audit Charters

Staff will provide the Committee with updates of both the Audit Committee Charter and the Internal Audit Charter for review and discussion.

External Audit RFP

External Audit RFP

Staff will provide the Committee with an overview of the External Financial Audit Request for Proposals (RFP) Draft for review and approval.

Risk Assessment

Risk Assessment Process

The Chief Audit Executive will discuss the current Annual Risk Assessment process for the Committee's review and discussion.

Goal Report

Internal Audit Goal Report

Staff will provide a presentation featuring all of the significant goals completed since the last Audit Committee meeting.

Continuous Audit Program (CAP)

Continuous Audit Program (CAP)

Staff will provide a presentation featuring Internal Audit's Continuous Audit Program (CAP).

QAR

Quality Assessment Review (QAR)

Internal Audit had a Quality Assurance Review (QAR) completed in January 2016. The primary objective of the QAR was to evaluate Internal Audit's compliance with the Institute of Internal Auditor's *International Standards for Professional Practice of Internal Auditing (Standards)*. The consultant found that Internal Audit generally conforms to the Standards.

CAE Goal Discussion

Chief Audit Executive (CAE) – Goal Discussion

The Chief Audit Executive will seek comments from the Committee regarding Internal Audit goals in closed session. (This report is attached under separate cover.)



March 30, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: AUDIT COMMITTEE ORIENTATION

Welcome to the 2016 Audit Committee and thank you for your service! Through your active participation and involvement on this Committee, you will make a valuable difference to LACERA's members, employees, and business partners.

While there are many returning members this year, we especially appreciate the participation of new members and hope you will enjoy your work on this very important Committee. During our April 2016 meeting, staff will provide a brief orientation to your roles, responsibilities, and what to expect this year.

In addition to the presentation, we have included your new Audit Committee Guide (Guide) that we hope you will find useful.

We look forward to working with you.

Attachments

*A*UDIT COMMITTEE *O*RIENTATION

April 15, 2016

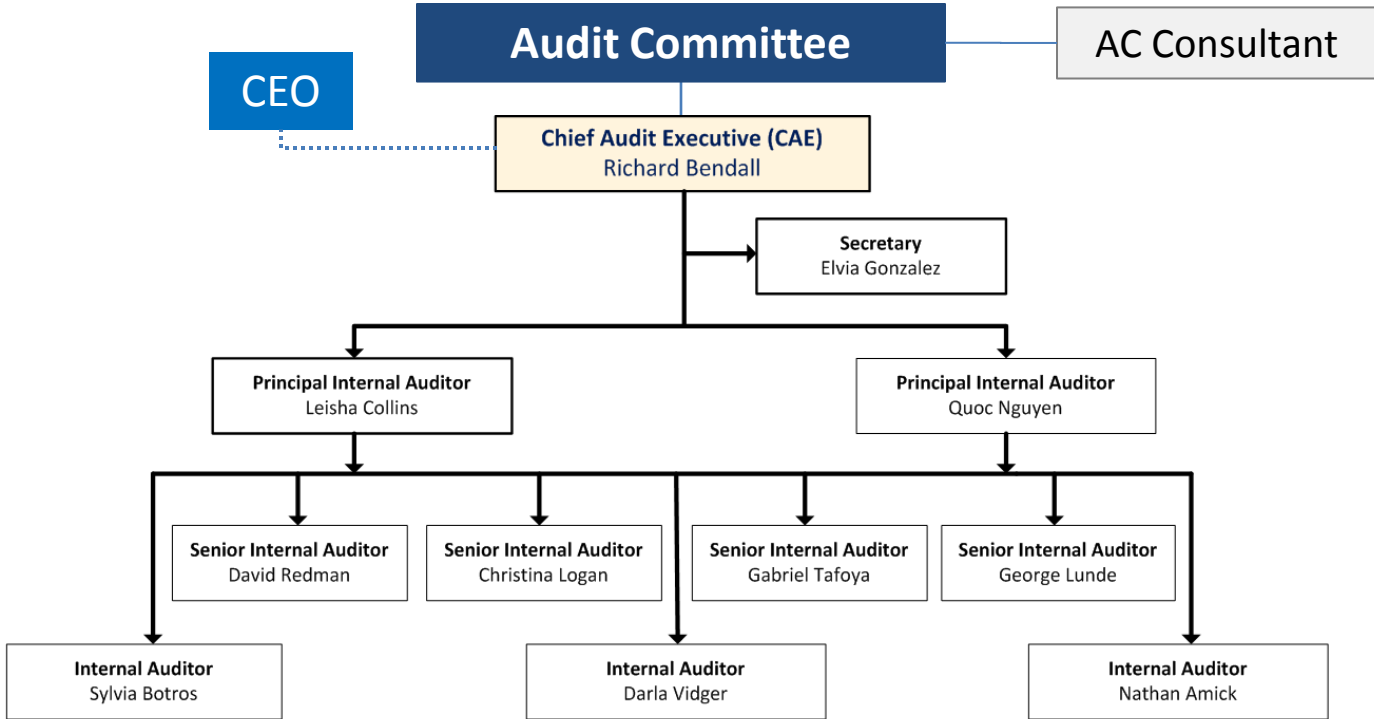
INTERNAL AUDIT

Mission

To provide independent, objective assurance services and consulting services designed to add value and improve the organization's operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

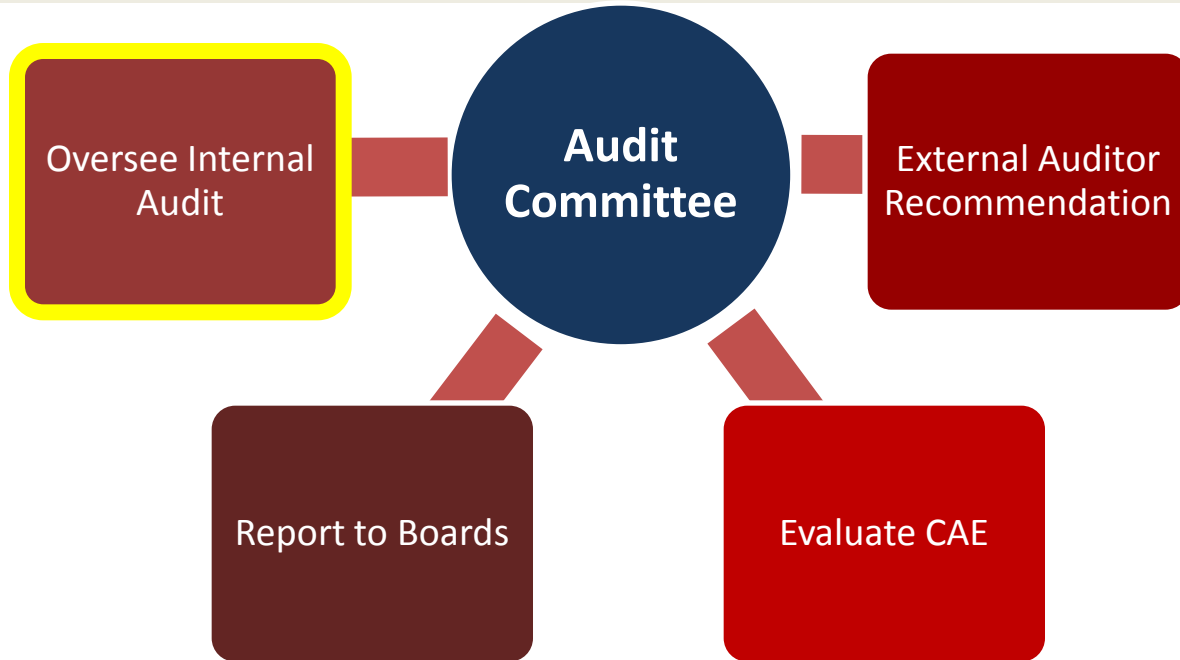
INTERNAL AUDIT

Organizational Chart



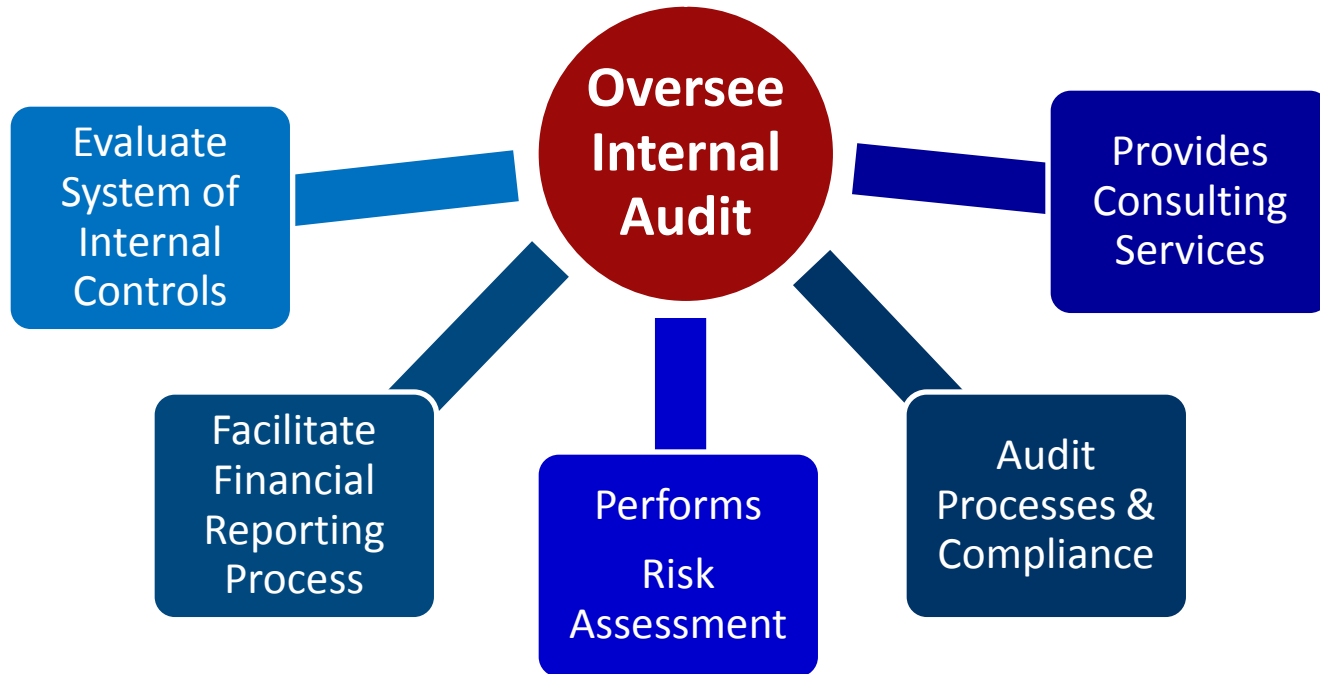
AUDIT COMMITTEE

Roles & Responsibilities



AUDIT COMMITTEE

Roles & Responsibilities



AUDIT COMMITTEE

2016 Meeting Special Topics

- Election of Committee Officers
- Audit Committee Orientation

April

15

- Previous FY Audit Plan
- Annual Risk Assessment
- New FY Audit Plan

July

20

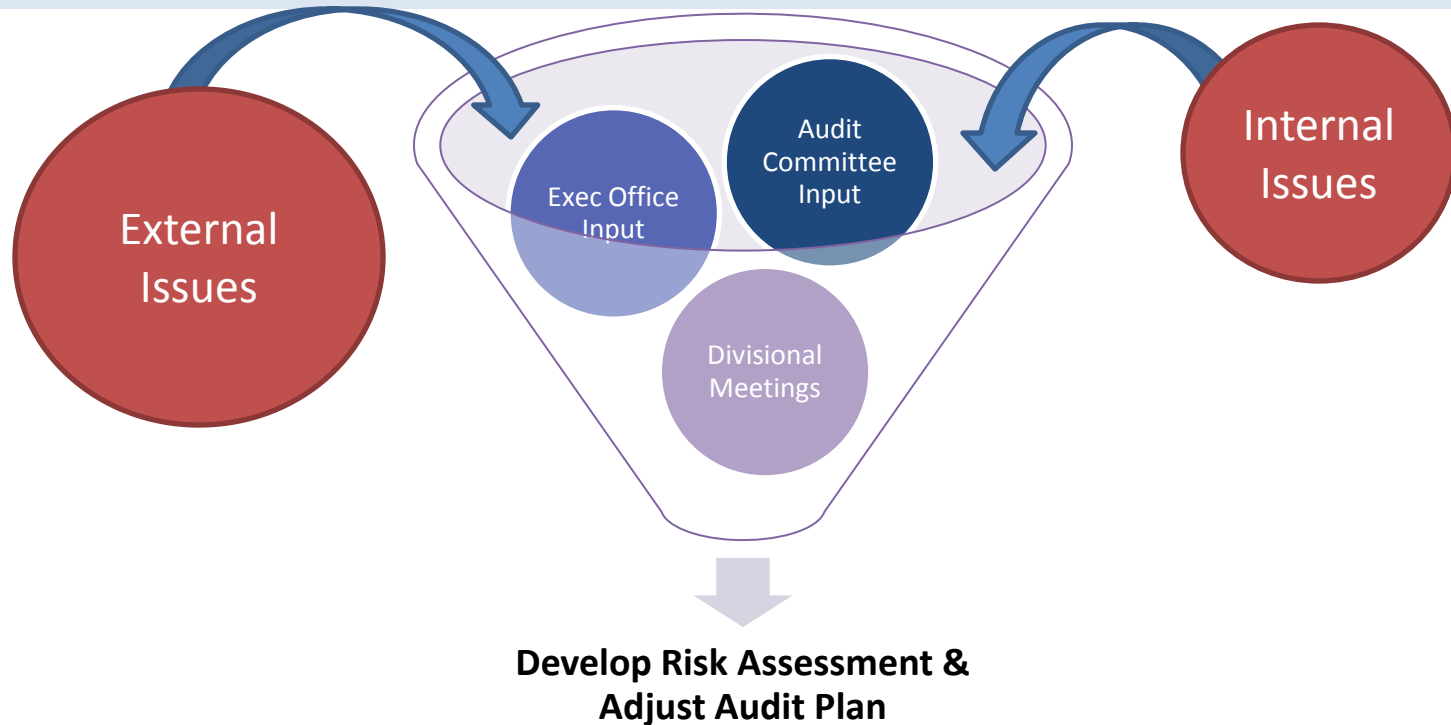
- LACERA External Financial Audit Report
- CAE Performance Evaluation

December

1

INTERNAL AUDIT

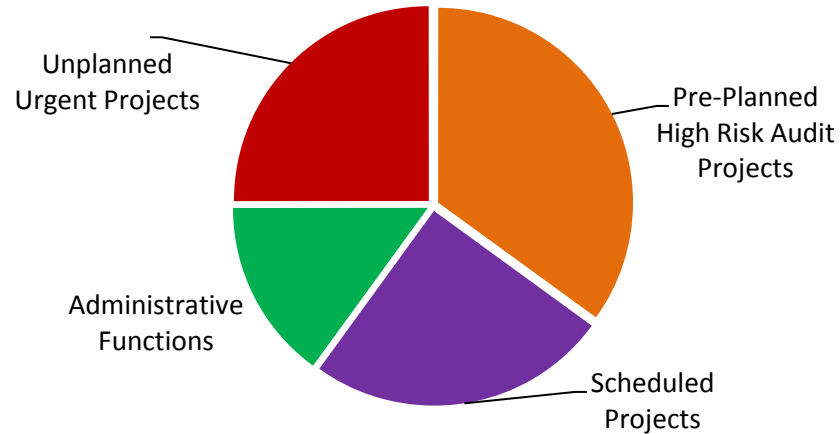
What Influences How We Spend Our Resources?



INTERNAL AUDIT

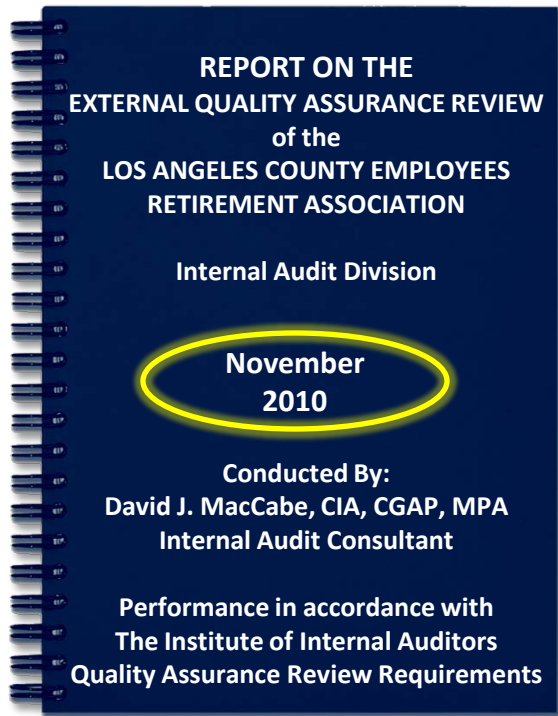
How Do We Allocate Our Resources?

Resource Allocation



INTERNAL AUDIT

Quality Assurance Review



AUDIT COMMITTEE CONSULTANT

Rick Wentzel, CPA



Experience

- Partner at Grant Thornton
- Grant Thornton's Western Region Not-for-Profit and Higher Education Practices Leader
- 26 Years Public and Private Accounting Experience

Designations

- CPA — Arizona, California, Nevada, Oregon

Education

- BA, Accounting & Religion, Claremont McKenna College

INSTITUTE of INTERNAL AUDITORS

The IIA

RESEARCH

4th Edition

Audit Committee Effectiveness What Works Best



ASSOCIATION of PUBLIC PENSION FUND AUDITORS

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The Power of Association

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- 2012 Annual Meeting Documents

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The Association of Public Pension Fund Auditors (APPFA) was established in 1991 by four internal auditors from public pension funds in Colorado, Illinois, New York, and Wisconsin.

Since then, APPFA has grown to over 100 member organizations, including the largest public employee retirement systems in 40 states and Canada. Its members are comprised predominately of public

THANK *you* FOR *your* TIME!

We are honored to work for you.



*A*UDIT *C*OMMITTEE *G*UIDE

Los Angeles County Employees Retirement Association
L A C E R A

2016

AUDIT COMMITTEE GUIDE

FOR THE LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

OVERVIEW

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THE AUDIT COMMITTEE

ROLES AND RESPONSIBILITIES

An effective audit committee can heighten the integrity and increase the efficiency of the entire audit process, the organization's system of internal controls, financial reporting, and the legal and ethical conduct of management and employees. The LACERA Audit Committee responsibilities include approving the overall internal audit scope, recommending the appointment of the external financial auditors, overseeing LACERA's annual financial reporting process and internal controls, helping to ensure that all audits are conducted in a cost-effective manner, and supporting oversight of risk management within the organization. For more detailed information on the Committee's composition and Consultant in addition to the following, please also refer to the [Audit Committee Charter](#).

REPORT, MANAGE, AND COMMUNICATE

The Audit Committee responsibilities include:

- 1) Meeting with the organization's officers, employees, internal auditors, external auditors, outside counsel and/or specialists as necessary.
- 2) Communicating public disclosures related to the purpose, authority, function, and responsibility of the Audit Committee.
- 3) Reporting to the Boards, as necessary, on the activities, decisions, findings, and recommendations of the Audit Committee.
- 4) Making recommendations to the Boards regarding:
 - a. the appointment, compensation and work of the certified public accounting firm employed to audit the organization's financial statements;
 - b. the appointment, compensation, and work of accountants or other external consultants in completing audits, reviews, or investigations related to financial or operational matters (when the cost is expected to exceed the CEO's discretionary allowance for such contracts); and,
 - c. where such coordination is required, or in the case of disagreements between management, internal, and/or external auditors.

OVERSEE AND SUPPORT INTERNAL AUDIT SERVICES

The Audit Committee responsibilities also include:

- 1) Monitoring the performance of the Scope of Work for Internal Audit Services.
- 2) Approving the Internal Audit Services Charter and Scope of Work.
- 3) Ensuring the independence of the Internal Audit Services function.
- 4) Reviewing and approving the Chief Audit Executive (CAE) annual performance evaluation.

MEETINGS

There are three (3) regular Audit Meetings held per year, as set forth by the [Audit Committee Charter](#). These meetings are conducted the third Wednesday of March and July and the first Thursday of December.

The following are typical agenda topics for each of these meetings:

MARCH

- Election of Committee Officers
- Audit Committee Orientation
- Audit Plan Status Updates
- Review of Work Completed/In-Progress (WIP) Report
- Audit Recommendations Status Updates

JULY

- Previous Fiscal Year Audit Plan Review
- Annual Risk Assessment Review
- Audit Plan Status Updates, Fiscal Year End
- New Fiscal Year Audit Plan Review & Approval
- Review of Work Completed / In Progress
- Audit Recommendations Status Updates

DECEMBER

- LACERA External Financial Audit Report
- Audit Plan Status Updates
- Review of Work Completed/In-Progress Report
- Audit Recommendations Status Updates

EXHIBIT A | THE AUDIT COMMITTEE CHARTER

The following is the most current Audit Committee Charter approved in April, 2010.

PURPOSE / AUTHORITY

In November 2003, the Los Angeles County Employees Retirement Association's Board of Retirement and Board of Investments established the LACERA Audit Committee.

The purpose of this Audit Committee Charter is to govern the Audit Committee that assists the Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the financial reporting process, the system of internal controls, the audit processes, and the organization's process for monitoring compliance with laws and regulations. The Audit Committee Charter is a living document and may be amended for procedural and administrative matters upon majority vote of the Audit Committee.

AUDIT COMMITTEE ROLES AND RESPONSIBILITIES

AUDIT COMMITTEE REPORTING, MANAGEMENT, AND COMMUNICATION RESPONSIBILITIES

- 1) Meet with the organization's officers, employees, internal auditors, external auditors, outside counsel and/or specialists as necessary.
- 2) Communicate public disclosures related to the purpose, authority, function, and responsibility of the Audit Committee.
- 3) Report to the Boards, as necessary, on the activities, decisions, findings and recommendations of the Audit Committee.
- 4) Make recommendations to the Boards
 - regarding the appointment, compensation, and work of the certified public accounting firm employed to audit the organization's financial statements
 - regarding the appointment, compensation, and work of accountants or other external consultants in completing audits, reviews, or investigations related to financial or operational matters (when the cost is expected to exceed the CEO's discretionary allowance for such contracts).
 - where such coordination is required, or in the case of disagreements between management, internal, and/or external auditors.

OVERSEE AND SUPPORT THE WORK OF THE INTERNAL AUDIT DIVISION

- 1) Monitor the performance of the Internal Audit Division's scope of work.
- 2) Ensure the independence of the Internal Audit Division.
- 3) Approve the Internal Audit Division Charter and scope of work.
- 4) Review and approve the Chief Audit Executive (CAE) annual performance evaluation.

The Chief Audit Executive (CAE) is the top position within the Internal Audit Division and reports directly to the Audit Committee on a monthly basis. The CAE will report to the Chief Executive Officer (CEO) administratively and accordingly, the CEO will prepare the CAE's annual performance evaluation.

AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of the chair and vice-chair of the Boards of Retirement and Investments, plus one Board member elected annually by each Board, for a total of four to six members. Audit Committee members who leave Board service will be replaced automatically when the Board replaces its missing officer while other Committee membership remains intact. If any elected Audit Committee member leaves Board service, the appropriate Board will elect a new Audit Committee member at the next regularly scheduled Board meeting.

If Audit Committee voting results in a tie, the Committee will forward the recommendation to the appropriate Board for consideration and final decision.

The Committee shall have the authority to approve the hiring of the audit consultant as an advisor. The audit consultant will be designated as the audit technical expert, to advise the Committee on audit and financial matters.

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

AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least three times per year, with authority to convene additional meetings, as circumstances require.

Meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings, and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee. The Committee will invite members of management, internal auditors, external auditors, and/or others to attend meetings and provide pertinent information, as necessary.

Special meetings of the Committee may be called in the manner provided by Section 54956 of the Government Code.

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

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

APPROVED

This revised Audit Committee Charter was approved by the Board of Retirement and Board of Investments on April 15, 2010 and April 14, 2010, respectively.

INTERNAL AUDIT SERVICES

PURPOSE OF INTERNAL AUDIT

The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

ROLES AND RESPONSIBILITIES

Roles and responsibilities of Internal Audit are defined in the [Internal Audit Charter](#).

KEY AUDIT RELATED CONCEPTS & INFORMATION

INTERNAL VS. EXTERNAL AUDITING

There is a distinct difference between internal and external auditing functions. **External auditors** typically provide an independent opinion on an organization's financial statements. They assess whether the financial statements conform to generally accepted accounting principles (GAAP), and whether they fairly represent the financial position of the organization. External Auditors are primarily concerned with **historical events**.

Internal auditors perform audit processes to evaluate and improve internal operations, risk management, internal controls, and governance processes. Internal auditors are primarily concerned with **future events** and the prevention of fraud.

External auditors may also perform internal control audits, but internal auditors are more familiar with the organizations because they are a part of the organization. Internal auditors may also perform financial audits, but internal auditors have no authority to provide unbiased independent opinions on an organization's financial statements.

DUAL REPORTING

To provide for the independence of the Internal Audit Service function, division staff report to the Chief Audit Executive (CAE), who reports functionally to the Audit Committee and administratively to the Chief Executive Officer.

INTERNAL AUDIT ROLES

TO AUDIT

Internal Audit performs operational, compliance and project audits of various processes, policies, and procedures within LACERA and occasionally at companies within LACERA's purview (ie. real estate manager contract audits). An audit is an evaluation conducted in order to determine the reliability and validity of information or to assess the internal risk controls associated with the process, project, or area. Our goal is to express an opinion on the subject in question based on our test work and to provide reasonable assurance to LACERA Management, the Audit Committee, and Boards that processes are working and policies and procedures are being followed. In areas with deficiencies Internal Audit provides specific recommendations for improvement.

TO CONSULT

Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. The internal audit department is in a unique position to perform consulting work due to its adherence to the highest standards of objectivity¹ and its breadth of knowledge about the organizations processes, risks, and strategies.

TO INVESTIGATE

Internal Audit conducts, participates in or coordinates investigations within LACERA whenever there is a suspicion of illegal acts or other injurious misconduct that violates a LACERA policy. This includes incidents involving LACERA personnel and resources, as well as outside parties interacting with LACERA, including vendors and fiduciaries. Internal Audit also participates in investigations conducted by outside agencies as they relate to LACERA's interests. During investigations, Internal Audit may use interviewing, document analysis, direct observation, surveillance, and computer forensic techniques, and may contract with specialists as needed. Incident investigations usually culminate in the issuance of an Internal Audit memorandum which documents Internal Audit's findings and recommendations.

Investigations may result from a report to Internal Audit made directly to an auditor, through LACERA's fraud hotline [(626)564-6000, ext. 2040], or on a written misconduct report. They may also be triggered by information discovered in the course of other Internal Audit work. LACERA's misconduct and illegal acts reporting guidelines are documented in LACERA's Misconduct and Illegal Acts Policy (rev.05/03). Reports submitted anonymously are confidential. All other reports are subject to legal disclosure requirements but are, otherwise, handled with the utmost discretion.

TO MANAGE

The Latin phrase, "*Quis custodiet ipsos custodes?*" translated to mean, "*Who will guard the guards themselves?*" or "*Who watches the watchmen?*"

Internal Audit generally manages the contract process for hiring external auditors. Some of the audits conducted by external auditors include:

- Fiduciary review auditors
- LACERA financial statement audits
- Specialized IT audits
- Financial audits for LACERA owned real estate entities.

Additionally, Internal Audit is subject to an external quality assurance review every five years.

EXTERNAL QUALITY ASSURANCE REVIEW (QAR)

In order to claim compliance with the Institute of Internal Audit standards, an external assessment of Internal Audit's operations must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. Additionally, the Chief Audit Executive must communicate the results of the quality assurance and improvement program to senior management and the Audit Committee. The last quality assurance review of LACERA's Internal Audit Division was completed in 2016. The report is attached for your information. Internal Audit will be scheduled to have another external quality assurance review in 2020.

¹ LACERA's Internal Audit adheres to the International Standards for the Professional Practice of Internal Auditing (ISPPA) issued by the Institute of Internal Auditors (IIA). Here we reference the IIA ISPPA Standard 1100. The internal audit activity should be independent, and internal auditors should be objective in performing their work.

AUDIT APPROACHES

There are numerous types of audit approaches available to the internal audit department. The approach utilized, is dependent on the needs of the audit client. On occasion, it may be necessary to merge several different audit approaches to meet the objective(s) of the audit engagement. This document will briefly discuss a few different types of audit approaches.

ASSURANCE SERVICE

An assurance service is an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization.²

AUDIT REVIEW

An **audit review** is typically used as a consultative tool, to evaluate processes for purposes of improvement for the benefit of management. The audit review does not have the same level of assurance as a complete audit, because the depth and scope of the testing conducted during the review is not adequate to provide an assurance (or attestation) of integrity and effectiveness.

TRANSACTIONAL TESTING

Transactional testing (also called a Continuous Process Test (CPT)) is an abbreviated audit process that is used whenever Internal Audit or LACERA Management can benefit from greater testing frequency and more rapid reporting than can be achieved through a conventional audit. Typically, CPT's are designed to monitor individual controls within a larger process or system. After a broader examination of the process is conducted, controls that are deemed critical indicators to the success of the process or system are identified. A CPT report to management is designed to provide data regarding the performance of those controls, but does not necessarily provide an analysis of the root cause of that performance or recommendations or management action plans. If recommendations are warranted, they are usually included in a separate Audit Memorandum to Executive Management, and will include a management action plan. CPT's are generally conducted multiple times per year and involve small sample sizes.

FRAUD AND COMPLIANCE TESTING USING "CAATS"

Computer-Aided Auditing Tools (CAATs) are tools such as Automated Command Language (ACL) that can analyze large data sets significantly quicker and more robustly than standard spreadsheet software. Using CAATs, Internal Audit can design and develop tests using large data sets obtained of members, vendors, and/or employee transactions where one hundred percent of the data could be analyzed to identify possible fraud or areas of non-compliance. As part of the CAE's Fiscal Year 2015-16 divisional goals, Internal Audit is currently expanding the scope and number of tests performed in this area.

² Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing (ISPPA) - Glossary

EXTERNAL AUDIT

An **external audit** may become essential when an audit requires the participation of an individual with extensive knowledge in an area in which the internal audit staff may not have the necessary depth of experience. The Chief audit executive is required to obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of an engagement.³

CO-SOURCING

Co-sourcing is one method in which the internal audit department obtains external aid in performing certain audit activities. The internal audit staff will participate in a co-sourced engagement with the external auditor, working as a team. This method may be used as an opportunity to train internal audit staff in areas where additional proficiency is required. While each internal auditor does not need to be proficient in all fields relevant to the organization's audit needs, the department should collectively possess the necessary competencies.

CONSULTING

Consulting can range from formal engagements defined by written agreements, to advisory activities such as participating on a management committee or project team. Consulting and assurance (audit) services are interrelated processes. Consulting is often the direct result of assurance services, while assurance may also be generated from consulting engagements. The internal audit department is in a unique position to perform consulting work due to its adherence to the highest standards of objectivity⁴ and its breadth of knowledge about the organizations processes, risks, and strategies.

CONTROLS SELF-ASSESSMENTS (CSA)

Control self assessment (CSA) vary in approach. The three primary forms are facilitated team workshops, surveys and management-produced analysis. These three forms of CSA are often combined. Through a CSA program, the Internal Audit Department and other departments collaborate to assess risk, produce better information, and define an action plan that encompasses multiple departments. During a CSA, the Internal Audit department might design, implement, and effectively own, the CSA process, conduct the training, supply a facilitator, scribe and reporter, and orchestrate the participation of management and staff teams.

³ Per IIA ISPPIA Standard 1210.A1

⁴ IIA ISPPIA Standard 1100. The internal audit activity should be independent, and internal auditors should be objective in performing their work.

EXHIBIT B | INTERNAL AUDIT CHARTER

The following is the most current Internal Audit Charter approved in November, 2010.

MISSION

The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

OBJECTIVE AND SCOPE OF WORK

ASSURANCE OBJECTIVES

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

CONSULTING AND ADVISORY OBJECTIVES

Consulting Services - Provide management with formal assessments and advice for improving processes that will advance LACERA's goals and objectives. Internal Audit will participate as consultants in the planning, design, development, and implementation and modification phases of policies, procedures and systems, both manual and electronic. Also, opportunities for improving management control, profitability, and LACERA's image may be identified during audits; and these will be communicated to the appropriate level of Management.

Advisory Services - Provide informal advice to management. Internal Audit may provide advice on the front-end of projects so that risks are managed and internal controls may be designed and incorporated at the beginning of a project. Examples of advisory services include participating in various committees in an ex-officio capacity; providing routine advice on policies, establishing controls, implementing audit recommendations, providing training and risk management tools, and facilitating meetings.

SCOPE OF WORK

Internal Audit's overall scope of work is to determine whether LACERA's network of risk management, control, and governance processes, as designed and represented by Management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in LACERA's control process.
- Significant legislative or regulatory issues impacting LACERA are recognized and addressed appropriately.
- Programs are operating within fiduciary standards, laws, regulations, and LACERA policies.

ACCOUNTABILITY

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

- Provide annually an assessment on the adequacy and effectiveness of LACERA's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of LACERA and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.

Coordinate with and participate in other control and monitoring functions (risk management, compliance, security, privacy, legal, ethics, environmental, external audit).

INDEPENDENCE

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

RESPONSIBILITY

The Chief Audit Executive and staff of Internal Audit have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by Management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Report to the Audit Committee significant changes in Internal Audit personnel.
- Maintain an effective quality assurance and improvement program to include supervision, training, internal reviews, and external reviews.
- Perform consulting services, beyond Internal Audit's assurance services, to assist management in meeting its objectives. Examples include facilitation, process design, training, and advisory services.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Audit Committee and Management summarizing results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Audit Committee.
- Assist in the investigation of significant suspected fraudulent activities within LACERA and notify Management and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to LACERA at a reasonable overall cost.
- Act as the contract manager and primary point of contact related to financial statement and related audits, fiduciary reviews, and other inquiries involving external audit or evaluation groups.

AUTHORITY

The Chief Audit Executive and staff of Internal Audit are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of LACERA where they perform audits, as well as other specialized services from within or outside LACERA.

The Chief Audit Executive and staff of Internal Audit are not authorized to:

- Perform any operational duties for LACERA or its affiliates.
- Initiate or approve accounting transactions external to Internal Audit.
- Direct the activities of any organization employee not employed by Internal Audit, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

STANDARDS OF AUDIT PRACTICE

Internal Audit will adhere to the *International Standards for the Professional Practice of Internal Auditing* and to the *Code of Ethics*, both as promulgated by The Institute of Internal Auditors; and it will obtain guidance from professional standards and practices of other, relevant professional organizations, including but not limited to the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners and the Association of Public Pension Fund Auditors.

THE INTERNAL AUDIT CHARTER REVISIONS WERE ADOPTED BY THE AUDIT COMMITTEE OF THE LOS ANGELES COUNTY EMPLOYEES RETIREMENT SYSTEM ON NOVEMBER 17, 2010

EXHIBIT C | INTERNAL AUDIT ORGANIZATION CHART

The following is the most current Internal Audit Organization Chart updated March, 2013.

INTERNAL AUDIT SERVICES DIVISION

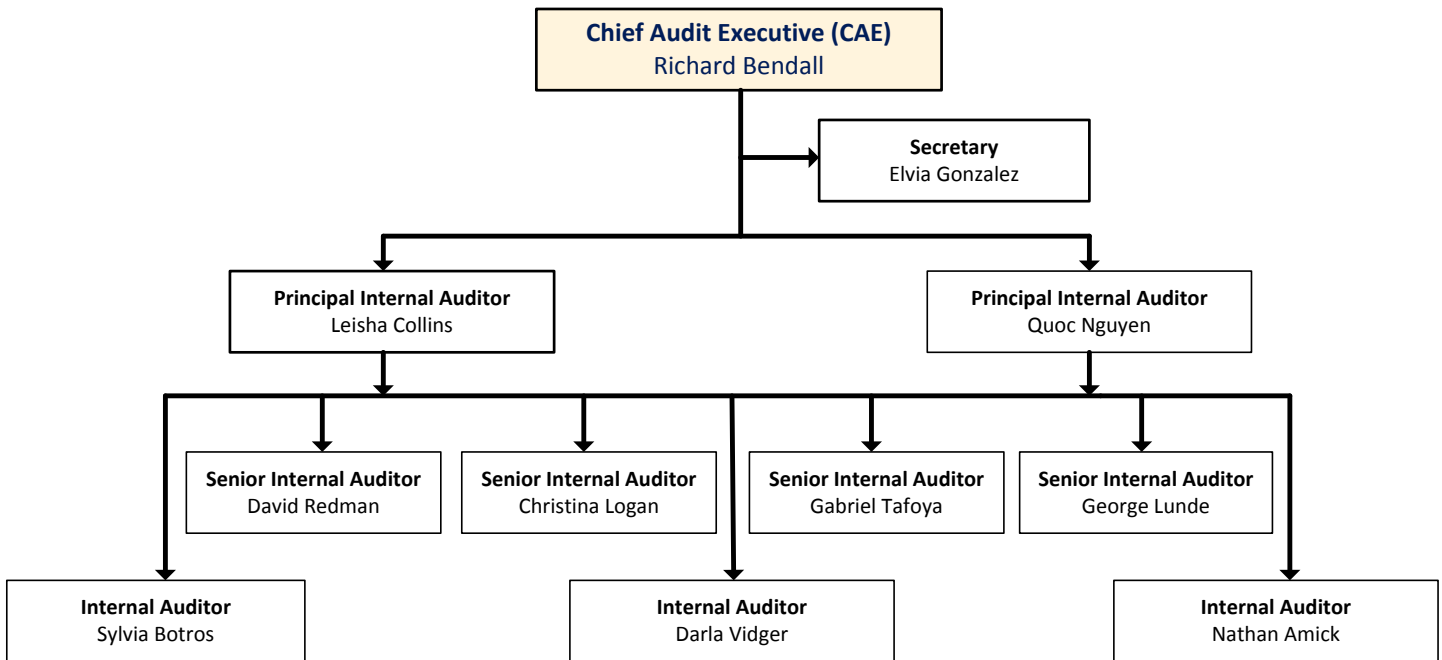


EXHIBIT D | CONTACT INFORMATION

RICHARD BENDALL, CHIEF AUDIT EXECUTIVE

626-564-6000 ext. 3523 rbendall@lacera.com

LEISHA COLLINS, PRINCIPAL INTERNAL AUDITOR

Ext. 3516 lcollins@lacera.com

QUOC NGUYEN, PRINCIPAL INTERNAL AUDITOR

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GEORGE LUNDE, SENIOR INTERNAL AUDITOR

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DAVID REDMAN, SENIOR INTERNAL AUDITOR

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GABRIEL TAFOYA, SENIOR INTERNAL AUDITOR

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SYLVIA BOTROS, INTERNAL AUDITOR

Ext. 3518 sbotros@lacera.com

DARLA VIDGER, INTERNAL AUDITOR

Ext. 3527 dvidger@lacera.com

ELVIA GONZALEZ, SECRETARY/COMMITTEE SECRETARY

Ext. 3526 egonzalez@lacera.com

RICK WENTZEL, AUDIT COMMITTEE CONSULTANT

213-688-1730 rick.wentzel@us.gt.com

EXHIBIT E | INTERNAL AUDITOR PROFILES

RICHARD BENDALL, CISA, CPA
CHIEF AUDIT EXECUTIVE

Years in Division: 21 years

Years with LACERA: 21 years

Years of Auditing Experience: 28 years

**Related Position(s) and
Organization(s)**

Prior to Joining LACERA Internal *Senior Internal Auditor*

Audit:

PACKARD BELL (1994-1995)

Intermediate Accountant-Auditor

LOS ANGELES COUNTY AUDITOR-CONTROLLER (1988-1994)

Years in College: 4 years

Educational Degree(s): BS Accounting
SAN DIEGO STATE UNIVERSITY
San Diego, California

Professional Certification(s): Certified Public Accountant (CPA)
Certified Information Systems Auditor (CISA)
Certified Government Financial Manager (CGFM)

LEISHA COLLINS, CPA, CGFM
PRINCIPAL INTERNAL AUDITOR

Years in Division: 15 years

Years with LACERA: 15 years

Years of Auditing Experience: 23 years

**Related Position(s) and
Organization(s)
Prior to Joining LACERA Internal
Audit:**

Controller

DOCUCOPY, INC. (2006-2011)

Internal Auditor

LACERA (1995-2006)

Intermediate Accountant-Auditor

LOS ANGELES COUNTY AUDITOR-CONTROLLER (1989-
1995)

Years in College: 4 years

Educational Degree(s): BS Business Administration
Majoring in Accounting
California State Polytechnic University
Pomona, California

Professional Certification(s): Certified Public Accountant (CPA)
Certified Government Financial Manager (CGFM)

QUOC NGUYEN, CPA
PRINCIPAL INTERNAL AUDITOR

Years in Division: 4 years

Years with LACERA: 4 years

Years of Auditing Experience: 10 years

Related Position(s) and Organization(s)

Prior to Joining LACERA Internal Audit: *Senior Accountant - Auditor*
LOS ANGELES COUNTY AUDITOR-CONTROLLER (2011-2012)

Intermediate Accountant - Auditor
LOS ANGELES COUNTY AUDITOR-CONTROLLER (2008-2011)

Years in College: 4 years

Educational Degree(s): B.S. Business Management & Accountancy
California State Long Beach
Long Beach, CA

Professional Certification(s): Certified Public Accountant (CPA)

CHRISTINA LOGAN, CPA, CFE
SENIOR INTERNAL AUDITOR

Years in Division: 7 months

Years with LACERA: 7 months

Years of Auditing Experience: 15 years

**Related Position(s) and
Organization(s)
Prior to Joining LACERA Internal
Audit:**

Consultant

CLL CONSULTING (2012-2015)

*Ethics & Compliance Investigator/Employee Relations
Consultant*

SOUTHERN CALIFORNIA EDISON (2009-2012)

Senior Auditor

SOUTHERN CALIFORNIA EDISON (2005-2009)

Accounting Staff

SOUTHERN CALIFORNIA EDISON (2002-2005)

Staff & Senior Associate

DELOITTE & TOUCHE, LLP (1998-2002)

Years in College: 6 years

Educational Degree(s): M.S. Leadership and Management
University of La Verne
La Verne, CA

B.S. Accounting
University of Southern California
Los Angeles, CA

Professional Certification(s): Certified Public Accountant (CPA)
Certified Fraud Examiner (CFE)

GEORGE LUNDE, CIA, CISA
SENIOR INTERNAL AUDITOR

Years in Division: 7.75 years

Years with LACERA: 7.75 years

Years of auditing experience: 40 years

**Related Position(s) and
organization(s)**

Prior to joining LACERA Internal Audit: *In-Charge / Sr. IT Auditor*

KAISER PERMANENTE (1986-2007)

IT Auditor

GREAT WESTERN SAVINGS & LOAN (1980-1986)

Years in College: 5 years

Educational Degree(s): BA Economics

Los Angeles State University

Los Angeles, California

Professional Certification(s): Certified Internal Auditor (CIA)

Certified Information Systems Auditor (CISA)

DAVID REDMAN, MBA, CIA, CFE, HIA
SENIOR INTERNAL AUDITOR

Years in Division: 10.5 years

Years with LACERA: 10.5 years

Years of Auditing Experience: 43 years

Related Position(s) and Organization(s) *Senior Auditor*
Prior to Joining LACERA Internal Audit: PRG-SCHULTZ INTERNATIONAL (2000-2003)

Vice President – Internal Audit
IMPERIAL CREDIT INDUSTRIES (1994-1997)

Director – Financial, Operational and Claims Audits
BLUE CROSS OF CALIFORNIA (1989-1993)

Vice President & Director – Internal Audit
METMOR FINANCIAL (1985-1989)

Regional Corp. Audit Manager
AMERICAN SAVINGS BANK (1984-1985)

Division Auditor – Special Investigations
Vice President & Auditor – Mortgage Corp.
Deputy Auditor – Finance & Mortgage Corp.
Audit Officer – Audit Systems Specialist
Branch Examination Officer
Senior Branch Examiner
Branch Examiner
SECURITY PACIFIC NATIONAL BANK (1972-1984)

Years in College: 6 years

Educational Degree(s): MBA Business Administration
Pepperdine University
Malibu, California

BA English
California State University at Northridge
Northridge, California

Professional Certification(s): Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Health Insurance Associate (HIA)

GABRIEL TAFOYA, CISA, ACDA
SENIOR INTERNAL AUDITOR

Years in Division: 7 months

Years with LACERA: 7 months

Years of auditing experience: 25 years

**Related Position(s) and
organization(s)**

Prior to joining LACERA Internal Audit: *Sr. Information Technology Auditor*
ONE WEST BANK (2014 – 2015)

Sr. Technology Auditor
GREEN DOT CORPORATION (2012 - 2014)

Sr. Information Systems Auditor
INGRAM MICRO (2000 - 2012)

Sr. Information Systems Auditor
TIMES MIRROR (1995 - 2000)

Project Auditor
KAISER PERMANENTE (1991 - 1995)

Years in College: 4

Educational Degree(s): BS Business Administration
Major: Computer Information Systems
California State Polytechnic University
Pomona, CA

Professional Certification(s): Certified Information Systems Auditor (CISA)
ACL Certified Data Analyst (ACDA)

NATHAN AMICK

INTERNAL AUDITOR

Years in Division: 7.75 years

Years with LACERA: 7.75 years

Years of Auditing Experience: 10 years

Related Position(s) and Organization(s)

Prior to Joining LACERA Internal Audit: *Senior Associate*
MAYER HOFFMAN MCCANN P.C. (2005-2008)

Years in College: 4 years

Educational Degree(s): BS Business Administration
Emphasis in Accounting
California Polytechnic University
Pomona, California

SYLVIA BOTROS, CRMA
INTERNAL AUDITOR

Years in Division: 7 years

Years with LACERA: 11 years

Years of Auditing Experience: 7 years

**Related Position(s) and
Organization(s)
Prior to Joining LACERA Internal
Audit:** *Member Services Division Manager (Interim)*

LACERA (2014 –2015)

Accountant

LACERA (2005-2008)

Years in College: 4 Years

Educational Degree(s): BS Business Administration
Emphasis: Finance, Real Estate, Business Law
California Polytechnic University
Pomona, CA

Professional Certification(s): Certified Risk Management Associate (CRMA)

DARLA J. VIDGER, MPA
INTERNAL AUDITOR

Years in Division: 4.75 years

Years with LACERA: 17 years

Years of Auditing Experience: 4.75 years

**Related Position(s) and
Organization(s)
Prior to Joining LACERA Internal
Audit:** *Training Coordinator*
LACERA (1999 – 2011)

Training Coordinator
JOSEPHSON INSTITUTE OF ETHICS (1998)

Years in College: 6 years

Educational Degree(s): MPA
University of Southern California
Los Angeles, California

BA Political Science
University of Southern California
Los Angeles, California

THE AUDIT COMMITTEE CONSULTANT

The [Audit Committee Charter](#) provides for the hiring of an audit and financial consultant (Audit Committee Consultant) to serve as an advisor to the Audit Committee. The Audit Committee Consultant is a non-voting member who works with the Audit Committee and LACERA's Internal Audit staff to provide advice and direction upon request.

PURPOSE OF THE AUDIT COMMITTEE CONSULTANT

The purpose of the Audit Committee Consultant is to serve as a designated technical expert advising the Committee on audit and financial matters.

CURRENT AUDIT COMMITTEE CONSULTANT

Rick Wentzel
rick.wentzel@us.gt.com
213-688-1730

EXHIBIT F | CONSULTANT STATEMENT OF WORK

The following is the most current Audit Committee Consultant Statement of Work effective December, 2011.

RESPONSIBILITIES

The Audit Committee Consultant will have, at a minimum, the following responsibilities:

TO RESPOND TO

- Questions regarding accounting and financial regulatory sources (GASB, GAAP, GAAS, etc.) and any changes to these regulations that may impact or affect LACERA
- Financial matters related to other public pension funds that may impact LACERA
- Issues related to fraud or misconduct common within pension funds or other organizations similar in size and operations to LACERA
- The educational needs of the Audit Committee

TO ADVISE

The Audit Committee as necessary on:

- Review of the LACERA annual financial statement audit
- Review of LACERA Organizational Risk Assessments
- Review and approval of Internal Audit's Annual Audit Plans
- Specific projects or reports presented to the Audit Committee
- Public company regulatory matters that may affect LACERA (e.g. SEC, Sarbanes-Oxley, PCAOB, etc.)
- Roles and responsibilities of Committee members and Internal Audit staff

TO ATTEND

Each Audit Committee meeting (*at least 3 meetings per year*)

Responsibilities prior to each meeting include reviewing all materials presented on each Audit Committee Agenda and advising the Chief Audit Executive and the Committee Chair of any potential issues or concerns.

TO COORDINATE

With Internal Audit staff on Audit Committee matters as needed.

TO PROVIDE

Audit Committee members training sessions regarding Audit Committee responsibilities or related topics if requested.

REQUIREMENTS

AT LEAST FIVE YEARS EXPERIENCE

- Acting as an Audit Committee Consultant for a government or corporate entity, OR
- Managing an Internal Audit or Accounting/Finance Department of a public pension fund, OR
- At the level of Senior Manager for a Certified Public Accounting (CPA) firm with at least 30% of the experience in the area of government, OR
- As an attorney practicing in the areas of public accounting and/or government

ADDITIONAL CONSIDERATIONS

DEMONSTRATED KNOWLEDGE

- Advanced Degree and related certifications⁵
- Prior experience advising Audit Committees
- Specific knowledge of '37 Act Pension Systems
- Broad knowledge of public pension and investment practices and emerging trends

STRENGTHS

- Creative thinking
- Strong sense of corporate governance
- Special areas of expertise
- Ability to establish rapport or dynamic presence

REFERENCES

References from current clients where the consultant acts in an advisory role similar to the role desired by the LACERA Audit Committee.

ISSUES

- Absence of conflicts of interest
- Degree of availability/accessibility

⁵This includes, but is not limited to, Doctor of Law (JD), Doctor of Philosophy (PhD) in business-related area, Master of Business Administration (MBA), Certified Public Accountant (CPA) or Certified Internal Auditor (CIA)

OTHER RESOURCES

INSTITUTE OF INTERNAL AUDITORS (IIA)

The Institute of Internal Auditors, established in 1941, is an international professional association with global headquarters in Florida. The IIA is the “internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator”. Members of the IIA work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

IIA MISSION

The IIA’s mission is “to provide dynamic leadership for the global profession of internal auditing.”

PRACTICES FRAMEWORK

LACERA’s Internal Audit Division generally abides by the IIA’s International Professional Practices Framework which consists of mandatory and strongly recommended guidelines for audit professionals.

IIA MANDATORY GUIDELINES INCLUDE

- [The Code of Ethics](#)
- [Practice Standards](#)

RECOMMENDED GUIDELINES INCLUDE

- Position papers
- Practice advisories
- Practice guidelines

IIA CODE OF ETHICS

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Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

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

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

IIA CODE OF ETHICS

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2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

IIA PRACTICE STANDARDS

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

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IIA PRACTICE STANDARDS

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

Issued: October 2008 Revised: October 2012

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Introduction to the International Standards

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

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

The purpose of the *Standards* is to:

1. Delineate basic principles that represent the practice of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements.

The *Standards* employ terms that have been given specific meanings that are included in the Glossary.

Specifically, the *Standards* use the word “must” to specify an unconditional requirement and the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

It is necessary to consider the Statements and their Interpretations as well as the specific meanings from the Glossary to understand and apply the *Standards* correctly.

The structure of the *Standards* is divided between Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards are also provided to apply to all internal audit services.

Implementation Standards are also provided to expand upon the Attribute and Performance standards, by providing the requirements applicable to assurance (A) or consulting (C) activities.

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

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

The Standards apply to individual internal auditors and internal audit activities. All internal auditors are accountable for conforming with the Standards related to individual objectivity, proficiency, and due professional care. In addition, internal auditors are accountable for conforming with the Standards, which are relevant to the performance of their job responsibilities. Chief audit executives are accountable for overall conformance with the Standards.

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

IIA PRACTICE STANDARDS

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

Issued: October 2008 Revised: October 2012

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Attribute Standards

1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

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

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

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

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the

Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

1100 – Independence and Objectivity

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

Interpretation:

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

1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

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

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

1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1111 – Direct Interaction with the Board

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

1120 – Individual Objectivity

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

Interpretation:

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

1130 – Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

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

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

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

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

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

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

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

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

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

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

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

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

1220 – Due Professional Care

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

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

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

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

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

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

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

1230 – Continuing Professional Development

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

1300 – Quality Assurance and Improvement Program

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

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1310 – Requirements of the Quality Assurance and Improvement Program

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

1311 – Internal Assessments

Internal assessments must include:

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

Interpretation:

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

Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

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

1312 - External Assessments

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

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

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

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

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

1320 – Reporting on the Quality Assurance and Improvement Program

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

Interpretation:

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

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

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

Interpretation:

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

1322 – Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board. **International Standards for the Professional Practice of Internal Auditing (*Standards*)**

Issued: October 2008 Revised: October 2012 9 © 2012 The Institute of Internal Auditors

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

Issued: October 2008 Revised: October 2012

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Performance Standards

2000 – Managing the Internal Audit Activity

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

Interpretation:

The internal audit activity is effectively managed when:

- *The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;*
- *The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and*
- *The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.*

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

2010 – Planning

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

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

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

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

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

2020 – Communication and Approval

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

2030 – Resource Management

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

Interpretation:

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

2040 – Policies and Procedures

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

Interpretation:

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

2050 – Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

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

Interpretation

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

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

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

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

2120 – Risk Management

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

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

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

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

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

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

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

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

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

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

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

2130 – Control

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

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

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

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

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

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

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

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

2210 – Engagement Objectives

Objectives must be established for each engagement.

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

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

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

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

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

2220 – Engagement Scope

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

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

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

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

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

2230 – Engagement Resource Allocation

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

2240 – Engagement Work Program

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

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

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

2300 – Performing the Engagement

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

2310 – Identifying Information

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

Interpretation:

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

2320 – Analysis and Evaluation

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

2330 – Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

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

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

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

2340 – Engagement Supervision

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

Interpretation:

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

2400 – Communicating Results

Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating

Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410.A1 - Final communication of engagement results must, where appropriate, contain the internal auditors’ opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

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

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

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

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

2420 – Quality of Communications

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

Interpretation:

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

2421 – Errors and Omissions

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

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

Internal auditors may report that their engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”, only if the results of the quality assurance and improvement program support the statement.

2431 – Engagement Disclosure of Nonconformance

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

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

2440 – Disseminating Results

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

Interpretation:

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

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

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

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

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

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

2450 – Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will identify:

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

The reasons for an unfavorable overall opinion must be stated.

2500 – Monitoring Progress

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

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

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

2600 – Communicating the Acceptance of Risks

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

Interpretation:

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

IIA GLOSSARY

AUDITOR SPEAK

A

Adequate Control is present if management has planned and organized (designed) in a manner which provides reasonable assurance that the organization's objectives and goals will be achieved efficiently and economically.

Analytical Auditing Procedures are performed by studying and comparing relationships among both financial and nonfinancial information. The application of analytical auditing procedures is based on the premise that, in the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist and continue. Examples of contrary conditions include unusual or nonrecurring transactions or events; accounting, organizational, operational, environmental, and technological changes; inefficiencies; ineffectiveness; errors; irregularities, or illegal acts.

Appreciation means the ability to recognize the existence of problems or potential problems and to determine the further research to be undertaken or the assistance to be obtained.

Audit Objectives are broad statements developed by internal auditors and define intended audit accomplishments.

Audit Procedures are the tasks the internal auditor undertakes for collecting, analyzing, interpreting, and documenting information during an audit. Audit procedures are the means to attain audit objectives.

Audit Program is a document which lists the audit procedures to be followed during an audit. The audit program also states the objectives of the audit.

Audit Report is a signed, written document which presents the purpose, scope, and results of the audit. Results of the audit may include findings, conclusions (opinions), and recommendations.

Audit Scope refers to the activities covered by an internal audit. Audit scope includes, where appropriate:

- Audit objectives.
- Nature and extent of auditing procedures performed.
- Time period audited.
- Related activities not audited in order to delineate the boundaries of the audit.

Audit Work Schedules include (a) what activities are to be audited; (b) when they will be audited; and (c) the estimated time required, taking into account the scope of the audit work planned and the nature and extent of audit work performed by others.

Audit Working Papers record the information obtained, the analyses made, and conclusions reached during an audit. Audit working papers support the bases for the findings and recommendations to be reported.

A

Auditable Activities consist of those subjects, units, or systems which are capable of being defined and evaluated. Auditable activities may include:

- Policies, procedures, and practices.
- Cost centers, profit centers, and investment centers.
- General ledger account balances.
- Information systems (manual and computerized).
- Major contracts and programs.
- Organization units such as product or service lines.
- Functions such as electronic data processing, purchasing, marketing, production, finance, accounting, and human resources.
- Financial statements.
- Laws and regulations.

Auditee includes any individual, unit, or activity of the organization that is audited.

Authorization implies that the authorizing authority has verified and validated that the activity or transaction conforms to established policies and procedures.

Authorizing includes initiating or granting permission to perform activities or transactions.

B

Board includes boards of directors, audit committees of such boards, heads of agencies or legislative bodies to whom internal auditors report, boards of governors or trustees of nonprofit organizations, and any other designated governing bodies of organizations.

C

Cause is the reason for the difference between the expected and actual conditions (why the difference exists).

Charter of the internal auditing department is a formal written document which defines the department's purpose, authority, and responsibility. The charter should (a) establish the department's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of audits; and (c) define the scope of internal auditing activities.

Code of Ethics of The Institute of Internal Auditors (IIA) sets forth standards of conduct for Members of The IIA and Certified Internal Auditors to effectively discharge their responsibilities. The Code of Ethics calls for high standards of honesty, objectivity, diligence, and loyalty.

Compliance refers to the ability to reasonably ensure conformity and adherence to organization policies, plans, procedures, law, regulations, and contracts.

Compliance Requirement refers to conditions established by management for the organization. The term also refers to conditions which may be imposed on the organization by law or regulation, or agreed to by contractual agreement. These conditions affect the manner in which an organization's operations are conducted and objectives are achieved. Compliance requirements include those established, imposed, or agreed to for the purpose of safeguarding organizations assets including prevention and/or detection of unauthorized acquisition, use, or disposition of resources.

C

Conclusions (Opinions) are the internal auditor's evaluations of the effects of the findings on the activities reviewed. Conclusions usually put the findings in perspective based upon their overall implications.

Condition is the factual evidence which the internal auditor found in the course of the examination (what does exist).

Conflict of Interest refers to any relationship which is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to carry out their duties and responsibilities objectively.

Control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Thus, control is the result of proper planning, organizing, and directing by management.

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

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

Cost-Benefit Relationship means that the potential loss associated with any exposure or risk is weighed against the cost to control it.

Criteria are the standards, measures, or expectations used in making an evaluation and/or verification (what should exist).

D

Defalcation is the embezzlement or misappropriation of money or funds held by an official, trustee, or other fiduciary.

Detective Controls are actions taken to detect and correct undesirable events which have occurred.

Directing involves, in addition to accomplishing objectives and planned activities, authorizing and monitoring performance, periodically comparing actual with planned performance, and documenting these activities to provide additional assurance that systems operate as planned.

Directive Controls are actions taken to cause or encourage a desirable event to occur.

Director of Internal Auditing and **Director** identify the top position in an internal auditing department. The term also includes such titles as General Auditor, Chief Internal Auditor, Chief Audit Executive, and Inspector General.

D

Due Professional Care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Due professional care is exercised when internal audits are performed in accordance with the Standards for the Professional Practice of Internal Auditing. The exercise of due professional care requires that:

- Internal auditors are independent of the activities they audit.
- Internal audits are performed by those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly.
- Audit work be planned and supervised.
- Audit reports are objective, clear, concise, constructive, and timely.
- Internal auditors follow up on reported audit findings to ascertain that appropriate action was taken.

E

Economical Performance accomplishes objectives and goals at a cost commensurate with the risk.

Effect is the risk or exposure the Auditee organization and/or others encounter because the condition is not the same as the criteria (the impact of the difference).

Effective Control is present when management directs systems in such a manner as to provide reasonable assurance that the organizations objectives and goals will be achieved.

Efficient Performance accomplishes objectives and goals in an accurate and timely fashion with minimal use of resources.

Error as it relates to internal audit reports is an unintentional misstatement or omission of significant information in a final audit report.

External Auditors refers to those audit professionals who perform independent annual audits of an organization's financial statements.

External Reviews of the internal auditing department are performed to appraise the quality of the department's operations. External reviews should be performed by qualified persons who are independent of the organizations and who do not have either a real or apparent conflict of interest.

F

Findings are pertinent statements of fact. Audit findings emerge by a process of comparing what should be with what is.

Flowchart is a representation, primarily through the use of symbols, of the sequence of activities in a system (process, operation, function, or activity).

Follow-up by internal auditors is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings. Such findings also include relevant findings made by external auditors and others.

Formal Internal Reviews are periodic self-assessments of the internal auditing department to appraise the quality of the audit work performed. These reviews generally are performed by a team or an individual selected by the director of internal auditing.

Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception.

G

Goals are specific objectives of specific systems and may be otherwise referred to as operating or program objectives or goals, operating standards, performance levels, targets, or expected results.

Guidelines are suitable means of meeting the General and Specific Standards for the Professional Practice of Internal Auditing.

H-I

Illegal Acts refers to violations of laws and governmental regulations.

Independence allows internal auditors to carry out their work freely and objectively. This concept requires that internal auditors be independent of the activities they audit. Independence is achieved through organizational status and objectivity.

Information is data the internal auditor obtains during an audit to provide a sound basis for audit findings and recommendations. Information should be sufficient, competent, relevant, and useful.

Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. (Introduction)

Internal Auditing Department includes any unit or activity within an organization which performs internal auditing functions.

Internal Auditor is an individual within an organization's internal auditing department who is assigned the responsibility of performing internal auditing functions.

Internal Control is a process within an organization designed to provide reasonable assurance regarding the achievement of the following primary objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, and regulations.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or programs.

Irregularity refers to the intentional misstatement or omission of significant information in accounting records, financial statements, other reports, documents or records. Irregularities include (a) fraudulent financial reporting which renders financial statements misleading and (b) misappropriation of assets. Irregularities involve:

- Falsification or alteration of accounting or other records and supporting documents.
- Intentional misapplication of accounting principles.
- Misrepresentation or intentional omission of events, transactions, or other significant information.

J-M

Management includes those individuals with responsibilities for setting and/or achieving the organization's objectives.

Monitoring encompasses supervising, observing, and testing activities and appropriately reporting to responsible individuals. Monitoring provides an ongoing verification of progress toward achievement of objectives and goals.

N-O

Objectives are the broadest statements of what the organization chooses to accomplish.

Objectivity is an independent mental attitude which requires internal auditors to perform audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

Operations refer to the recurring activities of an organization directed toward producing a product or rendering a service. Such activities may include, but are not limited to, marketing, sales, production, purchasing, human resources, finance and accounting, and governmental assistance.

P

Peculation is the act of embezzling or misappropriating public funds.

Preventive Controls are actions taken to deter undesirable events from occurring.

Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance.

P

Programs refer to special purpose activities of an organization. such activities include, but are not limited to, the raising of capital, sale of a facility, fund-raising campaigns, new product or service introduction campaigns, capital expenditures, and special purpose government grants.

Purpose Statements in audit reports describe the audit objectives and may, where necessary, inform the reader why the audit was conducted and what it was expected to achieve.

Q

Quality Assurance is a program by which the director of internal auditing evaluates the operations of the internal auditing department. The purpose of the quality assurance program is to provide reasonable assurance that internal auditing work conforms to the Standards for the Professional Practice of Internal Auditing, the internal auditing department's charter, and other applicable standards. The quality assurance program should include the following elements:

- Supervision.
- Internal reviews.
- External reviews.

R

Ratio Analysis is the study of financial condition and performance through ratios derived from items in the financial statements or from other financial or nonfinancial information.

Reasonableness Test is a comparison of an estimated amount, calculated by the use of relevant financial and non-financial information, with a recorded amount.

Recommendations are actions the internal auditor believes necessary to correct existing conditions or improve operations.

Regression Analysis is a mathematical procedure which is used to determine and measure the predictive relationship between one variable (dependent variable) and one or more other variables (independent variables).

Risk is the probability that an event or action may adversely affect the organization or activity under audit.

Risk Assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events. The risk assessment process should provide a means of organizing and integrating professional judgments for development of the audit work schedule.

Risk Factors are the criteria used to identify the relative significance of, and likelihood that, conditions and/or events may occur that could adversely affect the organization.

S

Scope Limitation is a restriction placed upon the internal auditing department that precludes the department from accomplishing its objectives and plans. Among other things, a scope limitation may restrict the:

- Scope defined in the charter.
- Department's access to records, personnel, and physical properties relevant to the performance of audits.
- Approved audit work schedule.
- Performance of necessary auditing procedures.
- Approved staffing plan and financial budget.

Senior Management refers to those individuals to whom the director of internal auditing is responsible.

Significant is the level of importance or magnitude assigned to an item, event, information, or problem by the internal auditor.

Significant Audit Findings are those conditions which, in the judgment of the director of internal auditing, could adversely affect the organization. Significant audit findings may include conditions dealing with irregularities, illegal acts, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses.

Standards for the Professional Practice of Internal Auditing (the Standards) are the criteria by which the operations of an internal auditing department are evaluated and measured. They are intended to represent the practice of internal auditing as it should be.

Statement of Responsibilities of Internal Auditing is a document which presents in summary from the:

- Objective and scope of internal auditing.
- Responsibility and authority of the internal auditing department.
- Independence of internal auditors.

S

Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment. Supervision includes:

- Providing suitable instructions to subordinates at the outset of the audit and approving the audit program.
- Seeing that the approved audit program is carried out unless deviations are both justified and authorized.
- Determining that audit working papers adequately support the audit findings, conclusions, and reports.
- Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely.
- Determining that audit objectives are being met.

Survey is a process for gathering information, without detailed verification, on the activity being examined. The main purposes are to:

- Understand the activity under review.
- Identify significant areas warranting special emphasis.
- Obtain information for use in performing the audit.
- Determine whether further auditing is necessary.

System (process, operation, function, or activity) is an arrangement, a set, or a collection of concepts, parts, activities, and/or people that are connected or interrelated to achieve objectives and goals. (This definition applies to both manual and automated systems.) A system may also be a collection of subsystems operating together for a common objective or goal.

T

Trend Analysis is the analysis of the changes in a given item of information over a period of time.

U-Z


Understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognize significant deviations, and to be able to carry out the research necessary to arrive at reasonable solutions.



March 29, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **AUDIT COMMITTEE MEETING DATES**

RECOMMENDATION

It is recommended that the Audit Committee review the Audit Committee Meeting Schedule and provide direction to staff on changes.

BACKGROUND

In December 2005, the Audit Committee (Committee) adopted a Resolution to hold Committee Meetings at 9:00 am on the third Wednesday of March, July and November. In November 2011, your Committee approved rescheduling the annual November meeting to the first Thursday of December to accommodate Committee Member attendance at SACRS. Both the 2005 Resolutions and 2011 Committee Date Revision Memo are included for your reference.

The Committee Meeting schedule has remained the same since the 2011 revision, and thus far, a quorum of members has been present at the majority of the meetings. However, it has been brought to staff's attention that your Committee would like to discuss different options for future Committee meeting dates. In light of this request, staff would like your Committee to provide direction on the dates of future Committee meetings.

RB:lc

Attachments



**BEFORE THE AUDIT COMMITTEE
OF THE BOARDS OF RETIREMENT AND INVESTMENTS
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION**

RESOLUTION FIXING TIME AND PLACE) RESOLUTION NO. AC 04-001
FOR HOLDING REGULAR MEETINGS)
(Govt. Code Sec. 54954))

WHEREAS, Section 54954 requires this Committee, as a standing committee of the boards of Retirement and Investments, to adopt a rule, resolution, or other similar measure fixing the time and place for holding regular meetings.

NOW THEREFORE, IT IS HEREBY RESOLVED that the Committee shall hold regular meetings as follows:

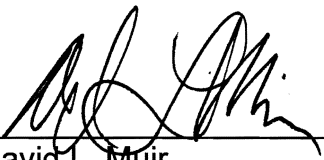
Time: 9:00am on the third Wednesday of February, July and November

Place: LACERA's Robert J. Hermann Board Room
300 N. Lake Avenue, Suite 810
Pasadena, CA 91101


Adopted March 16, 2004, by:

AUDIT COMMITTEE OF THE
BOARDS OF RETIREMENT and
INVESTMENTS, LOS ANGELES
COUNTY EMPLOYEES RETIREMENT
ASSOCIATION

Approved as to Form



David L. Muir
Chief Counsel



Brian C. Brooks
Chair,
AUDIT COMMITTEE OF THE BOARDS
OF RETIRMENT AND INVESTMENTS

BEFORE THE AUDIT COMMITTEE
OF THE BOARDS OF RETIREMENT AND INVESTMENTS
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

RESOLUTION FIXING TIME AND PLACE) RESOLUTION NO. AC 05-001
FOR HOLDING REGULAR MEETINGS)
(Govt. Code Sec. 54954))

WHEREAS, Section 54954 requires this Committee, as a standing committee of the boards of Retirement and Investments, to adopt a rule, resolution, or other similar measure fixing the time and place for holding regular meetings.

NOW THEREFORE, IT IS HEREBY RESOLVED that the Committee shall hold regular meetings as follows:


Time: 9:00 am on the third Wednesday of March, July and November

Place: LACERA's Robert J. Hermann Board Room
300 N. Lake Avenue, Suite 810,
Pasadena, CA 91101

Adopted December 14, 2005, by:

AUDIT COMMITTEE OF THE
BOARDS OF RETIREMENT and
INVESTMENTS, LOS ANGELES
COUNTY EMPLOYEES RETIREMENT
ASSOCIATION

Approved as to Form



David L. Muir
Chief Counsel



Leonard Unger
Chair,
AUDIT COMMITTEE OF THE BOARDS OF
RETIREMENT AND INVESTMENTS



DATE: November 15, 2011

TO: 2011 Audit Committee
Simon S. Russin, Chair
Michael Schneider, Vice Chair
John M. Barger, Secretary
Edward C. Morris,
Les Robbins

Audit Committee Consultant
Timothy O'Brien

FROM: Sarah Marks 
Principal Internal Auditor

SUBJECT: AUDIT COMMITTEE MEETING DATES

Recommendation

Approve Internal Audit's recommendation to permanently reschedule the annual November Audit Committee Meeting to the first Thursday of each December.

Background

Staff recommends the Audit Committee approve the revision of the fixed audit committee meeting schedule. Meetings are currently scheduled for the third Wednesdays of March, July, and November. Each November, the Audit Committee meeting is scheduled to occur during the time period in which the State Association of County Retirement Systems (SACRS) Conference takes place. Historically, the Audit Committee Meetings have been rescheduled to accommodate Committee Member attendance at SACRS. To lessen the need for rescheduling future Committee meetings, Internal Audit recommends the permanent rescheduling of the November Audit Committee Meetings, to the first Thursday of each December.

Reviewed and Concur:



Richard Bendall
Chief Audit Executive

11-16-2011


Date




March 29, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

Leisha Collins 
Principal Internal Auditor

Christina Logan 
Senior Internal Auditor

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: REVISIONS TO AUDIT COMMITTEE CHARTER

RECOMMENDATION

- 1. Provide direction to staff on the proposed updates to the Audit Committee Charter,**
- 2. Upon approval, recommend to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter.**

BACKGROUND

In November 2003, the Board of Retirement and Board of Investments (Boards) established the LACERA Audit Committee (Committee). In April 2004, the Boards approved the Audit Committee Charter (Charter); a formal written charter is recommended by the Institute of Internal Auditors (IIA) to establish the audit committee's mandate, roles, and responsibilities. The Charter tasked the Committee to oversee LACERA's system of governance, risk management, and internal controls as well as the work of the Internal Audit Division.

The IIA recommends a periodic review of the audit committee charter as one of its best practices to ensure the charter aligns with industry standards and organizational changes. In December 2009, the Boards approved a revised Charter. The Charter was revised to provide additional clarity about its purpose and clearer descriptions of the Committee's responsibilities.

2016 CHARTER

Internal Audit is proposing updates to the Charter (**Attachment A**) to better align it with industry best practices and organizational changes. Staff based the proposed updates on its comparison of the 2009 Charter (**Attachment B**) against current industry standards, guidance, and best practices, and LACERA's current organizational and governance structure. This evaluation included a review and comparison of the Charter against the IIA's current model template (**Attachment C**), the Association of Public Pension Fund Auditors' (APPFA) current model template (**Attachment D**), and peer organizations' charters. Internal Audit also reviewed the Association of Government Accountants (AGA) 2008 Report, *"Characteristics of Effective Audit Committees,"* and the IIA's published article from 2005, *"The Role of Auditing in Public Sector Governance."*

PROPOSED UPDATES

In the proposed 2016 Charter (**Attachment A**), staff categorized the proposed updates by the colors below. These updates do not result in an operational or responsibility change; they align the Charter with the model templates, or document LACERA's current operational practices.

- **Formatting** updates are **bolded and in green**; these changes move content from one section to another, to align the Charter with the IIA template.
- **Alignment** updates are **bolded and in blue**. These are wording changes; they align the Charter with the IIA template or provide additional clarity.
- **Documentation** updates are **bolded and in purple**. These changes delineate current operational practices or responsibilities but were not previously documented in the Charter.

SIGNIFICANT PROPOSED CHANGES

In the proposed 2016 Charter (**Attachment A**), the **significant** proposed changes are **bolded and in red**. These changes will result in an operational and/or responsibility change. Staff based these changes on its evaluation of the 2009 Charter, previous comments provided by Committee members, and industry best practices.

1. **Review of Engagement Reports** (pg. 4, section, V.A.6)

Staff is proposing to delineate the Committee's current operational practice of reviewing engagement reports, which is an IIA and APPFA best practice. Staff is also proposing to add wording to clarify the Committee's options for processing the report post-review. Proposed wording is:

***"Review and discuss engagement reports to take the following action(s):
A. accept and file report and/or,***

- B. instruct staff to forward report to Boards or Committees and/or,**
- C. provide further instruction to staff.”**

If the Committee does not add this bullet to the Charter, it should consider alternative language to clarify its role in reviewing engagement reports.

2. **Oversight of CAE** (pg 5, section V.B.)

Staff is proposing to add additional duties to the Charter to promote the CAE’s and the Internal Audit Division’s independence from Management. They are IIA and APPFA best practices. Proposed wording is:

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

- A. Approve the CEO’s recommendation regarding the appointment, dismissal, and/or removal of the CAE.**
- B. Perform the CAE’s annual assessment with qualitative input from the CAE and CEO.**
- C. Administer the CAE’s annual salary adjustment using the Boards’ established compensation structure.”**

The impact of adding these duties to the Charter is the CEO will no longer have sole responsibility for these decisions.

3. **Monitoring Compliance** (pg. 6, section V.F)

Staff is proposing to add this responsibility and the related duties. This is one of the fiduciary oversight responsibilities assigned to the Committee by the Boards in the Charter’s *Purpose*. It is an IIA and APPFA best practice. Proposed wording is:

“Process for Monitoring Compliance with Laws and Regulations

- A. Review the effectiveness of the system for monitoring compliance with laws and regulations, and the results of Management’s investigation and follow-up (including disciplinary action) of any instances of noncompliance.**
- B. Review the findings of any examinations by regulatory agencies, and any auditor observations.**
- C. Review the process for communicating LACERA’s Code of Ethics to company personnel, and for monitoring compliance therewith.**
- D. Obtain regular updates from Management regarding compliance matters.”**

If the Committee does not add the associated duties to the Charter, it should consider alternatives to address its fiduciary oversight responsibility for LACERA's method of monitoring compliance with laws and regulations.

FOR REVIEW AND DISCUSSION

Audit Committee Composition (pg. 1, *Audit Committee Composition and Consultant*)

In the past, staff noted that Committee members had questions about the Committee composition and whether or not the Charter needs to be revised to ensure that the Committee is always comprised of six members. Staff is not proposing changes to the composition of the Committee or the required number of Board members. The Committee make-up and size are consistent with IIA's and APPFA's best practices as well as practices of other public pension funds.

CONCLUSION

Staff's proposed changes to the Charter better align it with the IIA's and APPFA's current templates and published best practices while taking into account LACERA's Board and Committee governance structure. The proposed updates clarify the authority and responsibilities of the Committee. Staff recommends the Committee review the proposed changes to the Charter, as well as the best practice charters included for reference, and provide staff with further direction and/or approval. Upon approval, staff recommends the Committee then forward a recommendation to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter.

Attachments:

- A: Proposed 2016 Audit Committee Charter
- B: 2009 Audit Committee Charter
- C: 2013 IIA Template
- D: 2013 APPFA Template

AUDIT COMMITTEE
— CHARTER —

PURPOSE OF THE CHARTER

- Establish the audit committee's mandate, roles, and responsibilities.
- Recommended by Institute of Internal Auditors (IIA)
- Once established, the Charter should be maintained and communicated within the Organization.

BASIS OF THE CHANGES

- Review of 2009 Charter
- Institute of Internal Auditors (IIA) Template
- Association of Public Pension Fund Auditors (AAPFA) Template
- Association of Government Accountants (AGA) Published Article

PROPOSED UPDATES

Formatting

- content moved from one section to another

Alignment

- proposed to align the Charter with the IIA template + to provide additional clarity

Documentation

- current responsibilities not previously documented

Responsibility

- result in an operational change or responsibility change

FOR YOUR REVIEW

1. Review of Reports
2. Oversight of CAE
3. Monitoring Compliance
4. Audit Committee Composition

1. REVIEW OF REPORTS

2016 Proposed – NEW

“Review engagement reports to take the following actions:

- a) accept and file report, and/or*
- b) instruct staff to forward report to Boards or Committee(s), and/or*
- c) provide further direction to staff.”*

2. OVERSIGHT OF CAE

2016 Proposed – **NEW**

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

- A. *Approve the CEO’s recommendation regarding the appointment, dismissal, and/or removal of the CAE.*
- B. *Perform the CAE’s annual assessment with qualitative input from the CAE and CEO.*
- C. *Administer the CAE’s annual salary adjustment using the Boards’ established compensation structure.”*

3. MONITORING COMPLIANCE

2016 Proposed – **NEW**

“Process for Monitoring Compliance with Laws and Regulations

- *Review the effectiveness of the system for monitoring compliance with laws and regulations, and the results of Management’s investigation and follow-up (including disciplinary action) of any instances of noncompliance.*
- *Review the findings of any examinations by regulatory agencies, and any auditor observations.*
- *Review the process for communicating LACERA’s Code of Ethics to company personnel, and for monitoring compliance therewith.*
- *Obtain regular updates from Management regarding compliance matters.”*

4. AUDIT COMMITTEE COMPOSITION

2009 & 2016 Proposed – No Change

“The Audit Committee will consist of the chair and vice-chair of the Boards of Retirement and Investments, plus one additional Board member elected annually by each Board, for a total of four to six members.”

THANK YOU!!!

Questions?

Approve

Comments?

Thoughts?

Direction

Audit Committee Charter



2016



AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

I. PURPOSE

In November 2003, the Los Angeles County Employees Retirement Association's Board of Retirement and Board of Investments established the LACERA Audit Committee.

The purpose of this "Audit Committee Charter" is to govern the Audit Committee that assists the Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the financial reporting process, the system of internal controls, the audit processes, and the organization's method for monitoring compliance with laws and regulations. The Audit Committee Charter is a living document and may be amended for procedural and administrative matters upon majority vote of the Audit Committee.

II. AUTHORITY

The Audit Committee **has the authority to conduct or authorize investigations into any matters within its scope of responsibility.**

It shall have the following authorities:

- A. Meet with LACERA's officers, Internal Auditors, External Auditors, or **consultants** as necessary.
- B. **Seek any information it requires from employees, all of whom are directed to cooperate with the Committee's requests, or consultants, as necessary.**
- C. **Resolve any disagreements or coordinate between Management, Internal Audit, and/or External Audit.**
- D. **Oversee the work of Internal and External Audit, and any other consultants hired to assist the Audit Committee in fulfilling its fiduciary duties.**
- E. Make recommendations to the Boards regarding:
 - 1. The appointment, compensation, and work of the **External Auditor** employed to audit LACERA's financial statements.
 - 2. The appointment, compensation, and work of accountants or other consultants to perform audits, reviews, or investigations related to financial or operational matters (when the cost is expected to exceed the Chief Executive Officer's discretionary allowance for such contracts).
 - 3. **Such other matters as the Committee encounters in its work.**

AUDIT COMMITTEE CHARTER

III. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of the chair and vice-chair of the Boards of Retirement and Investments, plus one **additional** Board member elected annually by each Board, for a total of four to six members¹. **Board chairs and vice-chairs** that leave Board service will be replaced automatically **on the Audit Committee**, when the Board replaces its missing officer while other Committee membership remains intact. If any elected Audit Committee member leaves Board service, the Board of the **departing member**, will elect a new Audit Committee member at the next regularly scheduled Board meeting. If Audit Committee voting results in a tie, the Committee will forward the recommendation to the appropriate Board for consideration and final decision.

The Committee shall have the authority to approve the hiring of the audit consultant as an advisor. The audit consultant will be designated as the audit technical and **financial** expert, to advise the Committee on audit and financial matters. **The audit consultant's contract will be for three years with the option for the Audit Committee to choose to extend the contract for an additional two-year period.**

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

IV. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least three times per year, with authority to convene additional meetings, as circumstances require. **All Committee members are expected to attend each meeting.**

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

¹ The number of Committee members is dependent upon the designated Chair and Vice Chair appointments to the Boards of Retirement and Investments. If both Boards were to elect the same individuals to the positions of Chair and/or Vice Chair, the Audit Committee would be comprised of four **or five** Board Members.

AUDIT COMMITTEE CHARTER

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

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

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

V. RESPONSIBILITIES

The Audit Committee will carry out the following responsibilities to fulfill their fiduciary oversight responsibilities:

A. Internal Audit

1. **Approve the Internal Audit Charter.**
2. Ensure the independence of Internal Audit.
3. **Approve the Annual Audit Plan and all major changes to the Plan. Review and monitor Internal Audit's activity relative to its Plan.**
4. **Review, with the Chief Audit Executive (CAE), Internal Audit's resource plan, activities, and organizational structure.**
5. **Monitor Internal Audit's recommendations to ensure Management has adequately addressed the risk(s) identified, either through implementing a new policy, procedure, or process, or accepting the associated risk.**
6. **Review and discuss engagement reports to take the following action(s):**
 - a. **accept and file report and/or,**
 - b. **instruct staff to forward report to Boards or Committees and/or,**
 - c. **provide further instruction to staff.**



AUDIT COMMITTEE CHARTER

B. Chief Audit Executive

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

1. **Approve the CEO's recommendation regarding the appointment, dismissal, and/or removal of the CAE. The Committee's consideration of the appointment, dismissal and/ or removal of the CAE will be made in executive session under Government Code Section 54957(b).**
2. **Perform the CAE's annual assessment with qualitative input from the CAE and CEO. The Committee's discussion regarding the CAE's annual performance evaluation will be made in executive session under Government Code Section 54957(b).**
3. **Administer the CAE's annual salary adjustment using the Boards' established compensation structure.**

C. External Audit

1. **Make recommendations to the Boards regarding the appointment, compensation, and the work of the External Auditor.**
2. **Oversee the work of the External Auditor, including review of the External Auditor's proposed audit scope and approach, as well as coordination with Internal Audit and Management.**
3. **Review the findings and recommendations of the External Auditor, Management's responses, and actions taken to implement the audit recommendations.**

D. Financial Reporting Process

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



AUDIT COMMITTEE CHARTER

E. Systems of Internal Controls

1. Consider the effectiveness of LACERA's internal control system, including information technology security and control.
2. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.

F. Monitoring Compliance with Laws and Regulations

1. Review the effectiveness of the system for monitoring compliance with laws and regulations, and the results of Management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
2. Review the findings of any examinations by regulatory agencies, and any auditor observations.
3. Review the process for communicating LACERA's Code of Ethics to company personnel, and for monitoring compliance therewith.
4. Obtain regular updates from Management regarding compliance matters.

G. Other Responsibilities

1. Report to the Boards as needed about the Audit Committee's activities, issues, and related recommendations.
2. Provide an open avenue of communication between Internal Audit, the External Auditors, Management, and the Boards.
3. Perform other activities related to this Charter as requested by the Boards
4. Review and assess the adequacy of the Committee's Charter annually, requesting the Boards' approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
5. Communicates public disclosures related to the purpose, authority, function, and responsibility of the Audit Committee.



AUDIT COMMITTEE CHARTER

VI. APPROVAL

This Audit Committee Charter (“AC Charter”) was reviewed by the Audit Committee on April 15, 2016 and approved by the Board of Retirement and Board of Investments on **(date)** and **(date)**, respectively. This AC Charter is thereby effective **(date)** and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Shawn R. Kehoe
Chair, Board of Retirement

Month xx, 2016

Date

David Green
Chair, Board of Investments

Month xx, 2016

Date



Audit Committee Charter

I. PURPOSE/AUTHORITY

In November 2003, the Los Angeles County Employees Retirement Association's Board of Retirement and Board of Investments established the LACERA Audit Committee.

The purpose of this "Audit Committee Charter" is to govern the Audit Committee that assists the Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the financial reporting process, the system of internal controls, the audit processes, and the organization's process for monitoring compliance with laws and regulations. The Audit Committee Charter is a living document and may be amended for procedural and administrative matters upon majority vote of the Audit Committee.

II. AUDIT COMMITTEE ROLES AND RESPONSIBILITIES

A. Audit Committee Reporting, Management, and Communication Responsibilities

1. Meets with the organization's officers, employees, internal auditors, external auditors, outside counsel and/or specialists as necessary.
2. Communicates public disclosures related to the purpose, authority, function, and responsibility of the Audit Committee.
3. Reports to the Boards, as necessary, on the activities, decisions, findings, and recommendations of the Audit Committee.
 - a) Make recommendations to the Boards
 - regarding the appointment, compensation and work of the certified public accounting firm employed to audit the organization's financial statements
 - regarding the appointment, compensation, and work of accountants or other external consultants in completing audits, reviews, or investigations related to financial or operational matters (when the cost is expected to exceed the CEO's discretionary allowance for such contracts).
 - where such coordination is required, or in the case of disagreements between management, internal, and/or external auditors.



Audit Committee Charter

B. Oversees and supports the work of the Internal Audit Division

1. Monitors the performance of the Internal Audit Division's scope of work
2. Ensures the independence of the Internal Audit Division
3. Approves the Internal Audit Division Charter and scope of work
4. Reviews and approves the Chief of Internal Audit (CIA) annual performance evaluation.

The Chief of Internal Audit (CIA) is the top position within the Internal Audit Division and reports directly to the Audit Committee on a monthly basis. The CIA will report to the Chief Executive Officer (CEO) administratively and accordingly, the CEO will prepare the CIA's annual performance evaluation.

III. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of the chair and vice-chair of the Boards of Retirement and Investments, plus one Board member elected annually by each Board, for a total of four to six members¹. Audit Committee members that leave Board service will be replaced automatically when the Board replaces its missing officer while other Committee membership remains intact. If any elected Audit Committee member leaves Board service, the appropriate Board will elect a new Audit Committee member at the next regularly scheduled Board meeting. If Audit Committee voting results in a tie, the Committee will forward the recommendation to the appropriate Board for consideration and final decision.

The Committee shall have the authority to approve the hiring of the audit consultant as an advisor. The audit consultant will be designated as the audit technical expert, to advise the Committee on audit and financial matters.

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

¹ The number of Committee members is dependent upon the designated Chair and Vice Chair appointments to the Boards of Retirement and Investments. If both Boards were to elect the same individuals to the positions of Chair and Vice Chair, the Audit Committee would be comprised of four Board Members.



Audit Committee Charter

IV. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least three times per year, with authority to convene additional meetings, as circumstances require. Meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings, and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee. The Committee will invite members of management, internal auditors, external auditors, and/or others to attend meetings and provide pertinent information, as necessary.

Special meetings of the Committee may be called in the manner provided by Section 54956 of the Government Code.

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

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



Audit Committee Charter

This revised Audit Committee Charter is hereby approved by the Board of Retirement and Board of Investments on April 15, 2010 and April 14, 2010, respectively.

Les Robbins
Chair, Board of Retirement

Date

Herman B. Santos
Chair, Board of Investments

Date



PURPOSE

To assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the company's process for monitoring compliance with laws and regulations and the code of conduct.

AUTHORITY

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing and non-audit services.
- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees-all of whom are directed to cooperate with the committee's requests-or external parties.
- Meet with company officers, external auditors, or outside counsel, as necessary.

COMPOSITION

The audit committee will consist of at least three and no more than six members of the board of directors. The board or its nominating committee will appoint committee members and the committee chair.

Each committee member will be both independent and financially literate. At least one member shall be designated as the "financial expert," as defined by applicable legislation and regulation.

MEETINGS

The committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting, in person or via tele- or video-conference. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

RESPONSIBILITIES

The committee will carry out the following responsibilities:

Attachment C

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing *Standards*.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review interim financial reports with management and the external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

Internal Control

- Consider the effectiveness of the company's internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

- Approve the internal audit charter.
- Approve decisions regarding the appointment and removal of the chief audit executive. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit executive.
- Approve the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.
- Review with the chief audit executive the internal audit budget, resource plan, activities, and organizational structure of the internal audit function.
- At least once per year, review the performance of the chief audit executive and concur with the annual compensation and salary adjustment.
- Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the *International Standards for Professional Practice of Internal Auditing*.
- On a regular basis, meet separately with the chief audit executive to discuss any matters that the committee or internal audit believes should be discussed privately.

Attachment C

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and company legal counsel regarding compliance matters.

Reporting Responsibilities

- Regularly report to the board of directors about committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and the board of directors.
- Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- Review any other reports the company issues that relate to committee responsibilities.

Other Responsibilities

- Perform other activities related to this charter as requested by the board of directors.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee's and individual members' performance on a regular basis.



Model Audit Committee Charter

Revised February 2013

Endorsed by:
Association of Public Pension Fund Auditors, Inc.
A Project of the Best Practices Committee

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FOREWORD

The following Model Audit Committee Charter (Model AC Charter) captures many of the best practices used at the present time, February 2013. This Model AC Charter may not encompass all activities considered appropriate to a particular audit committee, nor are all activities identified in this Model AC Charter relevant to every audit committee. Accordingly, this Model AC Charter should be tailored to each audit committee's needs and governing rules. Moreover, as applicable laws, rules, and customs change, the audit committee charter should be updated.

Endorsement by the Association of Public Pension Fund Auditors, Inc. (APPFA) means that this document is intended as a starting point of reference and as a guide to public pension funds in formulating or revising their audit committee charters. To the extent that a public pension fund has unique circumstances, different applications and modifications of the example passages may be desirable.

The first version of this publication was completed in July 2003 and was updated in February 2013. The update was completed by the following members of the Best Practices Committee.

Florida Rivera-Alsing, Chair
Ryan Babin
Janet Harris
Amen Tam
Toni Voglino

State Board of Administration of Florida
Louisiana State Employees Retirement System
Public School Retirement System of Missouri
Ontario Municipal Employees Retirement System
Maryland State Retirement and Pension System

The February 2013 version of this publication was approved by the APPFA Board in May 2013.

I. PURPOSE

The purpose of the Audit Committee (Committee) is to assist the Board of Trustees (the Board) in fulfilling its fiduciary oversight responsibilities in the areas of:

- Financial Reporting,
- Risk Management,
- Internal Control,
- Internal Audit,
- Engagement of External Auditors,
- Compliance, and
- Special Investigations and Whistleblower Mechanism

II. AUTHORITY

The Committee has the authority to direct the Chief Audit Executive (CAE), external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Committee's scope of responsibility. It is empowered to:

- Seek any information it requires from employees – all of whom are directed by the Board to cooperate with the Committee's requests – external auditors, consultants, and external parties.
- Appoint, compensate, and oversee the work of all public accounting firms employed by the organization.
- Resolve any disagreements between management and the external auditors regarding financial reporting.
- Retain independent counsel, accountants, or others to advise or assist the Committee in the performance of its responsibilities.
- Approve the consultants, or others retained by the organization to assist in the conduct of an audit, review, and/or a special investigation.
- Meet with management, external and internal auditors, or outside counsel as necessary.

III. COMPOSITION

The Committee will consist of at least three, and no more than seven, members of the Board. The Board, or its nominating committee, will appoint Committee members and the Committee chair. Members of the Committee shall serve until the next such appointment of the Board or until their successors have been duly elected and qualified. The members of the Committee may be removed, with or without cause, by a majority vote of the Board.

Each Committee member will be independent and will complete an annual independence statement. Each Committee member will have professional experience and expertise in at least one of the following fields: institutional investing, risk management, accounting, auditing, or information technology. All members of the Committee shall have a working familiarity with basic finance and accounting practices. At least one member of the Committee shall be designated as the "financial expert," as defined by applicable legislation and regulation. Committee members shall have other qualifications as the Board determines appropriate.

IV. MEETINGS

The Committee shall meet at least four times a year, with authority to convene additional meetings, as circumstances require. All Committee members are expected to attend each meeting, in person or via tele- or video-conference. Meetings will be conducted in accordance with open meeting and other applicable laws. Meeting agendas, along with appropriate briefing materials, will be prepared and provided in advance to Committee members and other required attendees. Minutes of the meeting will be prepared and approved by the Committee.

Meeting notices, agendas, and materials will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. The Committee may invite members of management, external auditors, internal auditors, or other third parties, to attend meetings and provide pertinent information, as the Committee deems appropriate to carry out its responsibilities. All members of the Board may attend the meetings of the Committee but may not vote if not a member of the Committee.

To foster open communication, the Committee shall, at least annually, meet separately with the CAE and the external auditors to discuss any matters that the Committee believes should be discussed privately.*{Note: Subject to open meeting laws.}* In addition, the Committee should annually meet with the external auditors to review the organization's financial statements.

V. RESPONSIBILITIES

The Committee will carry out the following responsibilities:

A. *Financial Reporting*

- Obtain information and/or training to enhance the Committee’s understanding of the organization’s financial reports and the related financial reporting processes.
- Review significant accounting and reporting issues, including complex or unusual transactions, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, significant adjustments or revisions to the financial statements, including any difficulties encountered.
- Inquire as to the external auditors’ independent judgment about the appropriateness, not just the acceptability, of the accounting principles adopted by the organization and clarity of financial disclosures.
- Review the annual financial statements and any financial reports submitted to any governmental body; consider whether they are complete, consistent with information known to the Committee, and reflect appropriate accounting principles.
- Review the responsiveness and timeliness of management’s actions to address findings and recommendations that resulted from the financial statement audit.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- Review with the General Counsel the status of legal matters that may have an effect on the financial statements.
- Review, in consultation with the external auditors and the CAE, the integrity of the organization’s financial reporting processes.

B. *Risk Management*

- Obtain information and/or training to enhance the Committee’s understanding of the organization’s risks and the related risk management processes.
- Review the adequacy of the organization’s policy on risk management.
- Review the effectiveness of the organization’s system for assessing, monitoring, and controlling significant risks or exposures.

- Review management's reports on risks and related risks mitigations.
- Hire outside experts and consultants in risk management as necessary.

C. Internal Control

- Obtain information and/or training to enhance the Committee's understanding of the organization's internal control system.
- Consider the effectiveness of the organization's internal control system, including information technology security and control.
- Understand the scope of the external auditors' review of the organization's internal control over financial reporting.
- Review internal and external auditors' significant findings and recommendations, together with management's responses.
- Ensure that contracts with external service providers contain appropriate record-keeping and audit language.

D. Internal Audit

- Obtain information and/or training to enhance the Committee's understanding of the internal audit function.
- Review and approve the Internal Audit Department Charter annually.
- Review and confirm, through organizational structure and/or by other means, the independence of the internal audit function annually.
- Concur in the appointment, replacement, or dismissal of the CAE.
- Review the performance of the CAE and the internal audit function periodically and concur with the annual compensation and salary adjustment of the CAE.
- Ensure that internal auditors have full, free, and unrestricted access to all functions, documents, information, systems, contractors, consultants, and personnel in the organization.
- Review and approve the internal audit function's staffing plan and budget.
- Review and approve the risk-based internal audit annual plan.
- Receive and review all internal audit reports.

- Review the responsiveness and timeliness of management’s follow-up activities pertaining to all reported findings and recommendations.
- Bring to the attention of the Board any audit issues the Committee determines significant and appropriate for consideration by the Board.
- On a regular basis, meet separately with the CAE to discuss any matters that the Committee or internal audit believes should be discussed privately. *{Subject to open meeting laws.}*
- Obtain and review the quality assurance report for the Internal Audit Department at least once every five years. Review for any concerns noted.
- Delegate to the CAE the oversight and management of the contracts of all public accounting firms hired by the organization.
- Designate the CAE as the primary point of contact for handling all matters related to audits, examinations, investigations or inquiries of the state auditor, and other state or federal agencies.

E. Engagement of External Auditors

- Obtain information and/or training to enhance the Committee’s understanding of the organization’s financial statements audit and the role of external auditors.
- Approve the appointment, retention, or discharge of the external auditors. Obtain input from the CAE, management, and other parties as appropriate.
- Approve all audit and non-audit services to be performed by the external auditors.
- Review the external auditors’ proposed audit scope and approach, including the coordination of efforts with internal audit.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the organization for all audit and non-audit services.
- On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately. *{Note: Subject to open meeting laws.}*
- Provide guidelines and mechanisms so that no Committee member or organization staff shall improperly influence the external auditors.

- Obtain and review annually a list of all payments to the external auditors. The list should separately disclose the payment for the financial statements audit, other attestation projects, and non-audit services provided.
- Obtain and review the peer review report for the external audit firms on a periodic basis. Review for any concerns noted.

F. Compliance

- Review the effectiveness of the organization's system for monitoring compliance with laws, regulations, contracts, and policies and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/observations.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Obtain regular updates from management and organization legal counsel regarding compliance matters.

G. Special Investigations and Whistleblower Mechanism

- Institute and oversee special investigations, as needed.
- Ensure the creation and maintenance of an appropriate whistleblower mechanism for reporting any fraud, noncompliance, and/or inappropriate activities.
- Retain independent counsel, accountants, or other specialists to advise the Committee or assist in the conduct of an investigation.

H. Other Responsibilities

- Report at least annually to the Board the Committee's activities, audit issues, and related recommendations.
- Confirm annually that all responsibilities outlined in this Model AC Charter have been carried out.
- Review and assess annually the adequacy of this Model AC Charter; request Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

- Evaluate annually the Committee's and individual member's performance and report the results of the evaluation to the Board.
- Provide an open avenue of communication between the internal auditors, external auditors, management, and the Board.
- Perform other activities related to this Model AC Charter as requested by the Board.

VI. SIGNATURE PAGE

This Model AC Charter was adopted by the Committee on (date) and approved by the Board. This Model AC Charter is effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Chair, Audit Committee

Date

Chair, Board of Trustees

Date

REFERENCES

The Institute of Internal Auditors' Model Audit Committee Charter

Audit Committee Charter of the various public pension fund systems who are members of APPFA




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March 29, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

Leisha Collins 
Principal Internal Auditor

Christina Logan 
Senior Internal Auditor

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **REVISIONS TO INTERNAL AUDIT CHARTER**

RECOMMENDATION

Review and approve the updated Internal Audit Charter.

BACKGROUND

The Institute of Internal Auditors (IIA) requires internal audit functions to formally define the purpose, authority, and responsibilities of the group in a charter. Senior management and the Board must review and approve the charter. In addition, the IIA requires a periodic review of the internal audit charter to ensure it is aligned with industry standards and organizational changes.

The Chief Executive Officer (CEO) and the Board of Retirement initially reviewed approved Internal Audit's Charter (Charter) in 1996. Internal Audit subsequently updated its Charter in 2004 and 2010 to reflect changes made to the IIA's template as well as any organizational changes at LACERA.

CHARTER 2016

Internal Audit is proposing updates to the Charter (**Attachment A**) to better align it with industry best practices and organizational changes. The proposed updates are based on staff's comparison of the 2010 Charter (**Attachment B**) against the IIA's current model template (**Attachment C**), the Association of Public Pension Fund Auditors' (APPFA) current model template (**Attachment D**), and peer organizations' charters.

PROPOSED UPDATES

In the proposed 2016 Charter, staff categorized the updates by the colors below.

- **Formatting** updates are **bolded and in green** and indicate content moved from one section to another in order to parallel the IIA template.
- **Alignment** updates are **bolded and in blue**. These are wording changes better align the Charter with the IIA template and provide additional clarity.
- **Documentation** updates are **bolded and in purple**. These delineate current operational practices or responsibilities that were not previously documented in the Charter.

SIGNIFICANT PROPOSED CHANGES

There is one **significant new section** of the 2016 Charter which is **bolded and in red**. The new **Quality Assurance and Improvement Program** (Section X, pg. 7) will result in an operational and/or responsibility change.

Staff is proposing this section as it conforms to IIA's mandatory standards for practicing internal audit and, moreover, was a recommendation from Internal Audit's Quality Assessment Review. The IIA requires the section; *"to describe the expectations for maintaining, evaluating, and communicating the results of a quality program that covers all aspects of the internal audit activity."* Proposed wording is from the IIA template as follow:

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

If the Committee does not add this specific wording, it should consider alternative wording to address this mandatory standard.

CONCLUSION

Staff's proposed changes to the Charter better align it with the IIA's and AFFPA's current templates and published best practices. Staff recommends the Committee review the proposed changes to the Charter, as well as the best practice charters included for reference, and provide staff with further direction and/or approval.

Attachments:

- A: Proposed 2016 Internal Audit Charter
- B: 2010 Internal Audit Charter
- C: 2013 IIA Template
- D: 2013 APFFA Template

Internal Audit Charter

INTERNAL AUDIT SERVICES



2016



INTERNAL AUDIT CHARTER

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INTERNAL AUDIT CHARTER

I. MISSION

The mission of Internal Audit is to provide independent **and** objective assurance **services**, and consulting services designed to add value and improve **LACERA's** operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

II. ROLE

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

III. OBJECTIVES

A. Assurance Objectives

The goal of assurance services is to provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA.

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

B. Consulting Objectives

The objective of consulting services is to provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Internal Audit will participate as consultants in the **assessment and review of controls, policies, procedures, and systems, both manual and electronic. In addition,** opportunities for improving management controls, and LACERA's image may be identified during audits; and these will be communicated to the appropriate level of Management.

C. Advisory Objectives

The objective of advisory services is to provide informal advice to Management.

Having Internal Audits consult at the beginning of a project, aids management in identifying and managing risks effectively, and designing adequate internal controls.

Examples of advisory services include participating in various committees in an ex-officio capacity; providing routine advice on policies, establishing controls, providing training and risk management tools, and facilitating meetings.



INTERNAL AUDIT CHARTER

IV. PROFESSIONALISM

Internal Audit will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing* (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluation the effectiveness of Internal Audit's performance. Additionally, Internal Audit will obtain guidance from the professional standards and practices of other, relevant professional organizations, including but not limited to, the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Associate of Certified Fraud Examiners, and the Association of Public Pension Fund Auditors.

V. AUTHORITY

Internal Audit, **with strict accountability for confidentiality, and safeguarding of records and information**, is authorized full, free, and unrestricted access to any and all of LACERA's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to the Audit Committee and Boards, **subject to the requirements of the Ralph M. Brown Act (Government Code Section 54950, et seq.)**.

VI. ORGANIZATION

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

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

VII. INDEPENDENCE AND OBJECTIVITY

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

Internal Audit will be diligent in monitoring its own potential conflicts of interest in performing its Mission, Objectives, and Responsibility under this Charter. Where a conflict is identified, the Audit Committee will be advised and a determination will be made by the Committee as to whether to proceed and procure an independent outside auditor.



INTERNAL AUDIT CHARTER

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment.

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

The CAE will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit division.

VIII. RESPONSIBILITY

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

This includes:

- A. Evaluating risk exposure relating to achievement of LACERA's strategic objectives.
- B. Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- C. Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on LACERA.
- D. Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- E. Evaluating the effectiveness and efficiency with which resources are employed.
- F. Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operation or programs are being carried out as planned.
- G. Monitoring and evaluating governance processes.
- H. Monitoring and evaluating the effectiveness of LACERA's risk management processes.
- I. Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit.
- J. Performing assurance, consulting and, advisory services related to governance, risk management, and control processes as appropriate for LACERA.
- K. Reporting periodically on Internal Audit's purpose, authority, responsibilities, and performance relative to its Audit Plan.



INTERNAL AUDIT CHARTER

- L. **Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee or Boards.**
- M. **Evaluating specific operations at the request of the Audit Committee, Boards, or Management, as appropriate.**

IX. ACCOUNTABILITY

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

- A. **Select, train, develop, and retain a competent Internal Audit staff that collectively has the abilities, knowledge, skills, experience, and professional certifications to meet the requirements of this Charter. Report to the Audit Committee significant changes in Internal Audit personnel.**
- B. **Annually** develop a flexible audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, **the Audit Committee, or the Boards**. Submit the annual Audit Plan and **significant interim changes to Executive Management** and the Audit Committee for review and approval.
- C. Issue reports to Management and the Audit Committee, **at the conclusion of each Internal Audit engagement. The written reports will include Management's responses, and if applicable, Management's timetable for implementing recommendations or corrective actions.**
- D. **Establish and maintain a follow-up system to monitor the disposition of results communicated to Management and ensure Management actions have been effectively implemented or that Executive Management has accepted the risk of not taking action.**
- E. Provide annually an assessment on the adequacy and effectiveness of LACERA's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- F. Report significant issues related to the processes for controlling the activities of LACERA and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- G. Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.



INTERNAL AUDIT CHARTER

X. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

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

XI. APPROVAL

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

APPROVED AND ADOPTED BY:

| | | | |
|-------------------------------|----------------------|--------------------------------|----------------------|
| _____ | <u>April x, 2016</u> | _____ | <u>April x, 2016</u> |
| Chair, Audit Committee | Date | Gregg Rademacher | Date |
| | | <i>Chief Executive Officer</i> | |
| _____ | <u>April x, 2016</u> | | |
| Richard Bendall | Date | | |
| <i>Chief Audit Executive</i> | | | |

INTERNAL AUDIT CHARTER

The following is the most current Internal Audit Charter approved in November, 2010.

MISSION

The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

OBJECTIVE AND SCOPE OF WORK

ASSURANCE OBJECTIVES

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

CONSULTING AND ADVISORY OBJECTIVES

Consulting Services - Provide management with formal assessments and advice for improving processes that will advance LACERA's goals and objectives. Internal Audit will participate as consultants in the planning, design, development, and implementation and modification phases of policies, procedures and systems, both manual and electronic. Also, opportunities for improving management control, profitability, and LACERA's image may be identified during audits; and these will be communicated to the appropriate level of Management.

Advisory Services - Provide informal advice to management. Internal Audit may provide advice on the front-end of projects so that risks are managed and internal controls may be designed and incorporated at the beginning of a project. Examples of advisory services include participating in various committees in an ex-officio capacity; providing routine advice on policies, establishing controls, implementing audit recommendations, providing training and risk management tools, and facilitating meetings.

SCOPE OF WORK

Internal Audit's overall scope of work is to determine whether LACERA's network of risk management, control, and governance processes, as designed and represented by Management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in LACERA's control process.
- Significant legislative or regulatory issues impacting LACERA are recognized and addressed appropriately.
- Programs are operating within fiduciary standards, laws, regulations, and LACERA policies.

Attachment B

ACCOUNTABILITY

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

- Provide annually an assessment on the adequacy and effectiveness of LACERA's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of LACERA and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.

Coordinate with and participate in other control and monitoring functions (risk management, compliance, security, privacy, legal, ethics, environmental, external audit).

INDEPENDENCE

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

RESPONSIBILITY

The Chief Audit Executive and staff of Internal Audit have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by Management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Report to the Audit Committee significant changes in Internal Audit personnel.
- Maintain an effective quality assurance and improvement program to include supervision, training, internal reviews, and external reviews.
- Perform consulting services, beyond Internal Audit's assurance services, to assist management in meeting its objectives. Examples include facilitation, process design, training, and advisory services.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Audit Committee and Management summarizing results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Audit Committee.
- Assist in the investigation of significant suspected fraudulent activities within LACERA and notify Management and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to LACERA at a reasonable overall cost.

Attachment B

- Act as the contract manager and primary point of contact related to financial statement and related audits, fiduciary reviews, and other inquiries involving external audit or evaluation groups.

AUTHORITY

The Chief Audit Executive and staff of Internal Audit are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of LACERA where they perform audits, as well as other specialized services from within or outside LACERA.

The Chief Audit Executive and staff of Internal Audit are not authorized to:

- Perform any operational duties for LACERA or its affiliates.
- Initiate or approve accounting transactions external to Internal Audit.
- Direct the activities of any organization employee not employed by Internal Audit, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

STANDARDS OF AUDIT PRACTICE

Internal Audit will adhere to the *International Standards for the Professional Practice of Internal Auditing* and to the *Code of Ethics*, both as promulgated by The Institute of Internal Auditors; and it will obtain guidance from professional standards and practices of other, relevant professional organizations, including but not limited to the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Association of Certified Fraud Examiners and the Association of Public Pension Fund Auditors.

THE INTERNAL AUDIT CHARTER REVISIONS WERE ADOPTED BY THE AUDIT COMMITTEE OF THE LOS ANGELES COUNTY EMPLOYEES RETIREMENT SYSTEM ON NOVEMBER 17, 2010

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the <organization>. It assists <organization> in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, internal control.

ROLE:

The internal audit activity is established by the Board of Directors, Audit Committee, or highest level of governing body (hereafter referred to as the Board). The internal audit activity's responsibilities are defined by the Board as part of their oversight role.

PROFESSIONALISM:

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to <organization> relevant policies and procedures and the internal audit activity's standard operating procedures manual.

AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of <organization> records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board.

ORGANIZATION:

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Chief Executive Officer.

The Board will

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.

- Approve decisions regarding the appointment and removal of the Chief Audit Executive.
- Approve the remuneration of the Chief Audit Executive.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

The Chief Audit Executive will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

INDEPENDENCE AND OBJECTIVITY:

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

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

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

The Chief Audit Executive will confirm to the board, at least annually, the organizational independence of the internal audit activity.

RESPONSIBILITY:

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

- Evaluating risk exposure relating to achievement of the organization's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.

- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

INTERNAL AUDIT PLAN:

At least annually, the Chief Audit Executive will submit to senior management and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board. The Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic activity reports.

REPORTING AND MONITORING:

A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.



The Chief Audit Executive will periodically report to senior management and the Board on the internal audit activity’s purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

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

The Chief Audit Executive will communicate to senior management and the Board on the internal audit activity’s quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal Audit Activity charter

Approved this _____ day of _____, _____.

Chief Audit Executive

Chairman of the Board / Audit Committee

Chief Executive Officer



Model Internal Audit Department Charter

Revised February 2013

Endorsed by:
Association of Public Pension Fund Auditors, Inc.
A Project of the Best Practices Committee

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FOREWORD

The following Model Internal Audit Department Charter (IAD Charter) captures many of the best practices used at the present time, February 2013. This IAD Charter may not encompass all activities that might be appropriate to a particular internal audit department, nor are all activities identified in this IAD Charter relevant to every internal audit department. Accordingly, this IAD Charter should be tailored to each internal audit department's needs and governing rules. Moreover, as applicable laws, rules, and customs change, this IAD Charter should be updated.

Endorsement by the Association of Public Pension Fund Auditors, Inc. (APPFA) means that the document is intended as a starting point of reference and as a guide to public pension funds in developing and/or revising their internal audit department charters. To the extent that a public pension fund has unique circumstances, different applications and modifications of the example passages may be desirable.

The first version of this publication was completed in August 2004 and was updated in February 2013. The update was completed by the following members of the APPFA Best Practices Committee:

| | |
|------------------------------|---|
| Florida Rivera-Alsing, Chair | State Board of Administration of Florida |
| Ryan Babin | Louisiana State Employees Retirement System |
| Jenine Gregory | Ontario Municipal Employees Retirement System |
| Janet Harris | Public School Retirement System of Missouri |
| Amen Tam | Ontario Municipal Employees Retirement System |
| Toni Voglino | Maryland State Retirement and Pension System |

The February 2013 version of this publication was approved by the APPFA Board in May 2013.

I. MISSION

The mission of the Internal Audit Department (IAD) is to provide independent, objective assurance, and consulting services designed to add value and improve the organization's operations. The IAD helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.¹ The IAD:

- Provides a wide range of quality independent internal auditing services for the Audit Committee and executive management and consulting services for management.
- Performs independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and using innovative approaches.
- Supports the organization's efforts to achieve its objectives through independent assurance and consulting services.
- Maintains a dynamic, team-oriented environment that encourages personal and professional growth, and challenges and rewards internal audit staff for excellence and reaching their full potential.

¹ Source: International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors, Inc.,

II. OBJECTIVES AND SCOPE

A. Assurance Objectives

The objectives of the IAD's assurance services are to provide independent assurance to the Board of Trustees (Board), Audit Committee, and management that the organization's assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws, and the organization's policies. Assurance objectives include independent assessment of the organization's governance, risk management, and control processes.

B. Consulting Objectives

The objectives of the IAD's consulting services, the nature and scope are agreed with management, are to provide assessments and advice for improving the organization's governance, risk management, and control without the IAD assuming management responsibility. In particular, the consulting objectives are to provide assessments and advice at the beginning of a project so that risks may be identified, managed, and internal controls may be designed adequately.

C. Scope

The scope of work of the IAD is to determine whether the organization's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning to ensure:

- Programs are operating within fiduciary standards and are in compliance with laws, regulations, ordinances, policies, and procedures.
- Risks are appropriately identified and managed.
- Programs and processes are consistent with industry best practices, using the best public and private examples as benchmarks.
- Operations, processes, and programs are consistent with established missions, objectives and goals and whether they are being carried out as planned.
- Existing policies and procedures are appropriate and updated.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately protected.

- Quality and continuous improvement are fostered in the organization's control process.
- Employers appropriately enroll employees, accurately report employee earnings, and appropriately report other employee data.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for improving member service, management of risks, internal control, governance, and the organization's effectiveness and image may be identified during audits. This information will be communicated to the Audit Committee and to appropriate levels of management.

III. AUTHORITY

The internal audit function of this organization is established by state statutes XXXX, and enabled by regulations YYYY. The IAD is established by this organization pursuant to these applicable laws and regulations, customs of corporate governance, and best practices. This IAD Charter and all future amendments are to be approved by the Audit Committee through a majority vote. This IAD Charter shall be reviewed at least annually and updated as necessary.

The Chief Audit Executive (CAE) reports functionally to the Audit Committee and reports administratively to the Chief Executive Officer (CEO). The CAE is hired, evaluated, retained, and terminated by the Audit Committee. The Audit Committee will seek input from the CEO in making its selection.

The CAE is delegated the authority to manage the IAD. The CAE is authorized to allocate resources, set project frequencies, select audit subjects, determine scope of work, and apply the techniques necessary to accomplish the audit objectives. The CAE is authorized to hire, retain, train, and terminate internal audit staff, when necessary, to achieve the objectives of the IAD.

The CAE and internal audit staff are not authorized to perform operational duties for the organization and/or its affiliates and contractors. IAD staff is not authorized to:

- Initiate or approve accounting transactions external to the IAD.
- Direct the activities of any organization employee not employed by the IAD, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

IV. ACCESS

The CAE and designated audit staff, as appropriate, shall have full, free, and unrestricted access to all of the organizations' functions, records, files and information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the function, process, or department under review. All contracts with vendors shall contain the organization's standard audit language enabling the organization's internal auditors, other auditors and specialists to have access to relevant records and information. All of the employees of the organization are required to assist the staff of the IAD in fulfilling their function.

The CAE shall have free and unrestricted access to the Chair, members of the Audit Committee, and Board of Trustees. The CAE shall also have free and unrestricted access to the CEO, other executives, management, all personnel, contractors, vendors, employers, members, retirees and beneficiaries of the organization.

Documents and information given to the IAD shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The CAE shall ensure that internal audit staff is adequately coached in the handling and safeguarding of confidential information.

V. INDEPENDENCE

A. *Organizational Placement*

To provide for the independence of the IAD, its personnel report to the CAE, who in turn reports functionally to the Audit Committee and administratively to the CEO. The CAE shall freely discuss audit policies, audit findings and recommendations, audit follow-up, issues, and other matters as necessary.

B. *Professional Standards of Independence*

The Audit Committee recognizes that professional independence requires that the internal auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the CAE will report to the Audit Committee the qualifications, certifications, and training requirements of the internal audit staff. The CAE shall periodically discuss standards of professional audit independence with the Audit Committee. The standards of independence used as benchmarks will be those of the organizations mentioned in Section VII of this document.

C. *Impairment of Independence*

The CAE should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the Audit Committee, as necessary. If objectivity or independence is impaired in fact or appearance, the details of the impairment should be disclosed to the appropriate parties. The nature of the disclosure will depend on the impairment. The IAD should annually certify to the Audit Committee they have no actual or perceived conflicts of interest that would impair their objectivity or independence.

VI. RESPONSIBILITIES AND ACCOUNTABILITY

The CAE is responsible for the following in order to meet the mission, objectives, and scope of this Charter and the IAD.

1. Select, train, develop, and retain a competent internal audit staff who collectively has the abilities, knowledge, skills, experience, expertise and professional certifications necessary to accomplish the mission, objectives and scope of this Charter. Provide opportunity and support for staff obtaining professional training, examinations, and certifications.
2. Establish policies for conducting IAD activities according to the organization's policies, direction provided by the Audit Committee, and professional standards described in Section VII.
3. Perform an annual risk assessment. Develop and implement a flexible annual audit plan (audit plan) using an appropriate risk-based methodology, including any risks or concerns identified by management, and submit the audit plan to the Audit Committee for review and approval. The audit plan will include some unassigned hours in order to provide flexibility for changing conditions. Performance of the audit plan will be periodically reviewed and reported to the Audit Committee. The audit plan may be updated, if necessary.
4. Prepare a budget that is complementary to the implementation of the audit plan.
5. Perform independent analyses of significant operations to evaluate the adequacy and effectiveness of existing systems of internal control and the quality of performance (economy, efficiency, and effectiveness) in carrying out its business objectives.
6. Establish and maintain a follow-up system to monitor the disposition of results communicated to management and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
7. Issue periodic reports to the Audit Committee and management summarizing results of assurance and consulting services. Any management letters issued should also be reported to the Audit Committee.
8. Assess periodically whether the purpose, authority, and responsibility, as defined in this IAD Charter, continue to be adequate to enable the IAD to accomplish its mission, objectives, and scope. The result of this periodic assessment should be communicated to the Audit Committee and the CEO.
9. Implement a quality assurance and improvement program. Obtain an external assessment no less frequently than every five years [*International Standards for the*

Professional Practice of Internal Auditing] or every three years [*Generally Accepted Government Auditing Standards*], as appropriate. Conduct periodic internal quality assurance and ongoing quality procedures. Results of the quality assurance and improvement program should be reported to the Audit Committee.

10. Lead/participate in the selection of external audit firms. Coordinate/manage the contract(s) with any external audit firms and evaluate their performance. Report to the Audit Committee on all activities and associated cost of work performed by the external audit firms.
11. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
12. Act as the primary point of contact for handling all matters related to audits, examinations, investigations or inquiries of the state auditor or other appropriate state or federal auditors.
13. As appropriate, provide consulting services to management that add value and improve the organization's governance, risk management, and control processes without assuming management responsibility.
14. Assist in the investigation of suspected fraudulent activities within the organization and notify the Audit Committee, the CEO and other Executives, as appropriate, of the results.
15. Inform the Audit Committee of significant risk exposures and control issues including fraud risks, governance issues and other significant matters.
16. Inform the Audit Committee of emerging trends and successful practices in internal auditing.
17. Attend all Audit Committee meetings, and ensure attendance of additional audit staff and auditees, as appropriate.

VII. PROFESSIONAL STANDARDS & GUIDANCE

The IAD shall follow the professional standards of relevant professional organizations. The IAD should consider professional guidance published by these organizations. These professional standards and guidance include, but are not limited to, the following:

- The Institute of Internal Auditors mandatory guidance which includes the International Standards for the Professional Practice of Internal Auditing, Code of Ethics, and Definition of Internal Auditing. The current versions of these documents are part of this IAD Charter and are appended thereto.
- IS Auditing Standards, Guidelines, and Procedures, and the Code of Professional Ethics of the ISACA. The Control Objectives for Information Technology will be used as a reference. The current versions of these documents are part of this Charter and are appended thereto.
- Professional Standards and Code of Ethics of the American Institute of Certified Public Accountants, as applicable.
- Generally Accepted Government Auditing Standards from the United States General Accountability Office, as applicable.
- Public Company Accounting Oversight Board (PCAOB) auditing standards, as applicable.
- Other professional standards, such as those of the Institute of Management Accountants (IMA) and the Association of Certified Fraud Examiners (ACFE), as applicable.
- Other professional guidance such as The Institute of Internal Auditors Practice Advisories, Practice Guides, and Position Papers.

VIII. RELATIONSHIP TO RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS

The Board has overall responsibility for ensuring that risks are managed. In practice, the Board delegates to management the operation and implementation of the risk management system. The IAD's role is to provide an independent and objective assurance on the effectiveness of the risk management system.

Management is responsible for implementing a system of internal control. The IAD's role is to provide an independent and objective assurance that the internal control system is operating effectively.

IX. PROCUREMENT OF OUTSIDE EXPERTISE

The CAE may occasionally need to obtain the expertise of persons outside of the IAD. When the CAE intends to use and rely on the work of a person outside the IAD, the CAE needs to consider the competence, independence, and objectivity of the person.

Expertise may be obtained within the organization through appropriate arrangements with management. When obtaining this expertise within the organization, care must be taken to avoid conflicts of interest that could damage the quality of the audit work performed and/or conclusions obtained.

Expertise may also be obtained from outside the organization. In such cases, the CAE needs to obtain sufficient information regarding the scope of work of the external service provider to ensure the scope of work is adequate for the purposes of the internal audit activity. The CAE must document the scope of work, professional standards to be used, deliverables, deadlines, and other matters in an engagement letter or contract. The Audit Committee should be informed about the use of an external service provider.

XI. SIGNATURE PAGE

This IAD Charter was adopted by the Audit Committee on (date), and approved by the Board. This IAD Charter is effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

| | | | |
|------------------------|-------|--------------------------|-------|
| _____ | _____ | _____ | _____ |
| Chair, Audit Committee | Date | Chair, Board of Trustees | Date |
| _____ | _____ | _____ | _____ |
| Chief Audit Executive | Date | Chief Executive Officer | Date |

REFERENCES

The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

The Institute of Internal Auditors' Model Internal Audit Activity Charter.

IIA Position Paper: The Role of Internal Auditing in Enterprise-Wide Risk Management.

Internal Audit Charter of the various public pension fund systems who are members of APPFA.




PO Box 16064 • Columbus, OH 43216-6064
www.appfa.org



March 24, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

David Redman 
Senior Internal Auditor

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **REQUEST FOR PROPOSAL – ANNUAL AUDITS OF LACERA FINANCIAL STATEMENTS, FISCAL YEAR-ENDS 2017 THROUGH 2021**

RECOMMENDATION

Internal Audit recommends that the Audit Committee ("Committee"):

1. Authorize staff to issue a Request For Proposal (RFP) for an external certified public accounting firm (Auditor) to perform the annual audit of LACERA's financial statements with a proposed contract term of 5 years, fiscal years ending 2017-2021, with an optional two-year extension; and
2. Approve the attached RFP Draft with its "Firm (Auditor or Bidder) Minimum Qualifications"; and
3. Provide direction to staff regarding the evaluation process of proposals received and the selection and interview of "finalists."

EXECUTIVE SUMMARY

Background

In September 2002 and May 2009, LACERA issued an RFP to search for qualified certified public accounting (CPA) firms that were capable of performing the annual financial statement audit. At the conclusion of those RFP processes, the Board of Retirement (BOR) selected Brown Armstrong Paulden McCown Starbuck Thornburgh & Keeter, Certified Public Accountants ("Brown Armstrong") and awarded the *Audit Services Agreement* ("Agreement") for 5-year

periods with an option to extend each Agreement for an addition 2 years. In each instance, the BOR did exercise the 2-year option.

Brown Armstrong has completed the annual financial statement audit for fiscal year-end 2015, with one remaining year left under the current Agreement. So, at the conclusion of the year-end 2016 financial statement audit, Brown Armstrong will have been LACERA's auditor for 14 years. It should be noted that LACERA staff has been quite satisfied with Brown Armstrong's performance. Provided that Brown Armstrong makes certain changes to its direct LACERA-related partners (as indicated in the following paragraph), nothing prohibits Brown Armstrong from submitting a bid for a contract renewal or the Board from selecting Brown Armstrong to continue as LACERA's external auditor.

California Government Code, Section 12410.6 (b) reads, "Commencing with the 2013–14 fiscal year, a local agency shall not employ a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency for six consecutive fiscal years. For purposes of calculating the six consecutive fiscal years, the local agency shall not take into account any time that a public accounting firm was employed by that local agency prior to the 2013–14 fiscal year. The [California State] Controller may waive this requirement if he or she finds that another eligible public accounting firm is not available to perform the audit."

Search Process, Selection and Hiring

The Audit Committee Charter indicates that your Committee is responsible for making a recommendation to the Board of Retirement (BOR) regarding appointment, compensation and work of the certified public accounting (CPA) firm employed by LACERA to perform the annual financial statement audit. At this time, Internal Audit is requesting your Committee approve a search for qualified CPA firms and provide direction to staff regarding the evaluation process of proposals received and the selection and interview of "finalists". Staff recommends that your Committee review attached RFP Draft in its entirety, which includes proposed evaluation criteria and scoring (Page 35 of 53).

Auditor Minimum Qualifications

Internal Audit also requests that your Committee review and approve the "Firm (Auditor or Bidder) Minimum Qualifications" included in the Attachment. Each firm will be required to certify that it meets the minimum qualifications and staff will conduct further research to ensure these qualifications have been met. In order to attract proposals from a wider range of firms than had previous RFPs, Internal Audit has reduced a \$5 billion stipulation (#8 on Page iii of iv) to \$2 billion, which relates to the size of previously audited, defined benefit plans not subject to California's CERL of 1937.

Proposed Project Time Line

Staff has developed a “Proposed Project Time Line” included in the RFP Draft (Page #18 of 53). Internal Audit anticipates issuing the RFP in late April 2016 and completing final vendor selection and notification by June month-end 2016, with a contract commencing in January 2017. The audit engagement will be for a five-year period, beginning with the fiscal year-end June 30, 2017, and again with an option for LACERA to extend the Agreement for an additional 2 years. This plan should provide sufficient time for the new Auditor to perform the necessary transition and preliminary work required for the 2017 financial statement audit.

The "finalists" from the evaluation process will be interviewed by your Committee as part of your next meeting, currently scheduled for July 20, 2016.

Attachment

File: Tab 9-1 External Auditor RFP Memo.docx

April 20, 2016

To: All Interested Parties

From: Richard Bendall, Chief Audit Executive
Los Angeles County Employees Retirement Association

Subject: **Request For Proposal –
Annual Audits of the Financial Statements**

Introduction

The Los Angeles County Employees Retirement Association (LACERA) is requesting proposals from qualified certified public accounting firms to perform annual attest audits of LACERA's financial statements. LACERA intends to award a five (5) year agreement beginning January 1, 2017 with a two (2) year extension at LACERA's option. LACERA's Request For Proposal is attached for your consideration.

Intent to Bid and Minimum Qualifications Certification

The Bidder must submit the attached "Intent to Bid and Minimum Qualifications Certification" by **April 29, 2016, 5:00 PM, PDT** to participate in the bidding process. Please forward the Intent to Bid and required attachment(s) to:

David Redman, Senior Internal Auditor
LACERA
300 N. Lake Avenue, Suite 840
Pasadena, CA 91101-4199
Facsimile: 626-685-4632
Email: dredman@lacera.com

Failure to submit Intent to Bid and Minimum Qualifications Certification (MQC) will disqualify any potential Bidder from submitting a proposal. Failure to meet all of the qualifications set forth in the Minimum Qualifications Certification may result in disqualification of the Bidder and immediate rejection of any proposal submitted. LACERA in its sole discretion will determine if a Bidder meets the MQC. The MQC must be completed and signed by an individual authorized to legally bind the Bidder.

Bidder Questions

Bidder's questions must be submitted in writing (via email, facsimile, or US mail) by **May 6, 2016, 5:00 PM, PDT**, to the contact person indicated above. LACERA's responses to Bidder's written questions will be posted on LACERA's website and sent to all Bidders submitting Intent to Bid.

Critical Dates and Instructions

The deadline to submit a proposal is **June 17, 2016, 5:00 PM, PDT**. Please review the Request For Proposal (RFP) carefully and note the critical dates and instructions for submitting a proposal. For more information regarding the RFP process dates, see **Section III, Bidding Process**.

Critical Dates

| | |
|---|----------------|
| Deadline to Submit Intent to Bid and Minimum Qualifications Certification | April 29, 2016 |
| Deadline to Submit Written Questions | May 6, 2016 |
| Deadline to Submit Proposal | June 17, 2016 |

Audit Services Agreement – General Form

The Audit Services Agreement – General Form (Agreement) is included in the attached RFP, see **Section VI, Supplemental Information**. By submitting a proposal without comments on the Agreement, Bidder will be deemed to have agreed to each term, and not to seek any modifications to the Agreement. If Bidder objects to a term or wishes to modify or add terms to the Agreement, Bidder's proposal must identify each objection, and propose alternative language for each modification and additional term sought, including the rationale for the change. LACERA reserves the right to make changes to the Agreement prior to execution.

Certification Regarding Financial Contacts and Solicitations

Bidders must comply with the LACERA Certification Regarding Financial Contacts and Solicitations. Please see **Exhibit D of the Audit Services Agreement (Section VI, Supplemental Information)** of the RFP. We appreciate Bidder's cooperation in following these procedures throughout the bidding process.

Proprietary Materials

All responses to this RFP become the property of LACERA and will be kept confidential until such time as recommendation for award of a contract has been announced. Thereafter, proposals are subject to public inspection and disclosure pursuant to the California Public Records Act (Cal. Gov. Code Sections 6250 et. seq., the "Act"). The Act provides generally that all records relating to a public agency's business are open to public inspection and copying, unless specifically exempted under one of several exemptions set forth in the Act. In addition, if LACERA staff chooses to recommend any Bidder(s) to the Boards' Audit Committee and/or to the Board of Retirement for hiring, such recommendation and the relevant proposal(s) will appear on a publicly posted agenda for public meetings of the Committee and Board.

If a Bidder believes that any portion of its proposal is exempt from public disclosure under the Act, such portion may be marked "CONFIDENTIAL." LACERA will use reasonable means to ensure that such confidential information is safeguarded and held in confidence to deny public disclosure of any portions so designated. LACERA will not be held liable, however, for inadvertent disclosure of such materials, data and information. Proposals marked "CONFIDENTIAL" in their entirety will not be honored, and LACERA will not deny public disclosure of all or any portion of proposals so marked.

By submitting a proposal with portions marked CONFIDENTIAL, Bidder represents it has a good faith belief that such material is exempt from disclosure under the Act, and Bidder agrees to reimburse LACERA for, and to indemnify, defend and hold harmless LACERA, its officers, fiduciaries, employees and agents from and against: (a) any and all claims, damages, losses, liabilities, suits, judgments, fines, penalties, costs and expenses including, without limitation, attorneys' fees, expenses and court costs of any nature whatsoever (collectively, "Claims") arising from or relating to LACERA's non-disclosure of any such designated portions of a proposal; and (b) any and all Claims arising from or relating to LACERA's public disclosure of any such designated portions of a proposal if disclosure is deemed required by law or by court order.

Attachments

RB: DR: dr
File: 2017 Audit Services RFP.docx

c: Gregg Rademacher
Rob Hill
John Popowich
Beulah Auten
Vache Mahseredjian
Steven Rice

LACERA
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
Issued: April 2016

INTENT TO BID AND
MINIMUM QUALIFICATIONS CERTIFICATON

| | |
|------------------------------------|---------------|
| To: David Redman | From: |
| Co: LACERA – Internal Audit | Title: |
| Fax: 626-685-4632 | Firm: |
| Phone: 626-564-6000 x3525 | Phone: |
| Re: Intent to Bid and MQC | Date: |

Our Firm intends to submit a proposal for LACERA’s annual financial statement audits, as set forth in the Request for Proposal issued in April 2016. Our Firm has completed the attached Minimum Qualifications Certification (MQC) and certifies that it meets all of the qualifications contained therein. Our Firm understands that LACERA reserves the right to verify any and all qualifications declared by our Firm.

Please forward LACERA’s responses to Bidders’ questions to the following Firm contact person.

Name: _____

Title: _____

Firm: _____

Mailing Address: _____

Telephone: _____

Facsimile: _____

Email Address: _____

Attachment

ATTACHMENT TO COVER LETTER

**LACERA
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
Issued: April 2016**

**INTENT TO BID AND
MINIMUM QUALIFICATIONS CERTIFICATION (MQC)**

| | Firm (Bidder or Auditor) Minimum Qualifications | Yes | No |
|-----|---|------------|-----------|
| 1) | The Firm must be an independent firm, licensed by and in good standing with the State of California under the "Accountancy Corporations" Code (California Business and Professions Code, Article 9, Sections 5150-5158) which includes a current license, issued by the California Board of Accountancy, to practice public accounting. | | |
| 2) | The Firm must represent itself as a professional public accounting firm, organized at least on a regional basis, that provides audit and attestation services. | | |
| 3) | The Firm must have been established prior to January 1, 2011, and must have an office located within the United States. | | |
| 4) | The Firm must not have been subject to any enforcement actions by the California Board of Accountancy within the last five (5) years (i.e., since January 1, 2011). | | |
| 5) | The Firm must be registered with the Public Company Accounting Oversight Board (PCAOB) and be willing to share the results of a PCAOB Inspection Report issued within the last five (5) years. | | |
| 6) | The Firm must be willing to share the results (i.e., final report including findings) of an external quality control review report ("Peer Review") completed within the last five (5) years. The Peer Review report must be included as an attachment to the Firm's proposal (see Section IV "Proposal Requirements", Item 3g). (Information submitted and marked <i>CONFIDENTIAL</i> will be excluded from public information requests.) | | |
| 6a) | The Firm must be willing to share the results (i.e., final report including any findings) of an external SSAE-16, SOC-2, Type 2 or an ITGC examination in the last five (5) years. The report(s) must be included as an attachment to the Firm's proposal (see Section IV "Proposal Requirements", Item 3h). (Information submitted and marked <i>CONFIDENTIAL</i> will be excluded from public information requests.) | | |
| 7) | The Firm must not perform any work for the County of Los Angeles (LACERA's plan sponsor) during the potential future term of an agreement with LACERA, up to seven (7) years, for work defined as follows: a) audit, attestation, consulting, investigation, actuarial, valuation services, review or analysis of any nature whatsoever, for or without compensation, pertaining to LACERA or to pension or other retirement-related benefit issues administered by LACERA (e.g., other post-employment benefits programs); and b) bid to provide or provide services to the County of Los Angeles in connection with the preparation or audit of the County's Comprehensive Annual Financial Report. | | |

**LACERA
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
Issued: April 2016**

**INTENT TO BID AND
MINIMUM QUALIFICATIONS CERTIFICATION (MQC)**

| | Firm (Bidder or Auditor) Minimum Qualifications [CONTINUED] | Yes | No |
|-----|--|------------|-----------|
| 8) | The Firm must have conducted, within the last five (5) years, at least two (2) audits of defined benefit pension plans with assets that exceeded two billion dollars (\$2,000,000,000) or at least two (2) audits of defined benefit pension plans operating under California's County Employees Retirement Law of 1937 – "CERL" (California Government Code Section 31450 et seq., "the 1937 Act"). | | |
| 9) | The Firm must have experience in auditing the following investment strategies: public and private equity securities, fixed income securities, real estate, securities lending, derivatives, hedge funds and commodities. The Firm must have experience in auditing retirement benefits. | | |
| 10) | The Firm's Principal/Partner responsible for the LACERA engagement (Engagement Partner), and the Partner who signs the Independent Auditor's Report (if different), must work from an office located in the United States and have at least ten (10) years of experience in public accounting/auditing. This person shall be a Certified Public Accountant (CPA) licensed by the California Board of Accountancy, in good standing, and must be authorized to sign reports on http://dca.ca.gov/cba/consumers/slectcpa.shtml - AttestEngagement attest engagements. | | |
| 11) | The Firm's Audit Manager (Engagement Manager) responsible for the LACERA engagement must work from an office located in the United States and have at least five (5) years of experience in public accounting/auditing. Such experience must include financial statement audits of defined benefit pension plans. This person shall be a Certified Public Accountant (CPA) licensed by and in good standing with the California Board of Accountancy. | | |
| 12) | The Firm's Audit Senior (Engagement Senior or Supervisor) directly overseeing the LACERA engagement must work from an office located in the United States and have at least three (3) years of experience in public accounting/auditing. Such experience must include financial statement audits of defined benefit pension plans. | | |
| 13) | The Firm's Engagement Partner, Manager and Senior (Supervisor) shall be available for consultations and meetings in-person or via telephone throughout the year when provided reasonable notice. | | |
| 14) | The Firm must disclose any situation where the Firm, Engagement Partner, Engagement Manager and Engagement Senior (Supervisor), are currently (i) a defendant in any State or federal court action (in the United States or in any country in which the Firm is doing business) for fraud, malpractice, misrepresentation, or negligence, or (ii) the subject of any investigation, examination, complaint, disciplinary action or other proceeding before any state or federal governmental agency (in the United States or in any country in which the Firm is doing business) licensing or regulating the accounting profession or any profession/industry in which the Firm's clients are engaged. THE FIRM MUST SUBMIT ALL DISCLOSURES AS AN ATTACHMENT TO THE INTENT TO BID AND MINIMUM QUALIFICATIONS CERTIFICATION. (Information submitted and marked <i>CONFIDENTIAL</i> | | |

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**INTENT TO BID AND
MINIMUM QUALIFICATIONS CERTIFICATION (MQC)**

| | | | |
|-----|---|------------|-----------|
| | will be excluded from public information requests.) | | |
| | Firm (Bidder or Auditor) Minimum Qualifications [CONTINUED] | Yes | No |
| 15) | The Firm must <u>disclose</u> any situation where the Firm is the subject of any investigation, examination, complaint, disciplinary action, judicial, administrative, or other proceeding relating to or affecting Firm's ability to perform its duties under agreement with LACERA or involving any professional employed by Firm who has performed any service with respect to the LACERA engagement, by any of the following: (i) the Securities and Exchange Commission of the United States (SEC); (ii) the Public Company Accounting Oversight Board (PCAOB); (iii) any Attorney General or any regulatory agency of any state of the United States; (iv) any U.S. Government department or agency, or (v) any governmental agency regulating the accounting industry or accountants (e.g., California Board of Accountancy) in any country in which Firm is doing business. Except as otherwise required by law, LACERA shall maintain the confidentiality of all such information disclosed to it until the investigating entity makes the information public. THE FIRM MUST SUBMIT ALL DISCLOSURES AS AN ATTACHMENT TO THE INTENT TO BID AND MINIMUM QUALIFICATIONS CERTIFICATION. | | |

I hereby certify that my Firm meets all qualifications as indicated in this Minimum Qualifications Certification.

Signature of Individual Authorized
to Legally Bind the Firm

Printed Name

Title

Firm

Date

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION



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For Fiscal Years Ending
June 30, 2017 through June 30, 2021

Issued: April 2016

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SECTION I – INTRODUCTION AND BACKGROUND

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SECTION I – INTRODUCTION AND BACKGROUND

A. General Information

The Los Angeles County Employees Retirement Association (LACERA) is requesting proposals from qualified certified public accounting firms (Firm, Bidder or AUDITOR), to perform annual attest audits of LACERA's financial statements. LACERA intends to award a five (5) year agreement beginning January 1, 2017 with a two (2) year extension at LACERA's option.

B. LACERA Background

LACERA is a cost-sharing multiple-employer defined benefit pension fund established to provide retirement benefits to employees of the County of Los Angeles ("County") and other participating agencies pursuant to the County Employees Retirement Law of 1937, California Government Code Section 31450, et seq.: This is the "Pension Trust". Original membership in the system began on January 1, 1938. LACERA also, by contract, administers the Other Post-Employment Benefits Trust for the County of Los Angeles: This is the "OPEB Trust" and the "OPEB Agency Fund".

LACERA operates as an independent governmental entity separate and distinct from the County of Los Angeles. LACERA's annual financial statements are included in the County's Comprehensive Annual Financial Report as a pension trust fund.

LACERA administers the retirement system primarily for Los Angeles County (the plan sponsor) and its employees. In addition, the following employers also participate in the pension plan:

- Los Angeles County Superior Court
- Little Lake Cemetery District;
- Local Agency Formation Commission;
- Los Angeles County Office of Education; and
- South Coast Air Quality Management District.

LACERA collects, deposits, invests, and manages retirement trust funds solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries. As of June 30, 2015, LACERA's membership included 101,860 active and deferred members and 60,584 retired members. LACERA acts as fiduciary agent for the accounting and control of member and employer contributions and investment income. The pension fund had net assets of \$48.8 billion as of June 30, 2015.

The Board of Retirement is responsible for the general management of LACERA. Daily functions include the administration of retirement, disability and death benefits, member services, financial and accounting operations, information technology management, and administration of other post-employment benefits and related funding.

The Board of Investments is responsible for LACERA's investment program. This includes the development of investment strategies, objectives, guidelines and policies. The Board of

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Investments may directly invest the assets of LACERA or may delegate investment authority to outside investment managers who are required to operate according to law and in conformance with LACERA's Investment Policy Statement and any other investment policies adopted by the Board of Investments. Further information regarding LACERA's investment portfolio and investment managers is provided in its 2015 Comprehensive Annual Financial Report ("CAFR"), available for review and download at www.lacera.com →Investments→Annual Report 2015.

Both Boards appoint a Chief Executive Officer, to whom is delegated the responsibility of overseeing the day-to-day management of LACERA and adopting its annual operating budget. The administrative expenses are charged against the earnings of the fund and are limited to twenty-one hundredths of one percent (0.21%) of LACERA's actuarial accrued liability. The Boards approved an operating budget of about \$73.0 million for fiscal year 2015-16. As of June 30, 2015 LACERA budgeted for 404 full-time employee positions, of which, 357 were filled. LACERA's organizational chart is provided in its 2015 Comprehensive Annual Financial Report ("CAFR"), available for review and download at www.lacera.com →Investments→Annual Report 2015.

C. Membership Plans

LACERA provides retirement, disability, and death benefits to its active safety and general members, and administers a cost-sharing multi-employer defined benefit Other Post-Employment Benefit (OPEB) plan on behalf of the County. Safety membership includes law enforcement (Sheriff, and District Attorney Investigators), fire fighting, forester, and lifeguard classifications. General membership is applicable to all other occupational classifications. A summary of the membership plans follows (for further detail, please see the LACERA website at www.lacera.com →Benefits→Plan Book Section):

Plans A, B, and C

Plan A includes safety and general employees who became LACERA members prior to September 1, 1977.

Plan B includes safety members who became LACERA members on or after September 1, 1977 to December 31, 2012, and general employees who became members from September 1, 1977 through September 30, 1978.

Plan C includes safety members who became LACERA members on or after January 1, 2013, and general members who became members from October 1, 1978 through May 31, 1979.

Plans A, B, C are contributory plans, with the employee making contributions in addition to the contributions made by the County or other participating agency.

Plan D

Plan D is also a contributory retirement plan, and includes new employees eligible for general membership from June 1, 1979 to December 31, 2012. Plan D participants include employees who:

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- Transferred to this Plan during an approved transfer period and deposited all required contributions;
- Employees who became general members from June 1, 1979 through December 31, 2012;
- General members hired between January 4, 1982 and December 31, 2012 who elected Plan D instead of Plan E;

Plan D participants make contributions in addition to the contributions made by the County or other participating agency.

Plan E

Plan E is a non-contributory retirement plan. The only contributions to fund this Plan are those paid by the County or other participating agency. Plan E participants include:

- General member employees who were hired between January 4, 1982 and December 31, 2012 and defaulted to or elected Plan E as their retirement plan;
- General member employees who transferred to Plan E during an approved transfer period prior to 1993;

Plan G

Plan G is also a contributory retirement plan, and includes all general members who became new members of LACERA on or after January 1, 2013. ("New members" are those as defined by the California Public Employees Pension Reform Act of 2013 ["PEPRA"].)

LACERA provides retirement, disability, and death benefits to its general members in Plan A, B, C, D and G, and to its safety members in Plan A, B and C. Only retirement benefits are provided to general members in Plan E. Disability and death benefits for active Plan E members are available through the Long-Term Disability and Survivor Benefit Plan provided by the County of Los Angeles and administered by the County's Department of Human Resources. Continuances for eligible survivors of retired members are provided through LACERA for members of all retirement plans.

D. Investment Portfolio Description

Under the direction of the Board of Investments, LACERA's investment staff constructs asset allocation plans, develops manager structure optimization plans, conducts manager searches and performs other investment-related tasks. LACERA has a long-term investment philosophy, and utilizes an asset allocation which encompasses a strategic, long-run perspective of capital markets.

LACERA's investment portfolio is prudently diversified to minimize the risk of loss and to maximize the rate of return. Investment portfolio components include U.S. equities, non-U.S. equities, private equity, fixed income, real estate, hedge funds, and commodities. The Pension Trust and the (combined) OPEB Trust and OPEB Agency Fund have separate investment pools and investment plans.

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All of LACERA's investments are managed externally by professional investment managers. These managers have full discretion over purchase and sale transactions. Managers are required to comply with LACERA's Investment Guidelines. Also, LACERA uses professional consultants for general investment consulting, private equity, real estate and proxy voting.

The equity component includes two liquid asset classes, U.S. and Non-U.S. equities, and one illiquid asset class, private equity. The majority of U.S. and non-U.S. public equity investments is in low-cost index funds. The private equity portfolio is comprised of investments in a variety of commingled/partnership and direct investment vehicles including, but not limited to, venture capital, buyout, turnaround, mezzanine, distressed security, and special equity funds. Private equity investments are not used for the OPEB Agency Fund.

The primary role of the fixed income portfolio is to provide a stable investment return and to generate income while diversifying LACERA's investment portfolio. U.S. fixed income is chiefly utilized in the strategic asset allocation policy for this asset class for the LACERA Pension Trust Fund, but is not currently used for the OPEB Trust Fund.

The real estate portfolio is primarily invested in separate accounts covering a broad array of property types diversified throughout the U.S. LACERA is also invested in non-U.S. real estate. The portfolio is designed to provide a stable level of income combined with potential for price appreciation, particularly in periods of unexpected inflation.

A key objective of the hedge fund portfolio is to reduce overall volatility without materially decreasing returns. The hedge fund portfolio is managed by two fund-of-funds managers that have been delegated discretion, subject to customized investment guidelines, to construct a portfolio consistent with LACERA's hedge fund policy.

The primary objective of investing in commodities is to diversify LACERA's total fund, thereby reducing the fund's overall risk. A secondary benefit is that commodities have historically provided an inflation hedge. LACERA's commodity managers use derivative instruments such as futures and swaps to implement their strategies.

LACERA's separate account domestic and international publicly-traded securities are in the custody of the State Street Bank & Trust Company. Limited partnership and group trust agreements are held internally.

LACERA administers an emerging manager investment program for equities, private equity, fixed income, and real estate. In addition, LACERA participates in a securities lending program.

External financial statement auditors for private equity funds are hired by and report directly to the fund itself. For the real estate portfolio, LACERA hires external financial statement auditors to perform annual audits of the legal entities through which LACERA holds title. The real estate portfolio also includes some commingled funds which are audited annually by external auditors hired by the fund manager.

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E. Actuarial Services and Information

LACERA engages an independent actuarial consulting firm (consultant) to conduct actuarial consulting services which aid in monitoring LACERA's funded status. The consultant completes annual actuarial valuations at the request of the Board of Investments. On a triennial basis, the consultant performs an Investigation of Experience and a Triennial Actuarial Valuation. The results of the Investigation of Experience are used to update the economic and non-economic assumptions which are used to complete the Triennial Valuation. LACERA engages a second independent actuarial audit firm (auditor) who conducts actuarial audits of the Investigation of Experience and Triennial Actuarial Valuation, and performs special audit projects as requested.

The latest Investigation of Experience and Triennial Actuarial Valuation were completed as of June 30, 2013. The auditor subsequently conducted audits of the Investigation of Experience and Triennial Actuarial Valuations as of June 30, 2013. The most recent Annual Actuarial Valuation was conducted as of June 30, 2014 which reported LACERA's funded status at 79.5%.

The table below summarizes the work completed by the consulting and audit actuaries.

| Schedule of Actuarial Work* | Frequency |
|---|------------------|
| Actuarial Valuation | Annually |
| Triennial Investigation of Experience Audit of Triennial Investigation of Experience | Every 3 Years |
| Triennial Actuarial Valuation Audit of Triennial Actuarial Valuation | Every 3 Years |
| Special Audit Projects | As Necessary |

*At their discretion, the Board of Investments may request audits of any actuarial consulting reports during any year.

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F. Financial Accounting and Reporting

LACERA's financial statements are prepared using the accrual basis of accounting and reflect the overall operations of the Pension and OPEB funds. LACERA has implemented all Governmental Accounting Standards Board (GASB) Statements applicable to it through the present date and expects that AUDITOR shall apply any newly applicable professional accounting standards.

Of particular or current interest are the below-listed GASB Statements:

- No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25" (issued June 2012);
- No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" (issued June 2012);
- No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68" (issued November 2013);
- No. 72, "Fair Value Measurement and Application" (issued February 2015);
- No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" (issued June 2015); and
- No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (issued June 2015).

LACERA must implement GASB 74 for its fiscal year ending June 30, 2017, and its financial statements are components of the financial statements of Los Angeles County and the other participating employers. Los Angeles County and the other participating employers must implement GASB 75 for the end of the fiscal year ending in 2018. To that end, LACERA has established a "GASB 74/75 Task Force" to ensure that all deadlines are met.

The GASB 74/75 Task Force is comprised of representatives from LACERA, the Plan Sponsor (County of Los Angeles), some of the Plan's (5) participating employers, and all of the external auditors and actuaries. The successful bidder must be familiar with SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, AU-C section 600, *Audits of Group Financial Statements*. The successful bidder must coordinate with the external, financial auditors of all the Plan's participating employers and with LACERA's actuary to provide the employers the information and data needed for completion of their annual financial statements.

G. Information Technology Environment and Applications

LACERA operates an in-house developed and supported information technology environment. The majority of technology resources are located on premises. They include member services, financial, and other operational systems. Technologies employed include a heterogeneous suite of mainframe, servers, and mid-range systems.

1. Financial Systems

The financial system is a customized off-the-shelf application package. Functions utilized by LACERA include general ledger, accounts payable, purchase order, budget,

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fixed assets, inventory, and tax reporting. The financial system is the source to generate financial statements.

State Street Bank & Trust Company, LACERA's banker, master custodian and *investment book of record*, maintains records of investment securities and banking transactions. State Street records LACERA's equity and fixed income security, real estate investment, private equity advisor transactions, and also LACERA's cash account transactions. LACERA's external investment managers provide investment transaction and balance detail directly to State Street which, in turn, provides that information to LACERA for input into LACERA's General Ledger module. State Street's provides a web portal application for LACERA staff to initiate funds transfers, access daily account and investment information (including pricing) and generate necessary custom reports.

2. Member Systems

The core member data system is in-house developed. The member data system provides many member services functions, including, but is not limited to records management, benefits calculation, retirement processing, disbursements, deductions, tax reporting, and statement generation. Data sources include the Los Angeles County payroll system. The system is also a data source for actuarial valuation and GASB disclosure statements.

For member self-service, LACERA hosts a public website containing a comprehensive suite of retirement and retiree healthcare information. An extranet is provided for personalized member interactions. Both systems are in-house developed and supported.

H. Internal Audit

In July 1993, LACERA established an independent Internal Audit function. Internal Audit's mission is to support LACERA's mission through independent, objective assurance and consulting activities. The scope of work of Internal Audit is to determine whether LACERA's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning.

Internal Audit is accountable to and derives its authority from LACERA's governing Boards. Internal Audit reports directly and functionally to the Audit Committee, to the Chief Executive Officer administratively, and has no direct or indirect authority over the activities it reviews. LACERA's Audit Committee is comprised of the Chairperson, Vice Chairperson and one elected member from each the Board of Retirement and the Board of Investments, for a total of six members.

Final reports prepared by Internal Audit will be provided annually to the external AUDITOR.

SECTION II – STATEMENT OF WORK

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SECTION II – STATEMENT OF WORK

The Statement of Work set forth below is also included as Exhibit B to the Audit Services Agreement (Contract) – General Form.

A. Scope of Services

AUDITOR shall perform an annual financial statement audit (Financial Audit) and express an opinion (attestation) on the fair presentation of LACERA's financial statements, which include the Pension Trust, the OPEB Trust and the OPEB Agency Fund, in accordance with all applicable current professional standards and applicable federal and State laws, regulations, and rules. With respect to schedules LACERA prepares for compliance with GASB Pronouncements 68 and 75, AUDITOR shall also express a separate opinion (attestation) on the fair presentation (attestation) of those schedules.

Inasmuch as LACERA's financial statements are a component of Los Angeles County's ("County") financial statements, AUDITOR will coordinate with the external, financial auditors of the County and with LACERA's actuary to provide the County the information and data needed for accurate and timely completion of the County's annual financial statements. AUDITOR will comply fully with SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, AU-C section 600, *Audits of Group Financial Statements*.

In addition to a broad sampling of LACERA's general and safety membership files to establish the accuracy and validity of the data and calculations contained therein, AUDITOR shall separately sample files for those members who have requested disability retirement. This supplemental sampling is to assist LACERA in determining that LACERA's service connected disability retirement (SCDR) application process and related Board determination are thorough, accurate, timely, consistent, free from fraud and abuse, and in compliance with Board policies. AUDITOR will provide a written statement indicating that a sampling of disability retirement cases has been audited, together with any audit findings, recommendations and management responses.

AUDITOR shall perform special projects that are directly related to or result from the annual financial statement audit, as requested and defined by LACERA, from time to time.

B. Professional Standards

AUDITOR understands that promulgating bodies may revise or change the professional standards, laws, regulations, and rules from time to time. AUDITOR will utilize all applicable components of professional standards in auditing, preparing and reporting on the financial statements of LACERA, including but not limited to, the following:

- U.S. Generally Accepted Auditing Standards (GAAS),
- Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (GAGAS),

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- American Institute of Certified Public Accountants (AICPA) standards included in its *"Audits of Employee Benefit: Audit and Accounting Guide"* (March 1, 2009),
- U.S. Generally Accepted Accounting Principles (GAAP),
- Governmental Accounting Standards Board (GASB) Statements, and
- California State Controller's *"Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems"* included as **Exhibit A to the Audit Services Agreement**.

C. Reports and Due Dates

The table below includes a list of reports LACERA believes AUDITOR is required to issue at the completion of the Financial Audit and LACERA's mandatory due dates. AUDITOR will prepare all reports required by applicable professional standards and applicable federal and State laws, regulations, and rules in effect for the engagement period and meet all due dates specified by LACERA.

| Report Title | Due Date |
|---|--|
| 1. Independent Auditor's Report on Financial Statements) – Draft (5 copies) 2. Independent Auditor's Report re GASB Pronouncements 68 and 75 – Draft (5 copies) | October 5 |
| 1. Independent Auditor's Report re GASB 68 & 75 – Final | TBD <small>(but probably very much sooner than October 5)</small> |
| 1. Independent Auditor's Report re Financial Statements – Final 2. Report on Internal Control and Compliance 3. Required Communication to the Audit Committee Report 4. Report to Management 5. Service Connected Disability Retirement Review. | October 15 |

Reports must be delivered to the Project Manager indicated below. Unless otherwise specified by the Project Manager, AUDITOR shall deliver eight-five (85) copies and an electronic version of each report.

Project Manager
 Richard Bendall, Chief Audit Executive
 LACERA
 300 N. Lake Avenue, Suite 840
 Pasadena, CA 91101-4199
 Ph: 626-564-6000 x3523
 Facsimile: 626-685-4632
 Email: rbendall@lacera.com

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D. Meetings with LACERA Staff and Boards

1. Entrance Conference

Prior to commencing fieldwork for each Financial Audit, AUDITOR will attend an entrance conference at LACERA's offices with LACERA's Project Manager, Financial and Accounting Services Division (FASD) management and other LACERA staff. The purpose of this meeting will be to establish and discuss the following:

- The liaisons appointed by LACERA and the AUDITOR for the audit;
- LACERA's critical deadlines and AUDITOR's plans to ensure they are met;
- AUDITOR'S critical deadlines and LACERA's plans to ensure they are met;
- Prior, current and/or anticipated audit issues;
- Overview of the interim and year-end work to be performed by AUDITOR; and
- Arrangements for work space and other needs of AUDITOR.

2. Weekly Status Meetings

During the time the AUDITOR is performing its fieldwork for each Financial Audit, AUDITOR shall conduct weekly status meetings at LACERA's offices with LACERA's Project Manager, FASD management and other LACERA staff as necessary, to review and discuss the progress of the Financial Audit, substantive testing, and other issues pertaining to the audit work and any potential findings.

3. Exit Conference(s)

AUDITOR shall attend one or more exit conference(s) annually, as determined by LACERA, with LACERA's Project Manager, LACERA management and other LACERA staff to describe the audit process and review the final audit reports (listed above). If requested by LACERA, AUDITOR shall also discuss findings and recommendations from each report with LACERA's Audit Committee, Board of Retirement, or Board of Investments. AUDITOR will make additional presentations deemed necessary by LACERA to the Boards and their Committees.

4. GASB 74/75 Task Force Meetings

[NOTE: The GASB 74/75 Task Force is comprised of representatives from LACERA, the Plan Sponsor (County of Los Angeles) and its external auditor and actuary, some of the Plan's participating employers and their external auditors, and LACERA's actuaries. Its objective is to assure all parties that the requirements of GASB 74/75 are met in a timely fashion.]

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AUDITOR shall become a Task Force Member and participate in the monthly meetings of the Task Force, which may be done by conference call.

E. Engagement Support

LACERA will prepare year-end closing entries, draft financial statements, notes, and all required supplementary schedules and statistical data.

Throughout the Financial Audit engagement, LACERA will make available clerical support personnel to provide assistance for tasks such as identifying locations of required records and documentation, obtaining listings, and other tasks that will serve to expedite completion of the Financial Audit.

LACERA will arrange for reasonable office space, desks, tables, chairs, and telephones. The AUDITOR will also be provided with access to photocopying facilities, facsimile machines and to financial records and member records on a read-only basis.

F. Reporting Irregularities and Illegal Acts

AUDITOR will adhere to all professional standards, laws, regulations, and rules in regards to reporting irregularities and illegal acts. LACERA has adopted a "Misconduct and Illegal Acts" policy that requires employees to report misconduct or illegal acts to LACERA's Chief Audit Executive. Internal Audit staff will conduct an appropriate investigation.

G. Government Finance Officers Association Award

AUDITOR will review each Comprehensive Annual Financial Report ("CAFR") for consistency and reasonableness, and review the CAFR against the guidelines for the Government Finance Officers Association ("GFOA") Certificate of Achievement for Excellence in Financial Reporting to ensure compliance with the GFOA award program requirements.

SECTION III – BIDDING PROCESS

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SECTION III – BIDDING PROCESS

A. RFP Process Dates

The table below includes dates all Bidders must adhere to throughout the bidding process.

**RFP Process Dates
(may be subject to change)**

| Task | Date |
|---|--------------------------|
| Request For Proposal Issued | April 20, 2016 |
| Deadline to Submit Intent to Bid and Minimum Qualifications Certification Forms | April 29, 2016 |
| Prior Year Reports/Accounting Records Available for Review (See Item C, below) | May 2 – May 6, 2016 |
| Deadline to Submit Written Questions | May 6, 2016 |
| Deadline to Provide Responses to Written Questions | May 13, 2016 |
| Deadline to Submit Proposal | June 17, 2016 |
| Evaluation of Proposals Period | June 20 to June 27, 2016 |
| Contact All Bidders and Notify Finalists | June 30, 2016 |
| Audit Committee Presentation/Interview and Selection | July 20, 2016 |
| Contract Performance Begins* | January 1, 2017 |

*The selected AUDITOR may begin fieldwork upon execution of the contract. In subsequent years, fieldwork for the annual audits of the financial statements may begin at the AUDITOR's discretion with concurrence by LACERA management.

B. Intent to Bid and Minimum Qualifications Certification

Bidders interested in submitting a proposal must submit the Intent to Bid form and Minimum Qualifications Certification Forms attached to the cover letter of this RFP by **April 29, 2016, 5:00 PM, PDT**. Failure to do so will disqualify Bidder from submitting a proposal.

C. Assistance Prior to Proposal Submission

The reports and/or documents listed below will be available for review at LACERA's offices from **May 2 – May 6, 2016** between the hours of **8 AM–5 PM, PDT**. The year-end financial reports will be provided for fiscal year ended June 30, 2015.

- Independent Auditor's Report, Report on Internal Control and Compliance, Required Communication to the Audit Committee Report, and Report to Management;
- Trial Balance.

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Contact David Redman, Senior Internal Auditor at dredman@lacera.com or (626) 564-6000 extension 3525 to schedule an appointment.

Please see the following information available online at www.lacera.com:

- 2015 CAFR
- Actuarial Valuation – 6/30/14
- Triennial Actuarial Valuation – 6/30/13
- Investigation of Experience – 6/30/13
- Asset Allocation 2015
- Overview of Membership Plans
- Board of Retirement and Board of Investments General Information

D. Bidder Questions

Bidder's questions must be submitted in writing (via email, facsimile, or US mail) by **May 6, 2016 5:00 PM, PDT**. LACERA will batch the written questions and post responses on or before **May 13, 2016** to www.lacera.com under the "RFPs" tab, without divulging the source of the inquiry.

All written questions must identify the RFP section and page number to which the question refers. In all cases, verbal responses to inquiries will be declined, and will not override written communications. Submit questions to:

David Redman, Senior Internal Auditor
LACERA
300 N. Lake Avenue, Suite 840
Pasadena, CA 91101-4199
Facsimile: 626-685-4632
Email: dredman@lacera.com

E. Reimbursement for Proposal Preparation and Presentations

There is no expressed or implied obligation for LACERA to reimburse responding firms for any expenses incurred in preparing or presenting proposals in response to this RFP. LACERA reserves the right to retain all proposals submitted and to use any ideas in a proposal regardless of whether that proposal is selected.

F. Confidentiality of Proposal

All responses to this RFP become the property of LACERA and will be kept confidential until such time as recommendation for award of a contract has been announced. Thereafter, proposals are subject to public inspection and disclosure pursuant to the California Public Records Act (Cal. Gov. Code Sections 6250 et. seq., the "Act"). The Act provides generally that all records relating to a public agency's business are open to public inspection and copying, unless specifically exempted under one of several exemptions set forth in the Act.

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In addition, if LACERA staff chooses to recommend any Bidder(s) to the Boards' Audit Committee and/or to the Board of Retirement for hiring, such recommendation and the relevant proposal(s) will appear on a publicly posted agenda for public meetings of the Committee and Board.

If a Bidder believes that any portion of its proposal is exempt from public disclosure under the Act, such portion may be marked "CONFIDENTIAL." LACERA will use reasonable means to ensure that such confidential information is safeguarded and held in confidence to deny public disclosure of any portions so designated. LACERA will not be held liable, however, for inadvertent disclosure of such materials, data and information. Proposals marked "CONFIDENTIAL" in their entirety will not be honored, and LACERA will not deny public disclosure of all or any portion of proposals so marked.

By submitting a proposal with portions marked CONFIDENTIAL, Bidder represents it has a good faith belief that such material is exempt from disclosure under the Act, and Bidder agrees to reimburse LACERA for, and to indemnify, defend and hold harmless LACERA, its officers, fiduciaries, employees and agents from and against: (a) any and all claims, damages, losses, liabilities, suits, judgments, fines, penalties, costs and expenses including, without limitation, attorneys' fees, expenses and court costs of any nature whatsoever (collectively, "Claims") arising from or relating to LACERA's non-disclosure of any such designated portions of a proposal; and (b) any and all Claims arising from or relating to LACERA's public disclosure of any such designated portions of a proposal if disclosure is deemed required by law or by court order.

G. Reservations by LACERA

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

- Cancel this RFP, in whole or in part, at any time.
- Make such investigation as it deems necessary to determine the respondent's ability to furnish the required services, and the respondent agrees to furnish all such information for this purpose as LACERA may request.
- Reject the proposal of any respondent who is not currently in a position to perform the contract, or who has previously failed to perform similar contracts properly, or in a timely manner, or for any other reason in LACERA's sole discretion.
- Waive irregularities, to negotiate in any manner necessary to best serve the public interest, and to make a whole award, multiple awards, a partial award, or no award.
- Award a contract, if at all, to the firm which will provide the best match to the requirements of the RFP and the service needs of LACERA in LACERA's sole discretion, which may not be the proposal offering the lowest fees.
- Reject any or all proposals submitted in response to this RFP.

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- Determine the extent, without limitation, to which the services of a successful respondent are or are not actually utilized.

H. Submission of Proposal

The Bidder will submit seven (7) copies of the proposal, attachments and all related information by **June 17, 2016 5:00 PM PDT**. Bidder will include an electronic copy in Portable Document Format (PDF). Proposals received after the submission deadline will be considered for evaluation solely at the discretion of LACERA if it is determined to be in the best interests of LACERA. Bidder will submit proposals to:

David Redman, Senior Internal Auditor
LACERA
300 N. Lake Ave., Suite 840
Pasadena, CA 91101-4199
Email: dredman@lacera.com <mailto:>

**On the outside of the response package, clearly indicate:
“PROPOSAL – ANNUAL FINANCIAL STATEMENT AUDITS.”**

The Bidder may withdraw its proposal at any time prior to the deadline for submission upon written request to LACERA. Any correction and/or resubmission of a proposal shall be submitted prior to the submission deadline. After the submission deadline, proposals shall be firm and may not be withdrawn for a period of 120 days.

SECTION IV – PROPOSAL REQUIREMENTS

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SECTION IV – PROPOSAL REQUIREMENTS

A. Proposal Contents

A response to this RFP must be prepared and submitted according to the specifications set forth below as Sections 1-14, both for content and sequence. The proposal must provide a straightforward and concise description of the Bidder's capabilities to satisfy the requirements indicated in this RFP. Failure to adhere to these specifications may be cause for rejection of the proposal.

Information included in the proposal that addresses the requirements will be evaluated and analyzed by LACERA; however, Bidder may present additional information at the Bidder's option.

| <u>Section</u> | <u>Title</u> |
|----------------|--|
| 1. | Cover Letter |
| 2. | Table of Contents |
| 3. | Background Information |
| 4. | Firm Qualifications and Experience |
| 5. | Professional Staff Qualifications and Experience |
| 6. | Staff Turnover |
| 7. | Audit Planning and Approach |
| 8. | Potential Conflicts |
| 9. | Legal Compliance and Litigation |
| 10. | Additional Information |
| 11. | AUDITOR's Fee Schedules |
| 12. | References |
| 13. | Additional Data |
| 14. | Attachments to Proposal |

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

1. Cover Letter

- a) Introduction of the Firm
- b) Name, title, telephone number, facsimile number, and email address of the Firm's representative who is designated as the primary liaison to LACERA
- c) Name, title, telephone number, facsimile number, and email address of the representative who is authorized to legally bind the Firm

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- d) Statement indicating the Firm's understanding and commitment to the LACERA financial statement audit engagement and the Statement of Work set forth in this RFP
- e) Statement indicating a commitment to deliver final audit reports by the due dates
- f) Statement indicating why the Firm believes itself to be best qualified to perform the LACERA financial statement audit engagement
- g) Statement that the Firm's proposal is an irrevocable offer for 120 days following the date of proposal submission

2. Table of Contents

Proposal must include a Table of Contents clearly identifying the proposal sections and corresponding page number.

3. Background Information

- a) Legal name of the Firm
- b) Legal structure of the Firm (e.g., corporation, partnership, joint venture, consortium, etc.)
- c) Ownership information of the Firm including names of all entities with ownership stakes
- d) Any material changes to the ownership structure that have occurred in the last five (5) years
- e) Address, telephone number, facsimile number, and website of the Firm's office that would be responsible for the LACERA financial statement audit engagement
- f) Information to demonstrate financial stability, including total revenue, net income/(loss), assets, liabilities, and net worth for the last two (2) years or the latest two (2) years' audited financial reports for the Firm labeled as **Attachment 14.1.**
- g) Indicate whether the Firm has been the subject of an external quality control review ("Peer Review") in the last five (5) years and submit a copy of the Firm's most recent report labeled as **Attachment 14.2.**
- h) Indicate whether the Firm has had an external SSAE-16, SOC-2, Type 2 or an ITGC examination in the last five (5) years and submit a copy of the Firm's most recent report labeled as **Attachment 14.2a.**

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- i) Indicate whether the Firm has been the subject of an Inspection by the Public Company Accounting Oversight Board ("PCAOB") in the last five (5) years and submit a copy of the Firm's most recent inspection report labeled as **Attachment 14.2b.**

4. Firm Qualifications and Experience

- a) Organizational structure of the Firm
- b) Any material changes to the organizational structure that have occurred in the last five (5) years
- c) Length of time the Firm has been performing financial statement audits
- d) Length of time the Firm has been performing financial statement audits specifically for defined benefit pension plans
- e) Length of time the Firm has been auditing investments, plus the dollar magnitude of the investments audited
- f) Percentage of revenue derived from financial statement audit services
- g) Describe the importance of financial statement audit services within the Firm
- h) Number of full time professional auditors employed by the Firm
- i) Describe the background of the professionals in the Firm's audit services group including percentage which hold a CPA license and description of ongoing educational programs that are supported and/or required
- j) Size of the Firm's governmental and/or pension fund audit staff
- k) Describe the resources your Firm has that specifically address the needs of public pension fund clients
- l) Describe the Firm's ability to access offices of state and federal governments or other entities relevant to LACERA's financial statement audit engagement for the purpose of obtaining prompt responses to inquiries arising from technical or procedural questions developed in the course of the engagement
- m) Provide the number of professional staff to be assigned to the LACERA financial statement audit on a full-time basis and the number to be assigned on a part-time basis
- n) **For the Firm's office that will be assigned to the LACERA engagement, list prior audit engagements for large employee benefit plans, large government units**

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and other audit engagements that Firm deems similar to the engagement described in this RFP. Indicate the following:

- i. Name of entity
 - ii. Significant financial data (net assets, net income, etc.)
 - iii. Significant membership plan data, if applicable
 - iv. Date audit(s) were completed
 - v. Number of years the financial statement audit(s) have been performed
 - vi. Scope of work performed
 - vii. Total audit hours per engagement
 - viii. List of Firm's engagement staff and titles
- o) If the Firm is a joint venture or consortium, the qualifications of each Firm comprising the joint venture or consortium must be separately identified and the Firm that is to serve as the Principal Engagement Auditor must be indicated
- p) Attach a copy of the Firm's CPA license issued by the California Board of Accountancy, labeled as **Attachment 14.3**.

5. Professional Staff Qualifications and Experience

- a) Identify the financial statement audit engagement team assigned to LACERA, including Partners, Managers, Seniors/Supervisors, Staff Auditors, and Specialists
- b) For the engagement team, provide resumes (or biographies) that include the following information:

Qualifications

- Name
- Title
- Responsibilities within the Firm and the percentage of time spent on each function
- Years and positions held with the Firm
- Degrees and professional designations
- Institution awarding each degree and designation
- Continuing professional education hours (divided into governmental and non-governmental) for the past two (2) years
- Membership in professional organizations relevant to the public pension fund industry
- Copy of CPA license (if applicable), attached and labeled as **Attachment 14.4**

Experience

- Statement(s) of qualifications including years of experience in the auditing public retirement systems, other large employee benefit plans, large governmental units, investment managers, other clients, and any specialized expertise such individuals may have which is applicable to this engagement

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(i.e., pension fund auditing and accounting, investment auditing and accounting, cash management, actuarial science, membership data auditing and testing, etc.)

- For the Engagement Partner(s) and Manager(s), list at least two (2) financial statement audit engagements of defined benefit pension plans) falling under California's County Employees Retirement Law of 1937 (California Government Code Section 31450 et seq., "the 1937 Act") **or** have performed at least two (2) audits of defined benefit pension plans. For each engagement, indicate the following:
 - i. Name of entity
 - ii. Significant financial data (net assets, net income, etc.)
 - iii. Significant membership plan data, if applicable
 - iv. Date audit(s) were completed
 - v. Number of years the financial statement audit(s) have been performed
 - vi. Scope of work performed
 - vii. Total audit hours per engagement

- c) For each individual the Firm identifies in this section, identify the role each individual would play in accomplishing the services required by this RFP
- d) Indicate how long the current group consisting of the engagement Partner, Manager, Senior(s) and Staff have worked together as a team
- e) For the engagement Partner and Manager, state the total number of clients currently assigned to these individuals. Describe the accessibility of these individuals assigned to the LACERA financial statement audit engagement

6. Staff Turnover

- a) Describe the Firm's transition plan for the possible sudden departure of key professionals assigned to the LACERA financial statement audit
- b) Describe the Firm's commitment to assigning qualified staff to the LACERA financial statement audit during the term of the agreement. In the event the engagement Partner, Manager, or Senior must be replaced, the replacement must meet the same standards as outlined in this proposal and a curriculum vitae for the replacement will be provided to the LACERA Project Manager as required per the Audit Services Agreement. **(Section VI, Supplementation Information)**

7. Audit Planning and Approach

- a) Describe the specific methodology used to accomplish the Statement of Work included in this RFP and describe all services necessary to accomplish the financial statement audits of LACERA
 - Description of audit approach
 - Proposed sections of the engagement (see table below)

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- Level of staff and number of hours and percentage of time to be assigned to each section of the engagement (see table below)
- Estimated timeline which includes information or data gathering, interim and fieldwork dates
- Type and extent of analytical procedures to be used in the engagement
- Approach to gain and document an understanding of LACERA's internal control structure
- Approach in determining laws and regulations that will be subject to audit test work
- Approach to auditing various types of investments
- Approach and extent of member data testing
- Sampling technique, including confidence levels, precision, critical error or deviation rate, sampling risk rate
- Describe the use of information technology used to conduct the engagement
- Approach to auditing information technology – operations and applications
- Description of Partner/Manager leadership and review

The table below provides a proposed breakdown of the audit sections identified when performing a financial statement audit. The Firm may use the format presented or a modified version prepared at the Firm's discretion to address the proposal requirements in 7.a) above.

| Section No. | Audit Section (Categories) Description | Proposed Audit Hours | % of Total Audit Hours |
|--------------------|---|-----------------------------|-------------------------------|
| 1. | Audit Planning | | |
| 2. | Assist Client Personnel | | |
| 3. | Audited F/S – General Procedures | | |
| 4. | Cash | | |
| 5. | Clear Points | | |
| 6. | Conference | | |
| 7. | Confirmation Procedures | | |
| 8. | Correspondence | | |
| 9. | Investments | | |
| 10. | Expenditures and Payables | | |
| 11. | Information Technology | | |
| 12. | Internal Control | | |
| 13. | Minutes, Ordinances, Laws | | |
| 14. | Other Audit Services | | |
| 15. | Partner Review | | |
| 16. | Prepaid/Intangibles | | |
| 17. | Property and Equipment | | |
| 18. | Receivables and Revenue – Gov't | | |
| 19. | Receivables and Revenue – Proprietary | | |
| 20. | Report Preparation | | |
| 21. | Review Documents | | |
| 22. | Risk Assessment | | |
| 23. | SAS 99 (Fraud) and Conflicts of Interest | | |
| 24. | Technical Review | | |

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| | | | |
|-----|--------------------------|--|--|
| 25. | Travel Time | | |
| 26. | Type, Proof, Corrections | | |
| 27. | Other | | |
| | Total | | |

- b) Describe the Firm's process for ensuring LACERA's reporting deadlines are met
- c) Describe the Firm's process for monitoring changes to professional standards and ensuring all new standards are applied to LACERA's financial reports and to the audit engagement and reporting processes
- d) Describe the Firm's quality control processes for audit reports and recommendations including how these services are monitored and reviewed
- e) Provide an example of one recent Independent Auditor's Report for an audit engagement deemed similar to the engagement described in this RFP labeled as **Attachment 14.5.**

8. Potential Conflicts

- a) Provide details of any potential conflicts of interest related to any other client relationships if awarded the LACERA engagement
- b) Describe any potential conflicts of interest with the proposed Engagement Partner and Engagement Manager relative to the LACERA engagement
- c) Provide details of any other affiliates offering non-auditing services that could represent conflicts of interest. Briefly describe the Firm's policies and procedures for doing business with these affiliates while safeguarding against conflicts of interest
- d) Describe any known relationship the Firm or any audit group staff have with any member of LACERA's Boards, management, staff, or plan sponsor (Los Angeles County)
- e) Describe expenses and purpose of any gifts, travel, expenses, entertainment, or meals to any member of the LACERA Boards, management, or staff in the last two (2) years
- f) Provide an affirmative statement that the Firm is independent of LACERA as defined by *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States (Chapter 3: General Standards)
- g) Describe the Firm's approach to resolving potential issues that may be encountered during the performance of LACERA's financial statement audit, any special assistance that will be requested from LACERA

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9. Legal Compliance and Litigation

- a) Describe the circumstances and status of any investigation, non-routine examination, complaint, disciplinary action or other proceeding commenced by any state or federal regulatory body or professional organization during the past five (5) years
- b) Describe any situation whereby the Firm was censured or fined by any regulatory body within the last five (5) years
- c) Describe any business litigation been brought against the Firm or any officer or principal by any entity for fraud, malpractice, misrepresentation, negligence, or similar cause of action within the last five (5) years
- d) Describe each financial statement audit involving the audit team assigned to the LACERA engagement that has been the subject of litigation, arbitration, mediation or other dispute resolution mechanism within the past five (5) years. Identify the individual involved, and provide the case name and number, the damages sought, and the outcome
- e) Describe any situation when your Firm was notified by any financial statement audit client that the Firm is in default of its contract, or that conditions exist jeopardizing continuation of that contract within the last five (5) years. State the client's name, year the notice was received, reasons for the notice, and resolutions or current status of the relationship

10. Additional Information

- a) Indicate whether or not subcontractors will be used in providing any of the required audit services to LACERA. If so, describe the specific services that would be subcontracted, the name of the subcontractor, the cost to your Firm for these services, and how the Firm will control the quality of services provided to LACERA
- b) Describe the Firm's disaster recovery plans including plans related to client data files in the Firm's possession
- c) Describe how the Firm monitors and measures client satisfaction

11. AUDITOR's Fee Schedules

- a) Schedule of Professional Fees and Expenses

LACERA anticipates awarding an agreement to perform financial statement audit services on an hourly fee basis, with a cap on the total fee that will be paid for all services rendered with regard to any one fiscal year.

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The AUDITOR's proposed fees for hourly rates and expenses must be presented in the format shown in **Section VI, Supplemental Information**. Separate Fee Schedules must be prepared for the Pension Trust and for the (combined) OPEB Trust and OPEB Agency Fund. A separate AUDITOR's Fee Schedule must be prepared for each fiscal year's financial statement audit. The AUDITOR must identify the classification of audit staff, specialists and administrative staff, along with the number of hours assigned to the engagement and the hourly rates.

AUDITOR must estimate all out-of-pocket expenses and administrative expenses and include them in the AUDITOR's Fee Schedules. All out-of-pocket expenses will be charged against the Total Not-To-Exceed Maximum Fee submitted by the AUDITOR and not reimbursed separately. These are to be labeled as **Attachment 14.6**.

b) Not-To-Exceed Maximum Fee

The AUDITOR's Fee Schedules must be presented in the format shown in **Section VI, Supplemental Information**.

[NOTE: LACERA is prohibited from charging any OPEB Trust or OPEB Agency Fund expenses to the Pension Trust. This includes auditing expenses. So, a separate set of Fee Schedules must be prepared for the OPEB Trust and the OPEB Agency Fund combined; also, such charges must be billed separately. However, please be aware that the same systems and applications are used by LACERA for all three entities. These are to be labeled as **Attachment 14.6**.]

12. References

- a) The Bidder shall provide at least two former client reference for whom the Bidder had performed financial statement audit services significantly similar to those described in this RFP within the last three (3) years
- b) The Bidder shall provide at least three (3) current client references for whom the Bidder has performed financial statement audit services significantly similar to those described in this RFP within the last three (3) years

The Bidder shall provide the following information for the references named in a) and b) above:

- i. Entity name, address and website
- ii. Nature of business
- iii. Annual revenue and/or fund size
- iv. Number of plan members
- v. Principal contact name, title, telephone number and email address
- vi. Nature of Bidder's relationship with said entity
- vii. Description of services provided by Bidder

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

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- c) List any public pension plan and/or financial services clients that have terminated the Bidder's financial statement audit service contract in the last three (3) years. Include the client's name, size (fund size and number of members), date of contract termination, and reason(s) for termination.

13. Additional Information

Material and data not specifically requested for evaluation, but which the Bidder wishes to submit, may be included in the "Additional Data" section with each item labeled as **Attachment 14.7.**

14. Attachments to Proposal

The following is a list of required Attachments to the proposal:

- 14.1. Firm's Audited Financial Statements (see #3 above)
- 14.2. External Quality Control Review Report (see #3 above)
- 14.2a. Firm's SSAE-16, SOC-2, Type 2 or ITGC Report (see #3 above)
- 14.2b. Firm's PCAOB Inspection Report (See #3 above)
- 14.3. Firm's California CPA License (see #4 above)
- 14.4. Professional Staffs' CPA Licenses (see #5 above)
- 14.5. Example – Independent Auditor's Report (see #7 above)
- 14.6. AUDITOR's Fee Schedules (see #11 above)
- 14.7. Additional Information (see #13 above)

SECTION V – EVALUATION AND SELECTION PROCEDURES

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SECTION V – EVALUATION AND SELECTION PROCEDURES

A. General Information

This section describes the guidelines LACERA will use to analyze and evaluate proposals. LACERA reserves the right to evaluate all factors deemed appropriate, whether or not such factors have been stated in this section. This RFP is not an offer of an agreement (contract). Acceptance of a proposal neither commits LACERA to award a contract to any Bidder, even if the Bidder has satisfied all requirements stated in this RFP. Publication of this RFP does not limit LACERA's right to negotiate for the services described in this RFP. If deemed by LACERA to be in its best interests, LACERA may negotiate for the services described in this RFP with a party that did not submit a proposal.

B. Evaluation Committee

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

C. Evaluation of Proposals

The Evaluation Committee will determine if Bidders meet the Mandatory Elements listed below. Evaluation Committee members will evaluate and score the proposals for qualifications and experience, audit planning and approach, and fees. Each member of the Evaluation Committee will evaluate each proposal using a scoring system. The Evaluation Committee will then convene to review and discuss their evaluations to arrive at a final score.

The evaluation criteria to be used in the selection process will include, but may not be limited to, the following:

1. Mandatory Elements

- a) Bidder submits, by the deadline, and meets all minimum qualifications included in the Minimum Qualifications Certification
- b) Bidder adheres to the instructions in this RFP and has submitted, by the deadline, all required materials and attachments specified in this RFP (**see Section IV, Proposal Requirements**)
- c) Bidder has agreed to the Audit Services Agreement – General Form (**see Section IV, Proposal Requirements**) and has no conflict of interest with regard to any other work performed by the Bidder.

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2. Qualifications, Approach and Fees

Below is a summarized list of factors that LACERA will use to evaluate the Bidder's proposal (LACERA reserves the right to modify this structure). Each evaluation section will hold a designated weight relative to the overall score as indicated below.

| <u>Evaluation Section</u> | <u>Weight</u> |
|---|---------------|
| Firm Qualifications and Experience | 30% |
| <ul style="list-style-type: none">• History and structure• Financial stability• Qualifications and resources• Experience relevant to this engagement | |
| Professional Staff Qualifications and Experience | 35% |
| <ul style="list-style-type: none">• Professional and academic qualifications• Professional experience• Experience relevant to this engagement | |
| Audit Planning and Approach | 25% |
| <ul style="list-style-type: none">• Audit work plan and methodology• Time table and resource allocation• Professional standards | |
| Fees | 10% |
| <ul style="list-style-type: none">• Audit hours• Hourly rate• Total fees | |

D. Right to Reject Proposals

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

E. Incomplete Proposals

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

LACERA
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F. Formal Presentations

During the evaluation process, any one or more of the Bidders may be requested to make a formal presentation to the Board of Retirement, Board of Investments, or a Committee of the Board such as the Audit Committee. Such presentation will provide the Bidder with an opportunity to answer any questions LACERA may have regarding the Bidder's proposal. Expenses incurred by the Bidder for such presentation will not be reimbursed.

G. Board Approval

Upon completion of the evaluation process, LACERA staff will submit a short list of approved Bidders for interview and selection or recommend a Bidder for award of an agreement (contract) by the Board of Retirement.

LACERA reserves the right to award an agreement to the Bidder that best meets the needs of LACERA as determined by LACERA, which may not be the Bidder offering the lowest fees. The successful Bidder will be determined in accordance with the selection criteria described in this section, **Section V, Evaluation and Selection Procedures**.

H. Agreement Negotiations

After Board approval, agreement (contract) negotiations will be initiated. Because the proposed Audit Services Agreement – General Form is attached to this RFP, see **Section VI, Supplemental Information**, and all Bidders are required to comment on the proposed contract as part of their proposals, LACERA expects contract negotiations to be brief. If the contract cannot be negotiated quickly with the selected Bidder, LACERA, may, in its sole discretion, terminate negotiations with the previously selected Bidder and commence contract negotiations with another party, whether or not that party was a Bidder.

I. Agreement Approval and Award

LACERA reserves the right to submit the final Audit Services Agreement (contract) to the Board of Retirement for approval.

After approval and agreement award by LACERA, all Bidders will be notified of the outcome.

SECTION VI – SUPPLEMENTAL INFORMATION

**LACERA
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
Issued: April 2016**

SECTION VI – SUPPLEMENTAL INFORMATION

This section includes the following documents:

- A. Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems
– prepared by the State of California, Office of the Controller

- B. AUDITOR’s Fee Schedules

- C. Audit Services Agreement – General Form

Exhibits to Audit Services Agreement

- Exhibit A – Minimum Audit Requirements and Reporting Guidelines

- Exhibit B – Statement of Work: LACERA Annual Attest Audit for Fiscal Years
Ending June 30, 2017 through June 30, 2021

- Exhibit C – AUDITOR’s Fee Schedules

- Exhibit D – Certification Concerning Financial Contacts or Solicitations

EXHIBIT A

A. MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR PUBLIC RETIREMENT SYSTEMS

EXHIBIT A

LACERA
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
Issued: April 2016

STATE OF CALIFORNIA
OFFICE OF THE CONTROLLER



MINIMUM AUDIT REQUIREMENTS
AND REPORTING GUIDELINES
FOR
PUBLIC RETIREMENT SYSTEMS

EXHIBIT A
LACERA
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
Issued: April 2016

INTRODUCTION

The following audit requirements are not intended to be a comprehensive audit program or check list of things to be completed during a retirement system audit. This is intended to include only the minimum requirements which the State Controller prescribes in conjunction with implementing Sections 7501-7504 of the Government Code.

The county auditor, certified public accountant or public accountant undertaking an audit of a public retirement system should:

1. Have sufficient knowledge and training to enable him to comply with generally accepted auditing standards.
2. Have an adequate knowledge of government accounting.
3. Have or acquire sufficient knowledge of pension accounting and actuarial science.

MINIMUM AUDIT REQUIREMENTS

The audit shall be made in accordance with generally accepted auditing standards. In meeting these standards, the following standards and procedures, although not all-inclusive, should be considered:

1. A proper study and evaluation of the existing internal control and the financial organizational structure should be made. The purpose of the study is to decide how much the auditor can rely on internal control. Furthermore, it is used as a basis for determining the nature, extent, and timing of the audit tests to be applied in the examination of the financial statements.
2. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination. If the internal control is so deficient that an auditor must qualify his opinion in this regard, the reason for this qualification must be set forth in the audit report.
3. The auditor should review the regulations applicable to the transactions of the retirement system. Should there be indications that the retirement system may have failed to comply with such legal requirements, the transactions should be referred to proper legal counsel for interpretation of applicable law. Noncompliance, if so determined, should be commented upon in the report and the auditor's opinion should be qualified or disclaimed if necessary.

EXHIBIT A
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MINIMUM AUDIT REQUIREMENTS
(Continued)

4. A review should be made to see if the report of financial transactions to the State Controller as filed agrees with the official records of the system for the period covered by the audit.
5. A review should be made of the previous audit report work papers and program if available.
6. The auditor should ascertain the basis of accounting, that is: cash, accrual or modified accrual. The accrual basis of accounting should be employed to provide a fair and fully disclosed financial position for the retirement system.
7. The auditor should obtain confirmations from depositories for (1) all bank accounts, time certificates or savings and loan accounts, and (2) collateral securing such accounts, if applicable. Collateral should also be examined or confirmed with the depository holding the collateral as trustee. The auditor should determine the adequacy and propriety of the collateral pledged.
8. The collections and recording of all ascertainable revenues, such as employee retirement contributions and dividends from investments, should be tested during the period under audit. The test should be sufficient to determine that receipts have been recorded properly for the period.
9. The auditor should determine that expenditures were properly authorized and supported by proper documents.
10. A review should be made of non-revenue receipts and non-expense disbursements to determine if they were legal and properly recorded.
11. All other assets such as investments, prepaid expenses, fixed assets and similar items should be verified in accordance with generally accepted auditing standards.
12. All liabilities should be verified in accordance with generally accepted auditing standards. Proper authorities should be contacted to ascertain existence of any possible contingent liabilities.

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AUDIT REPORT REQUIREMENTS

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall state whether such principles have been observed in the current period in relation to the preceding period.
3. The audit report shall contain the footnote disclosures and supplementary information in accordance with Governmental Accounting Standards Board Statement 25.
4. The audit report shall contain an opinion regarding the fairness of the financial statements as enumerated by the State Board of Accountancy Rules 58.1 and 58.2¹. The types of opinions that may be expressed are:
 - a. an unqualified opinion
 - b. a qualified opinion
 - c. an adverse opinion
 - d. a disclaimer of opinion
5. The report should be based on fair value as described in GASB Statement 25. The net appreciation (depreciation) in the fair value of investments, as defined in GASB Statement 25 must be disclosed separately in the financial statements.
[LACERA NOTE: Effective June 15, 2015, GASB Statement 72 replaced this reference to GASB 25; so fair value should be as described in GASB 72.]

AUDIT REPORT FORMAT

It is suggested that the audit report be prepared in accordance with the following general format.

1. Title page
2. Table of contents
3. Scope, opinion and other necessary paragraphs
4. Basic financial statements:
 - a. Statement of Plan Net Assets
 - b. Statement of Changes In Plan Net Assets
 - c. Notes to the Financial Statements
 - d. Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement 25.

¹ 16 Cal Admin. Code 58.1 – 58.2.

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AUDIT REPORT FORMAT
Continued

Some of the supplementary information such as schedules, comments, and statistical tables are optional and often enhance the usefulness of a report. An agency-wide audit is acceptable if the audit report includes a pension fund Statement of Plan Net Assets, Statement of Changes In Plan Net Assets, and the required supplementary information in combining or individual fund financial statements. Appropriate footnotes are also required.

MANAGEMENT LETTER

Management of the retirement system has the responsibility for establishing and maintaining internal controls and checks. The auditor should issue a separate letter containing suggestions and recommendations relating to opportunities for improvement in the systems, accounting and financial controls.

EXHIBIT A

LACERA REQUEST FOR PROPOSAL ANNUAL AUDITS OF THE FINANCIAL STATEMENTS Issued: April 2016

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS TO THE STATE CONTROLLER

- 7501 It is the intent and purpose of the Legislature, in enacting this chapter, to safeguard the solvency of all public retirement systems and funds. The Legislature finds and declares that public agencies maintaining retirement systems can benefit from periodic and independent analysis of their financial condition. It is the purpose of * * * Sections 7502, 7503, and 7504 to enable the State Controller to gather information to compare and evaluate the financial condition of such systems and to make such comparisons and evaluations.
- 7502 The State Controller shall review the annual financial report of each state and local public retirement system submitted pursuant to Section 7504 giving particular consideration to the adequacy of funding of each system. The State Controller shall also review the triennial valuation of each public retirement system submitted pursuant to Section 7504 and shall give particular consideration to the assumption concerning the inflation element in salary and wage increases, mortality, service retirement rates, withdrawal rates, disability retirement rates, and the rate of return on total assets. The State Controller shall establish an advisory committee which shall include enrolled actuaries, as defined in Section 7504, and state and local public retirement system administrators, to assist in carrying out the duties imposed by this section.
- 7503 All state and local public retirement systems shall prepare an annual report in accordance with generally accepted accounting principles.

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EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)

- 7504 (a) All state and local public retirement systems shall, not less than triennially, secure the services of an enrolled actuary. An enrolled actuary, for the purposes of this section, means an actuary enrolled under subtitle C of Title III of the Employee Retirement Income Security Act of 1974 and who has demonstrated experience in public retirement systems. The actuary shall perform a valuation of the system utilizing actuarial assumptions and techniques established by the agency which are, in the aggregate, reasonably related to the experience and the actuary's best estimate of anticipated experience under the system. Any differences between the actuarial assumptions and techniques used by the actuary which differ significantly from those established by the agency shall be disclosed in the actuary's report and the effect of such differences on the actuary's statement of costs and obligations shall be shown.
- (b) All state and local public retirement systems shall secure the services of a qualified person to perform an attest audit of the system's financial statements. A qualified person means any of the following:
- (1) A person who is licensed to practice as a certified public accountant in this state by the State Board of Accountancy.
 - (2) A person who is registered and entitled to practice as a public accountant in this state by the State Board of Accountancy.
 - (3) A county auditor in any county subject to the County Employees Retirement Law of 1937.
 - (4) A county auditor in any county having a pension trust and retirement plan established pursuant to Section 53216.

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EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)

7504
(Cont'd)

(c) All state and local public retirement systems shall submit audited financial statements to the State Controller at the earliest practicable opportunity within six months of the close of each fiscal year. However, the State Controller may delay the filing date for reports due in the first year until such time as report forms have been developed which, in his judgment, will satisfy the requirements of this section. The financial statements shall be prepared in accordance with generally accepted accounting principles in the form and manner prescribed by the State Controller. The penalty prescribed in Section 53895 shall be invoked for failure to comply with this section. Upon a satisfactory showing of good cause, the State Controller may waive the penalty for late filing provided by this subdivision.

(d) The State Controller shall compile and publish a report annually on the financial condition of all state and local public retirement systems containing, but not limited to, the data required in Section 7502.

53216

The Legislative body of a local agency may establish a pension trust funded by individual life insurance contracts, individual annuities, group policies of life insurance, or group annuities, or any one or combination of them, or by any other investment authorized by this article for the benefit of its officers and employees.

The legislative body of a local agency may make participation in any plan under such pension trust optional with the officers and employees of the local agency or it may make participation in such pension trust plan compulsory for the officers and employees of such agency.

Officers and employees, who participate in such pension trust plan, whether it is optional or compulsory, shall have their plan contributions deducted from their compensation.

The legislative body of a local agency may establish a pension trust funded by individual life insurance contracts, individual annuities, group policies of life insurance, or group annuities, or any one or combination of them, or by any other investment authorized by this article for the benefit of its officers and employees.

EXHIBIT A

**LACERA
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**EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)**

53216
(Cont'd)

The legislative body of a local agency may make participation in any plan under such pension trust optional with the officers and employees of the local agency or it may make participation in such pension trust plan compulsory for the officers and employees of such agency.

Officers and employees, who participate in such pension trust plan, whether it is optional or compulsory, shall have their plan contributions deducted from their compensation.

53895

(a) An officer of a local agency who fails or refuses to make and file his or her report within twenty days after receipt of a written notice of the failure from the Controller shall forfeit to the state * * *

(1) One thousand dollars (\$1,000), in the case of a local agency with total revenue, in the prior year, of less than one hundred thousand dollars (\$100,000), as reported in the Controller's annual financial reports.

(2) Two thousand five hundred dollars (\$2,500) in the case of a local agency with total revenue, in the prior year, of at least one hundred thousand dollars (\$100,000) but less than two hundred fifty thousand dollars (\$250,000), as reported in the Controller's annual financial reports.

(3) Five thousand dollars (\$5,000) in the case of a local agency with total revenue, in the prior year, of at least two hundred fifty thousand dollars (\$250,000), as reported in the Controller's annual financial reports.

(b) Upon the request of the Controller, the Attorney General shall prosecute an action for the forfeiture in the name of the people of the State of California.

EXHIBIT B

B. AUDITOR'S FEE SCHEDULES
[Separate Schedules for the Pension Trust
and (combined) the OPEB Trust and the OPEB Agency Fund]

EXHIBIT B

**LACERA
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
Issued: April 2016**

**AUDITOR'S FEE SCHEDULE FOR PENSION TRUST – PART 1
SCHEDULE OF PROFESSIONAL FEES AND EXPENSES**

FISCAL YEAR END 201X (Prepare a Schedule for each Year)

| | Audit Hours (A) | Standard Hourly Rates (B) | Quoted Hourly Rates (C) | Total (A x C) |
|---|--------------------------------|--|--|--------------------------|
| Partners | | \$ | \$ | \$ |
| Managers | | \$ | \$ | \$ |
| Seniors / Supervisors | | \$ | \$ | \$ |
| Staff Auditors | | \$ | \$ | \$ |
| Specialists | | \$ | \$ | \$ |
| Administrative Staff | | \$ | \$ | \$ |
| Other Staff (specify): | | \$ | \$ | \$ |
| | | \$ | \$ | \$ |
| | | \$ | \$ | \$ |
| Estimated Out-of-Pocket Expenses (specify): | | | | \$ |
| | | | | \$ |
| | | | | \$ |
| Total Not-To-Exceed Maximum Fee per Financial Audit [INSERT YEAR] | | | | \$ |

EXHIBIT B

**LACERA
REQUEST FOR PROPOSAL
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**AUDITOR'S FEE SCHEDULE FOR PENSION TRUST – PART 2
NOT-TO-EXCEED MAXIMUM FEE**

| | <u>Year 1 - FYE 2017</u> | <u>Year 2 - FYE 2018</u> | <u>Year 3 - FYE 2019</u> | <u>Year 4 - FYE 2020</u> | <u>Year 5 - FYE 2021</u> |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Total Not-To-Exceed Maximum Fee per Financial Audit | \$ | \$ | \$ | \$ | \$ |
| Total Fee for 5 Years – (Not-To-Exceed Maximum Fee per Financial Audit) | \$ | | | | |

EXHIBIT B

**LACERA
REQUEST FOR PROPOSAL
ANNUAL AUDITS OF THE FINANCIAL STATEMENTS
Issued: April 2016**

**AUDITOR'S FEE SCHEDULE FOR OPEB TRUST AND OPEB AGENCY FUND (combined) –
PART 1
SCHEDULE OF PROFESSIONAL FEES AND EXPENSES**

FISCAL YEAR END 20XX (Prepare a Schedule for each Year)

| | Audit Hours (A) | Standard Hourly Rates (B) | Quoted Hourly Rates (C) | Total (A x C) |
|---|------------------------------|---|---|-------------------------|
| Partners | | \$ | \$ | \$ |
| Managers | | \$ | \$ | \$ |
| Seniors / Supervisory | | \$ | \$ | \$ |
| Staff | | \$ | \$ | \$ |
| Administrative | | \$ | \$ | \$ |
| Other (specify): | | \$ | \$ | \$ |
| | | \$ | \$ | \$ |
| | | \$ | \$ | \$ |
| Estimated Out of Pocket Expenses (specify): | | | | \$ |
| | | | | \$ |
| | | | | \$ |
| Total Not-To-Exceed Maximum Fees for [Insert Year] | | | | \$ |

EXHIBIT B

**LACERA
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Issued: April 2016**

**AUDITOR'S FEE SCHEDULE FOR OPEB TRUST AND OPEB AGENCY FUND (combined) –
PART 2
NOT-TO-EXCEED MAXIMUM FEE**

| | Year 1 - FYE 2017 | Year 2 - FYE 2018 | Year 3 - FYE 2019 | Year 4 - FYE 2020 | Year 5 - FYE 2021 |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Total Not-To-Exceed Maximum Fee* | \$ | \$ | \$ | \$ | \$ |
| | _____ | _____ | _____ | _____ | _____ |
| Total (Not-To-Exceed Maximum Fee for 5 Years)* | \$ | | | | |
| | _____ | | | | |

*To perform LACERA's OPEB Trust and OPEB Agency Fund Annual Financial Statement Audits combined.

EXHIBIT C

C. AUDIT SERVICES AGREEMENT – GENERAL FORM

EXHIBIT C

NOTICE: This is the general form of the agreement LACERA intends to use. By submitting a proposal without comment on the agreement, you will be deemed to have agreed to each term in the agreement, and to not seek any modifications to the agreement. If you object to a term in the agreement, or wish to modify or add terms to the agreement, your proposal must identify each objection, and propose language for each modification and additional term sought, including the rationale for the change. LACERA reserves the right to make changes to the agreement prior to execution.

**AGREEMENT
FOR
AUDIT SERVICES
BETWEEN**

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

AND

_____, 2016

**Prepared by:
LACERA Legal Office**

EXHIBIT C

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Exhibit A – Minimum Audit Requirements and Reporting Guidelines

Exhibit B – Statement of Work: Annual Attest Audits of LACERA’s
Financial Statements for Fiscal Years Ending June 30, 2017
through June 30, 2021

Exhibit C – AUDITOR’s Fee Schedules

Exhibit D – Certification Concerning Financial Contacts or Solicitations

EXHIBIT C

AUDIT SERVICES AGREEMENT

This Audit Services Agreement ("Agreement") is made and entered into as of _____, 2016, at Pasadena, California, by and between the Los Angeles County Employees Retirement Association ("LACERA"), and _____, a _____ ("AUDITOR"), for the annual attest audits of LACERA's financial statements for the fiscal years ending June 30, 2017 through June 30, 2021.

RECITALS

A. LACERA is a duly established and existing public retirement system created under the County Employees Retirement Law of 1937, California Government Code Section 31450 et seq.; and

B. Government Code Section 7504 requires LACERA to secure the services of a qualified accounting firm to perform an annual attest audit of LACERA's financial statements; and

C. LACERA desires to engage an auditor to perform the annual attest audits of LACERA's financial statement, and issued a request for proposals ("RFP") for such services;

D. AUDITOR submitted a proposal in response to the RFP, and desires to perform the annual attest audits of LACERA's financial statements, and has represented to LACERA that it is qualified to perform the aforesaid services; and

E. LACERA has determined, based upon AUDITOR's proposal submitted in response to the RFP and LACERA's due diligence, that AUDITOR is qualified to perform the audit services and desires to retain AUDITOR for that purpose.

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereinafter set forth, and intending to be legally bound, the parties hereto agree as follows:

AGREEMENT

1. Definitions.

For purposes of this Agreement, capitalized terms have the meanings set forth in this Section 1.

"Agents" means any employees, agents, or representatives of AUDITOR acting in connection with this Agreement.

EXHIBIT C

"Agreement" means this Audit Services Agreement entered into by and between LACERA and AUDITOR, including the Exhibits attached hereto.

"Agreement Date" means the date shown in the preamble of this Agreement.

"AUDITOR" means _____, a _____.

"Board" means LACERA's Board of Retirement or Board of Investment, or both, as the context requires.

"CERL" means the County Employees Retirement Law of 1937, as amended, California Government Code section 31450 et seq.

"Committee" means any committee of the Board of Retirement or the Board of Investments, or both Boards, including without limitation the Operations Oversight Committee and the Audit Committee, and their successors.

"Covered Persons" means LACERA, its trustees, officers, and employees, agents, and contractors, excluding AUDITOR and its Agents.

"Effective Termination Date" means the date on which all or a specified portion of the work under this Agreement will formally cease, as specified in any Notice of Termination delivered by LACERA to AUDITOR.

"FASD" means LACERA's Financial and Accounting Services Division

"Financial Audit" means the annual attest audits of LACERA's financial statements required by the laws governing LACERA, including Sections 7504 and 31593 of the California Government Code.

"Force Majeure" means any cause, circumstance, or event beyond the control and without the fault or negligence of AUDITOR that causes AUDITOR to fail to perform its obligations hereunder. Such causes, circumstances or events may include, but are not restricted to, acts of God or of the public enemy, acts of any foreign, international, federal or state government (including all subdivisions thereof) in such government's sovereign capacity, fires, floods and earthquakes; but in every case the failure to perform must be beyond the control and without the fault or negligence of AUDITOR.

"LACERA" means the Los Angeles County Employees Retirement Association, an independent public pension fund established under the authority of the County Employees Retirement Law of 1937 (California Government Code Sections 31450 et seq.).

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“LACERA’s Project Manager” means Richard Bendall, Chief Audit Executive for LACERA.

"Legal Requirements" means all federal, state, county and local laws, rules, regulations, ordinances, registrations, filings, approvals, authorizations, consents and examinations, presently existing or enacted or promulgated during the term of this Agreement, which may apply to AUDITOR in relation to its performance under this Agreement, including the Sarbanes Act (defined below)

"Member Records" means any records relating to LACERA's members, beneficiaries, or investments to which AUDITOR or its Agents may be exposed when performing under this Agreement, including PHI (as defined in Section 13.A.(2)(a)).

"Notice of Termination for Convenience" means a notice delivered by LACERA to AUDITOR when desiring to terminate this Agreement (or a portion of the work to be performed by AUDITOR) for its convenience.

"Notice of Termination for Default" means a notice delivered by LACERA to AUDITOR when desiring to terminate this Agreement (or a portion of the work to be performed by AUDITOR) due to a default by AUDITOR.

"OPEB Agency Fund" means the revocable OPEB Program (or Retiree Healthcare Program) that LACERA acts as the custodian of these funds on behalf of the plan sponsors and participants.

"OPEB Trust" means the irrevocable Other Post-Employment Benefits Trust that LACERA administers for the County of Los Angeles by contract.

"Pension Trust" means LACERA, exclusive of the OPEB Trust and the related OPEB Agency Fund.

“Sarbanes Act” means the Sarbanes-Oxley Act of 2002, as amended from time to time.

“Work Records” is defined in Section 12.A.(2).

2. Applicable Documents

A. Exhibits Incorporated. Exhibits A, B, C and D described below (collectively, "Exhibits"), are attached to and incorporated herein as a part of this Agreement, except that, notwithstanding any language contained in said Exhibits to the contrary, the audit shall be for the fiscal years ending June 30, 2017 through June 30, 2021.

B. Reserved.

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3. Description of Services.

A. Work to be Performed. AUDITOR agrees to perform the work and provide the services set forth in this Agreement, including special projects for which LACERA engages AUDITOR, in the manner and form described in this Agreement. The quality of service provided by the AUDITOR under this Agreement shall be at least equivalent to that which AUDITOR provides to other clients it serves in the same capacity. AUDITOR shall be held to the standard of care, skill, prudence and diligence that applies to other experts practicing in an enterprise of a like character.

B. AUDITOR's Key Deliverables.

(1) AUDITOR's must deliver 5 draft copies of the AUDITOR's final opinion, the financial statements, footnotes and supplementary information described in this Agreement for each fiscal year no later than the last business day before October 5 following each fiscal year end.

(2) AUDITOR must deliver 85 copies of AUDITOR's final opinion, the financial statements, footnotes and supplementary information described in this Agreement for each fiscal year no later than the last business day before October 15 following each fiscal year end.

(3) AUDITOR must deliver 85 copies of AUDITOR's final opinion and report concerning the schedules produced for participating employers to comply with GASB Pronouncements 68 and 75 for each fiscal year no later than the last business day before October 15 following each fiscal year end.

(4) AUDITOR must deliver 85 copies of AUDITOR's Report on Internal Control and Compliance, Required Communication to the Audit Committee Report, and the Report to Management described in this Agreement (and such other reports to comply with all applicable current professional standards and/or applicable federal and State laws and regulations in effect from time to time) for each fiscal year no later than the last business day before October 15 following such fiscal year end.

C. Conferences and Meetings.

(1) Entrance conferences. Prior to commencing fieldwork for each Financial Audit, AUDITOR will attend an entrance conference at LACERA's offices with LACERA'S Project Manager, FASD Management, and other LACERA staff. The purpose of this meeting will be to establish and discuss the following:

(a) The liaisons appointed by LACERA and the AUDITOR for the audit;

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- (b) LACERA's critical deadlines and AUDITOR's plans to ensure they are met;
- (c) AUDITOR's critical deadlines and LACERA's plans to ensure they are met;
- (d) Prior, current, and/or anticipated audit issues;
- (e) Overview of the interim and year-end work to be performed by AUDITOR; and
- (f) Arrangements for work space and other needs of AUDITOR.

(2) Weekly Status Meetings. During the time AUDITOR is performing its fieldwork for each Financial Audit, AUDITOR shall conduct weekly status meetings at LACERA's offices with FASD management and other LACERA staff as necessary, to review and discuss the progress of the audit, substantive testing, and other issues pertaining to the audit work and any potential findings.

(3) Exit conferences. AUDITOR shall attend one or more exit conference(s) annually, as determined by LACERA in its sole discretion, with LACERA management and LACERA staff to describe the audit process and review the final audit reports. If requested by LACERA from time to time, AUDITOR shall also discuss findings and recommendations from each report with one or more of LACERA's Audit Committee, Board of Retirement, or Board of Investments. AUDITOR will make additional presentations to the Boards and their Committees as required.

(4) GASB 74/75 Task Force Meetings. AUDITOR shall become a GASB 74/57 Task Force Member and participate in the monthly meetings of the Task Force, which may be done by conference call.

(5) Time and Attendance. Conferences described in this Section 3 shall be held at LACERA's offices during normal business hours, on dates reasonably determined by LACERA's Project Manager. AUDITOR's Project Manager and such of its Agents as LACERA's Project Manager deems necessary and appropriate shall attend the conferences described in this Section 3.

D. Utilization of LACERA's Internal Audit Staff. Upon the approval of LACERA's Project Manager, AUDITOR shall use LACERA's Internal Audit professional staff to perform only those procedures that satisfy certification experience requirements under the California Board of Accountancy Rule 11.5 for obtaining a Certified Public Accountant attestation license. AUDITOR shall prepare and sign a Form E – Certificate of Experience for each Internal Audit staff providing

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assistance during each Financial Audit. AUDITOR shall also prepare a performance evaluation for Internal Audit staff participating in each Financial Audit. LACERA's Project Manager will discuss and approve the specifics of the performance evaluation prior to preparation.

E. Information Technology Audit Software. LACERA shall provide AUDITOR with access to member records and investment records on a read-only basis. AUDITOR shall provide Internal Audit staff access to any mainframe or microcomputer-based audit software developed specifically for the audit engagement. AUDITOR shall also provide LACERA staff access to its proprietary software products that are typically utilized by AUDITOR during the audit engagement.

F. Corrections to Work. AUDITOR's services and deliverables will meet the requirements and standards set forth in this Agreement. AUDITOR will promptly correct any errors or omissions in the provision of such services and deliverables, at no cost or expense to LACERA, within five business days after request by LACERA's Project Manager. In the event of any excused interruption or service, or excused failure to perform as herein agreed, AUDITOR agrees to use its best efforts to immediately restore or reasonably provide such services to LACERA.

G. Conduct on Party's Premises. The employees and agents of each party shall, while on the premises of the other party, comply with all rules and regulations of the premises, including, but not limited to, security requirements.

4. Project Responsibility.

A. AUDITOR's Project Manager. AUDITOR's Project Manager is _____, a _____ of AUDITOR. AUDITOR shall inform LACERA in writing of the name of any alternate Project Manager or designee within a reasonable time after his or her selection, and the appointment of such individual(s) shall be subject to LACERA's approval, which may be withheld in its sole discretion.

(1) AUDITOR's Project Manager:

(a) is responsible for the AUDITOR's day-to-day activities related to the work to be performed by AUDITOR under this Agreement;

b) has full authority to act for AUDITOR on all matters relating to the daily operation of this Agreement; and

(c) will be reasonably available during LACERA's normal working hours for telephone contact and to meet with LACERA personnel designated to discuss AUDITOR's performance.

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B. Additional AUDITOR Personnel.

(1) In addition to AUDITOR's Project Manager, AUDITOR designates [REDACTED], to perform the work described in this Agreement. AUDITOR may not replace or remove said individual(s); however, in the event the engagement Partner, Manager, or Senior must be replaced, the replacement must meet the same standards as outlined in the proposal and curriculum vitae for the replacement will be provided to the LACERA Project Manager.

While AUDITOR has general staff on site at LACERA Headquarters performing audit work, AUDITOR will also have on site an individual at the senior/supervisory, manager, or partner level.

(2) LACERA has the absolute right, during the period of AUDITOR's performance under this Agreement, to approve or disapprove in its sole discretion any of AUDITOR's assigned personnel designated as Project Manager, engagement partners, managers, other senior supervisory staff, or specialists, or any proposed changes in these categories of AUDITOR's personnel. AUDITOR shall provide the LACERA Project Manager, or his designee, with a résumé (citing specific qualifications and experience that qualify the proposed replacement to work on this engagement) and copies of required certifications of the proposed replacement(s) and an opportunity to interview the person(s) prior to LACERA approving or disapproving the proposed change.

(3) Upon request by LACERA's Project Manager, AUDITOR will replace any of AUDITOR's personnel or Agents assigned to perform services under this Agreement, who are in LACERA's opinion, unable to effectively carry out the responsibilities of this Agreement.

C. LACERA's Project Manager. LACERA's Project Manager is Richard Bendall, Chief Audit Executive. LACERA's Project Manager or designee shall, on a regular basis, interface with AUDITOR's Project Manager.

(1) LACERA's Project Manager is responsible for

(a) providing overall management and coordination of this Agreement acting as liaison for LACERA;

(b) insuring that the provisions and objectives of this Agreement are met;

(c) approving invoices submitted prior to payment for work performed and deliverables delivered in accordance with this Agreement, which approval will not be unreasonably withheld; and

(d) providing direction to AUDITOR in all matters relating to policy, information requirements, and procedural requirements.

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(2) LACERA's Project Manager is not authorized to make changes in the terms and conditions of this Agreement, and is not authorized to obligate LACERA in any respect whatsoever, beyond those duties and responsibilities delegated to the LACERA Project Manager in this Agreement.

(3) LACERA's Project Manager or any person delegated responsibility for the administration of this Agreement by LACERA's Project Manager will not have any personal liability to AUDITOR for any action taken or not taken by such individual while acting or purporting to act as LACERA's Project Manager or delegate of such Project Manager.

5. Independent Contractor Status.

In performing under this Agreement, AUDITOR is at all times acting in the capacity of an independent contractor. This Agreement is not intended, and shall not be construed, to create the relationship of agent, servant, employee, partnership, joint venture, or association as between LACERA and AUDITOR. The employees and agents of one party shall not be, or be construed to be, the employees or agents of the other party for any purpose whatsoever. AUDITOR shall be solely liable and responsible for providing to, or on behalf of, all persons performing work pursuant to this Agreement all compensation and benefits. LACERA shall have no liability or responsibility for the payment of any salaries, wages, unemployment benefits, disability benefits, federal, state, or local taxes, or other compensation, benefits, or taxes for any personnel provided by or on behalf of AUDITOR. AUDITOR understands and agrees that all persons furnishing services pursuant to this Agreement are, for purposes of workers' compensation liability, employees solely of AUDITOR and not employees of LACERA.

6. Compensation and Payment.

A Compensation.

(1) In General. LACERA shall compensate AUDITOR for services rendered under this Agreement at the hourly rates set forth on Exhibit C hereto.

(2) Annual Financial Statement Attest Audit. Notwithstanding the hourly fees provided for in Section 6.A.(1), the maximum amount of fees payable to AUDITOR for work performed for each annual Financial Audit shall not exceed the "total not-to-exceed maximum fee per audit" set forth on Exhibit C.

(3) Special Projects. AUDITOR will perform special projects arising out of, related to, or in connection with the work AUDITOR performs pursuant to this Agreement as defined and requested by LACERA from time to time. Prior to AUDITOR commencing any work on the special project, LACERA and AUDITOR will

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execute an engagement letter containing a description of the special project work to be performed by AUDITOR and the deliverables to be delivered to LACERA, and the time frame in which the work is to be performed. AUDITOR will be compensated for its special projects work at the quoted hourly rates in effect during the fiscal year for which the work relates as shown on Exhibit C. For example, if AUDITOR is asked to perform a special project related to the Financial Audit for the fiscal year ending June 30, 2017, AUDITOR will be paid at the hourly rates for that fiscal year, even though AUDITOR may be performing the work in a subsequent fiscal year(s).

B. Expenses. AUDITOR's expenses, including travel expenses, are included in the compensation described in Section 6.A and therefore AUDITOR is not entitled to any separate reimbursement for any expenses incurred by it in discharging its duties under this Agreement, unless otherwise agreed by LACERA.

C. Invoices and Payment.

(1) For each Financial Audit, and for all special project work, if any, AUDITOR will submit to LACERA's Project Manager invoices either monthly or quarterly, at AUDITOR's option. The amount invoiced shall be calculated by multiplying the applicable hourly fee(s) set forth in Exhibit C by the number of hours worked, minus a ten percent (10%) holdback; however, the aggregate amount invoiced for any Financial Audit or special project shall not exceed the percentage of work required for that Financial Audit or special project that has been completed as of the date the invoice is submitted, minus a ten percent (10%) holdback. Upon completion and acceptance of all deliverables required for that Financial Audit or special project, AUDITOR shall invoice LACERA for the ten percent (10%) holdback.

(a) AUDITOR will submit separate invoices for work relating to the Pension Trust and the combined work related to the OPEB Trust and the OPEB Agency Fund.

(2) With each invoice AUDITOR will submit to LACERA's Project Manager a schedule of hours worked by each person working on the LACERA engagement. AUDITOR will calculate the invoice balance as indicated in C.(1) above, by multiplying the applicable hourly fee set forth in Exhibit C by the number of hours worked by each person during the invoice period.

(3) All invoices shall clearly reflect and provide reasonable detail of the services and other sources of payment for which claim is made, and shall be sent to LACERA's Project Manager for review. AUDITOR's invoices will also include an itemization of all expenses incurred during the period covered by the invoice. Approved invoices will be paid within thirty (30) days of receipt.

D. Non-Compensable Services. AUDITOR agrees that should work be performed outside the scope of the work described in this Agreement, without the prior written consent of LACERA in accordance with Section 18.A (Changes and

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Amendments) to this Agreement, such work will be deemed to be a gratuitous effort on the part of AUDITOR, and AUDITOR will have no claim against LACERA for such work, and LACERA will have no obligation to pay for such work.

7. Term and Termination.

A. General Term.

(1) Subject to the termination provisions set forth in Sections 7.B through 7.E. below, the term of this Agreement commences on the Agreement Date and continues until AUDITOR has issued and LACERA has accepted all required reports for each of the fiscal years ending June 30, 2017 through June 30, 2021.

(2) At its option, LACERA may extend the term of this Agreement for two additional annual Financial Audits, covering the fiscal years ending June 30, 2022 and June 30, 2023 (the "Extended Term"), by providing written notice to AUDITOR on or before March 31, 2021 (the "Extension Notice"). LACERA and AUDITOR agree that if LACERA gives the Extension Notice, the parties will negotiate in good faith to reach agreement – without being obligated to reach agreement - on AUDITOR's compensation during the Extended Term. If the parties are unable to sign a written amendment agreeing upon compensation during the Extended Term by June 30, 2021, then LACERA will be deemed to have rescinded the Extension Notice. The Agreement may be terminated during any extension of the original term in accordance with Section 7.B through 7.E below.

B. Termination by LACERA for Convenience. LACERA may terminate this Agreement, or any portion of the services to be performed by AUDITOR, without cause at any time by delivering to AUDITOR a written Notice of Termination for Convenience specifying the extent to which AUDITOR's services are terminated and the Effective Termination Date. The Effective Termination Date may be no earlier than ten calendar days after such Notice of Termination for Convenience is sent to AUDITOR. LACERA's termination of this Agreement under this Section 7.B is not a waiver of LACERA's right to make a claim against AUDITOR for damages resulting from any default or breach by AUDITOR which occurred prior to the Effective Termination Date.

C. Termination by LACERA for Default. LACERA may immediately terminate this Agreement, or any portion of the services to be performed by AUDITOR, by delivering to AUDITOR a written Notice of Termination for Default that specifies the Effective Termination Date, under any one of the following circumstances:

(1) Upon notice but without cure period, if AUDITOR fails to perform the work specified in this Agreement within the time specified herein or any extension thereof;

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(2) If AUDITOR fails to perform any other provision of this Agreement, or so fails to make progress as to endanger performance of this Agreement in accordance with its terms, and in either of these two circumstances fails to cure such default within ten (10) calendar days (or such longer period as LACERA may authorize in writing) after receipt of written notice from LACERA specifying such default;

(3) Upon notice but without further cure period, if AUDITOR repeatedly fails to perform according to this Agreement following notice and failure to cure pursuant to Section 7.C.(2) hereof;

(4) Without notice or cure period if AUDITOR materially breaches any of the warranties, representations, agreements, and covenants made in Section 10 (AUDITOR's Representations, Warranties and Covenants), in Section 14 (Conflicts and Disqualification), if AUDITOR fails to maintain the insurance required under Section 9, or if AUDITOR fails to comply with the terms of Section 11 (Governmental Provisions), Section 12. (Records and Audits), or Section 13 (Confidentiality; Proprietary Rights);

(5) Without notice or cure period if AUDITOR is subject to criminal indictment or conviction, or is found civilly or criminally liable by a trial court, jury or administrative body, or enters a plea of guilty or *nolo contendere*, in connection with any matter involving breach of trust, breach of fiduciary duty, fraud, or theft; or

(6) Without notice or cure period if AUDITOR attempts or purports to assign this Agreement, or any portion hereof, or any of its rights or obligations hereunder, without obtaining LACERA's prior written consent.

D. Termination by LACERA for Insolvency. LACERA may immediately terminate this Agreement, or any portion of the services to be performed by AUDITOR, by delivering to AUDITOR a written Notice of Termination for Default that specifies the Effective Termination Date, under any one of the following circumstances:

(1) AUDITOR becomes insolvent. AUDITOR will be deemed insolvent if it has ceased to pay its debts in the ordinary course of business or cannot pay its debts as they become due, whether it has committed an act of bankruptcy or not, and whether or not it is insolvent within the meaning of the United States Bankruptcy Code (11 U.S. Code § 101 et seq.);

(2) AUDITOR files a voluntary petition under any bankruptcy, reorganization or insolvency law;

(3) AUDITOR applies for or consents to appointment of a trustee or receiver to take possession of all or substantially all its assets;

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(4) AUDITOR consents to, or files an answer admitting the jurisdiction of the court and the material allegations of, an involuntary petition filed under any bankruptcy, reorganization or insolvency law; or

(5) An involuntary proceeding of bankruptcy, reorganization or insolvency is commenced against AUDITOR and not dismissed within 30 days after commencement.

E. Termination by LACERA for Non-Appropriation of Funds.

Notwithstanding anything contained in this Agreement to the contrary, services rendered by AUDITOR in a fiscal year are payable by LACERA only from the funds appropriated for such services as a separate line item entry in LACERA's approved budget for such fiscal year. If this Agreement extends into succeeding fiscal years beyond the fiscal year of the Agreement Date and LACERA does not appropriate funds for AUDITOR's services under this Agreement as a specific line item entry in the approved budget for any succeeding fiscal year, this Agreement will terminate automatically, as if LACERA had issued a Notice of Termination for Convenience under Section 7.B above (Termination by LACERA for Convenience), as of the end of the then current fiscal year. LACERA will make a good faith effort to notify AUDITOR in writing of such non-appropriation as soon as practicable.

F. Force Majeure. AUDITOR may not be terminated for default, pursuant to Section 7.C or Section 7.D above, if AUDITOR's failure to perform under this Agreement arises solely from causes of Force Majeure.

G. Rights, Remedies and Responsibilities upon Termination. If this Agreement is terminated, all of the terms and conditions of this Agreement shall continue to apply through the Effective Termination Date. The following provisions also apply to any termination of this Agreement.

(1) Post-Termination Responsibilities. If LACERA terminates this Agreement, and unless otherwise expressly directed by LACERA, AUDITOR will: (i) take all necessary steps to stop providing services under this Agreement on the Effective Termination Date, or sooner, to the extent stated in the Notice of Termination, and (ii) continue to perform those services, if any, which are not terminated.

(2) Recovery of Reasonable Damages Upon Default. If LACERA terminates this Agreement in whole or in part for default pursuant to Section 7.C or Section 7.D above, LACERA is entitled to recover from AUDITOR all reasonable damages resulting from such default. By way of example and not limitation, LACERA may procure, upon such terms and in such manner as LACERA may deem appropriate, services similar to those terminated, and AUDITOR will be liable to LACERA for any excess cost of such similar services.

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(3) Payment when Terminated for Convenience. If LACERA terminates this Agreement for convenience pursuant to Section 7.B above, LACERA will pay AUDITOR for work already performed but for which AUDITOR has not been compensated through the Effective Termination Date, according to the terms of Section 6, after AUDITOR has returned all items described in Section 12.A to LACERA.

(4) Payment Withheld for Default. LACERA shall not authorize and shall withhold payment for services provided if LACERA terminates this Agreement for default pursuant to Section 7.C or Section 7.D above. In the event the damages caused by such default are less than the withheld payment for services, the amount withheld in excess of the damages shall be paid to AUDITOR.

(5) Excusable Default. If, after LACERA issues a Notice of Termination for Default pursuant to Section 7.C or Section 7.D above, it is determined for any reason that AUDITOR was not in default, or that such default was excusable, then the rights and obligations of the parties will be the same as if LACERA had issued a Notice of Termination for Convenience pursuant to Section 7.B.

(6) Good Faith Transfer. Upon any termination of this Agreement by LACERA, and to the extent directed by LACERA, AUDITOR will cooperate with LACERA in good faith to effect a smooth and orderly transfer of such services and all applicable records to a successor designated by LACERA. AUDITOR will respond promptly to reasonable inquiries of such successor auditor with respect to the Work Papers and matters of continuing accounting significance to LACERA. Upon termination of this Agreement, AUDITOR will retain all Work Records according to the record retention provisions set forth in Section 12 below.

(7) Cumulative Nature of Rights and Remedies. The rights and remedies provided by this Section 7 are not exclusive, but cumulative and in addition to any other rights and remedies provided by law, in equity or under any other provisions of this Agreement. The running of any grace period for cure of a default pursuant to Section 7.C or Section 7.D above does not limit LACERA's right to terminate this Agreement for convenience at any time, pursuant to Section 7.B above.

8. Indemnification.

A. Indemnification of LACERA. AUDITOR agrees to indemnify, defend, save, and hold harmless the Covered Persons from and against any and all liabilities, losses, injuries, suits, costs, charges, judgments, fines, penalties, expenses (including defense costs and attorneys' fees) and claims for damages of any nature whatsoever, including loss of funds, bodily injury, death, personal or advertising injury, or property damage (including any workers' compensation suits, liability or expense arising from or connected with work performed by or on behalf of

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AUDITOR by any person pursuant to this Agreement, or any damage to AUDITOR's property), which arise from the improper conduct of the AUDITOR or its Agents, whether based on contract or tort theory, including:

- (1) any bad faith, negligence, willful misconduct, improper or unethical practice by AUDITOR or its Agents;
- (2) any breach of any representation or warranty made by AUDITOR in this Agreement;
- (3) the breach of any covenant, agreement or obligation of AUDITOR contained in this Agreement or any other instrument contemplated by this Agreement, including, infringement of intellectual property rights, breach of trust, breach of confidentiality, or violation of any Legal Requirement;
- (4) any actual or alleged infringement of intellectual property rights, including infringement of any patent, trade secret, service mark, copyright; and
- (5) any misrepresentation contained in any statement or certificate furnished by or on behalf of AUDITOR pursuant to this Agreement.

B. Notice of Claim. Covered Persons (named in Exhibit D) shall give AUDITOR prompt notice of any claim for which Covered Persons are entitled to indemnification pursuant to this Section 8, and AUDITOR shall control the defense or settlement thereof; provided, no such settlement or compromise shall be entered into unless, as part of such settlement or compromise, the third party executes a full and complete release of Covered Persons without recourse to any Covered Persons for any amount, claim or other obligation whatsoever respecting such claim. AUDITOR shall have no right to settle or compromise any such claim without the consent of Covered Persons, which consent can be withheld for any reason or no reason, if such settlement or compromise involves the issuance of injunctive or other non-monetary relief binding upon Covered Persons or a plea of guilty or *nolo contendere* on the part of Covered Persons in any criminal or quasi-criminal proceeding, or which involves any admission of liability or culpability on the part of Covered Persons, or which has any collateral estoppel effect on Covered Persons.

9. Insurance.

A. General Insurance Requirements. Without limiting AUDITOR's obligations under Section 8.A hereof, AUDITOR will provide and maintain at its own expense during the term of this Agreement the programs of insurance programs specified in this Agreement. Such insurance will be primary and not contributing with any other insurance of self-insurance programs maintained by LACERA, and AUDITOR agrees to provide and maintain such insurance at its own cost and expense.

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(1) Evidence of Insurance: Certificate(s) or other evidence of coverage satisfactory to LACERA shall be delivered to:

Richard Bendall
Chief Audit Executive
LACERA
300 N. Lake Avenue, Suite 840
Pasadena, CA 91101-4199

prior to commencing services under this Agreement and annually thereafter. Such certificates or other evidence shall:

- (a) Specifically identify this Agreement.
- (b) Clearly evidence all coverages required in this Agreement.
- (c) Contain the express condition that LACERA is to be given written notice by mail at least 45 days in advance of cancellation for all policies.
- (d) Include copies of the additional insured endorsement to the commercial general liability policy, adding that LACERA, its trustees, officers and employees as insureds for all activities arising from this Agreement.

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

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

(4) Compensation for LACERA Costs: In the event that AUDITOR fails to comply with any of the indemnification or insurance requirements of this Agreement, and such failure to comply results in any costs to LACERA, AUDITOR shall pay full compensation for all costs incurred by LACERA.

(5) Cooperation Regarding Insurance. LACERA may elect to procure insurance against loss or damage it may sustain in connection with

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AUDITOR's performance under this Agreement. AUDITOR will promptly cooperate with any reasonable request for information regarding AUDITOR which is required to obtain such insurance.

(6) Survival of Obligations. AUDITOR's obligations under this Section 9 shall survive expiration or termination of this Agreement.

B. Commercial General Liability. AUDITOR shall provide and maintain a Commercial General Liability insurance policy, which names LACERA as additional insured. Such policy shall cover legal liability for bodily injury and property damage arising out of AUDITOR's business operations and services that AUDITOR provides pursuant to this Agreement. Such policy shall include, without limitation, endorsements for Property Damage, Premises-Operations, Products/Completed Operations, Contractual, and Personal/Advertising Injury with a limit of at least Five Million Dollars (\$5,000,000) per occurrence and an annual aggregate of at least Fifteen Million Dollars (\$15,000,000). If such insurance is written on a Claims Made Form, such insurance shall be endorsed providing an extended reporting period of not less than five (5) years following termination or expiration of this Agreement.

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

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

E. Errors and Omissions (aka Professional Liability). AUDITOR shall provide and maintain insurance covering liability arising from any error, omission, negligent or wrongful act of the AUDITOR, its officers, employees or Agents, with limits of at least \$5,000,000 per claim and an annual aggregate of at least \$10,000,000. The coverage also shall provide an extended one-year reporting period commencing upon termination or cancellation of this Agreement.

F. Cyber Liability Insurance: Without limiting any of the obligations or liabilities of AUDITOR, AUDITOR shall carry and maintain, at its own expense including any applicable deductibles or retention, Cyber Liability insurance with limits of not less than \$2,000,000 for each occurrence and an annual aggregate

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of \$5,000,000 covering claims involving privacy violations, information theft, damage to or destruction of electronic information, intentional and/or unintentional release of private information, alteration of electronic information, extortion and network security. The policy coverage shall include, but not be limited to:

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

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

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

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

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

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

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

10. AUDITOR's Representations, Warranties and Covenants. AUDITOR makes the following representations, warranties, covenants and agreements contained in this Section 10 with the understanding that LACERA has relied upon them in determining to enter into this Agreement and is relying on them during the term of the Agreement, and that they constitute a material inducement to LACERA to enter into this Agreement and continue the Agreement in full force and effect.

A. Authorization.

(1) AUDITOR is duly organized, validly existing, and in good standing under the laws of the state of its organization and is qualified to do business in California, and has full corporate power and authority to carry on its business as it has been and is conducted.

(2) The execution and delivery of this Agreement and the

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consummation of the transactions contemplated by this Agreement are within the power of the AUDITOR and have been duly authorized by all necessary corporate and other action. AUDITOR has duly authorized, executed and delivered this Agreement, and this Agreement constitutes the legal, valid and binding agreements and obligations of AUDITOR, enforceable against AUDITOR in accordance with its terms, except insofar as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar limitations on creditors' rights generally and general principles of equity.

(3) AUDITOR is not subject to or obligated under any law, rule or regulation of any governmental authority, or any order, injunction or decree, or any agreement, that would be breached or violated by AUDITOR's execution, delivery or performance of this Agreement.

(4) AUDITOR has completed, obtained, and performed all registrations, filings, approvals, licenses, authorizations, consents, or examinations required by any government or governmental authority for entry into this Agreement and performance of its acts contemplated by this Agreement, and AUDITOR shall maintain such proper authorizations while this Agreement is in force.

B. Contingent Fees. Neither AUDITOR nor any of its affiliates has paid or agreed to pay any fee or commission, including broker's fees, finder's fees, third party marketing fees, consulting fees, placement fees, or similar fees, to any entity or person in connection with the negotiation or execution of the Agreement by LACERA, except for bona fide employees of AUDITOR. If AUDITOR in any way breaches or violates of this warranty, LACERA shall have the right to immediately terminate this Agreement for default and, in LACERA's sole discretion, to deduct from AUDITOR's compensation under this Agreement, or otherwise recover, the full amount of such commission, percentage, brokerage or contingent fee.

C. Gratuities. AUDITOR has not offered or given any gratuities in the form of gifts, entertainment or otherwise, to any officer, fiduciary, or employee of AUDITOR, LACERA or the County of Los Angeles, California ("County") with a view toward securing this Agreement or securing any favorable determination made concerning the award of this Agreement. AUDITOR covenants that no such gratuities will be given to any such person with a view toward securing any favorable treatment concerning the performance and/or continuation of this Agreement. If it is found that AUDITOR has offered or given such gratuities, LACERA may terminate this Agreement upon one (1) calendar day's written notice; *provided, however*, that the facts upon which LACERA bases such findings shall be at issue and may be reviewed in any competent court sitting in the County of Los Angeles, California.

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D. Conflicts of Interest With Persons Related to LACERA. AUDITOR does not and shall not knowingly employ in any capacity: (i) any LACERA or County employee or fiduciary who could either influence the award of this Agreement or any competing agreement, or who does or will have any direct or indirect financial interest in this Agreement (“Interested Person”) and (ii) any spouse or economic dependent of any interested Person.

E. Recruiting. During the term of this Agreement and for one calendar year thereafter, AUDITOR will not induce or persuade any employee or independent auditor to LACERA to join AUDITOR.

F. Intellectual Property. No program, process, composition, writing, equipment, appliance or device, or any trademark, service mark, logo, idea, or any other work or invention of any nature or any other tangible or intangible assets whatsoever developed, provided or used by AUDITOR in connection with its performance under this Agreement, infringes or will infringe on any patent, copyright, trademark or service mark of any other person or entity, or is or will be a trade secret of any other person or entity. If any claim of infringement of any intellectual property right is made against LACERA, AUDITOR will indemnify, defend and hold harmless all LACERA Covered Persons as provided in Section 8 above; *however*, AUDITOR will not be liable for any such claim which is based upon: (i) LACERA's use of a version of the work at issue that is not the then current release of such work, if such claim would have been avoided by using the then current release, or (ii) LACERA's use of AUDITOR's work in combination with any program or data that is not AUDITOR's, if such claim would have been avoided by using AUDITOR's work exclusively. In addition, following notice of any such Claim, AUDITOR may, at its expense, either procure for LACERA the right to continue to use the allegedly infringing work, or replace or modify such work, so long as such replacement or modification is at least the functional equivalent of the allegedly infringing work.

G. AUDITOR and its Agents

(1) AUDITOR's Agents who will be responsible for performing under this Agreement are individuals experienced in the performance of the various functions contemplated by this Agreement.

(2) AUDITOR's firm and its senior professional staff (e.g., engagement partner, engagement manager, and engagement senior, but not engagement staff) assigned to perform services under this Agreement are properly licensed to practice as certified public accountants in the State of California and are in good standing with such licensing authorities.

(3) Neither AUDITOR nor its Agents have been convicted of any crime or found liable in a civil or administrative proceeding or pleaded no contest, or agreed to any consent decree with respect to any matter involving infringement of

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intellectual property rights, breach of fiduciary duty, willful misconduct, fraud, bad faith, improper or unethical practice, or violation of any Legal Requirement.

(4) AUDITOR has registered with the Public Company Accounting Oversight Board established by the Sarbanes Act, within the time prescribed by the U.S. Securities and Exchange Commission, and remains in good standing with such Oversight Board.

(5) AUDITOR shall to the extent permitted by applicable law, promptly notify LACERA in writing:

(a) if any judicial, administrative or other proceeding is commenced against AUDITOR or any member of AUDITOR's professional staff assigned to perform services under this Agreement during the term of this Agreement; or

(b) if any investigation, examination, complaint, disciplinary action, judicial, administrative, or other proceeding relating to or affecting AUDITOR's ability to perform its duties under this Agreement or involving any professional employed by AUDITOR who has performed any service with respect to this Agreement, is commenced by any of the following: (i) the Securities and Exchange Commission of the United States ("SEC"); (ii) the Public Company Accounting Oversight Board; (iii) any Attorney General or any regulatory agency of any state of the United States; (iv) any U.S. Government department or agency, (v) any stock exchange; or (vi) any governmental agency regulating the accounting industry or accountants in any country in which AUDITOR is doing business. Except as otherwise required by law, LACERA shall maintain the confidentiality of all such information until the investigating entity makes the information public.

(6) AUDITOR will deliver a copy of AUDITOR's then most recent external quality control review report ("Peer Review Report"), then most recent SSAE-16, SOC-2, Type 2 Report, and then most recent ITGC Examination Report prior to commencing any work under this Agreement; and also within thirty days after AUDITOR receives each subsequent such Report. In addition, AUDITOR will deliver to LACERA's Project Manager, within thirty days of AUDITOR's receipt of same, a copy of each report resulting from any inquiry or investigation by the SEC, PCAOB, the California State Board of Accounting or other applicable governmental, regulatory, or professional body.

H . Employment Eligibility Verification. AUDITOR fully complies with all federal statutes and regulations regarding employment of aliens and others and all its employees performing work under this Agreement meet the citizenship or alien status requirements set forth in federal statutes and regulations. AUDITOR will obtain from all employees performing work hereunder, all verification and other documentation of employment eligibility status as required by federal statutes and regulations as they currently exist and as they may be hereafter amended.

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AUDITOR will retain all such documents for the period prescribed by law. AUDITOR will indemnify, defend and hold harmless all LACERA Covered Persons from and against any alleged employer sanctions and other liability which may be assessed against AUDITOR or LACERA in connection with any alleged violation of any federal statutes or regulations pertaining to the eligibility for employment of any persons performing work under this Agreement.

I. Certification Concerning Financial Contacts or Solicitations. AUDITOR agrees to comply with the provisions of and deliver all reports set forth in Exhibit D, Certification of Contractors Concerning Financial Contacts or Solicitations, attached hereto.

J. Re-certification Regarding Minimum Qualifications. AUDITOR certifies that each of the statements set forth in the Minimum Qualification ("MQs") submitted by AUDITOR to LACERA as part of its proposal submitted in response to LACERA's Request for Proposals for Annual Audits of the Financial Statements is true and accurate as of the date of this Agreement. AUDITOR will notify LACERA in writing within three business days after any statement in the MQs is no longer true or accurate.

K. Changes with Respect to AUDITOR. AUDITOR shall notify LACERA in writing within 3 business days of any of the following changes:

(1) AUDITOR becomes aware that any of its representations, warranties and covenants set forth herein cease to be materially true at any time during the term of this Agreement;

(2) there is any change in AUDITOR's personnel described in Section 4 assigned to perform services under this Agreement, or in AUDITOR's key personnel within its organization;

(3) there is any change in ownership or control of AUDITOR of more than five percent of the issued and outstanding shares, partnership interests, or membership interests of AUDITOR, or in the power to direct the principal business management and activities of AUDITOR, whether through ownership or voting securities, by agreement, or otherwise; and

(4) AUDITOR becomes aware of any other material change in its business organization, including without limitation the filing for bankruptcy relief.

L. Changes in Clientele. AUDITOR agrees to notify LACERA within thirty days of (i) AUDITOR entering into any contract to perform audit services for any public pension plan governed by CERL and (ii) any termination of a contract it has to perform audit services for public pension plan governed by CERL. The notice shall include the amount of assets of the client, a general description of the services to be performed or being terminated, and with respect to

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terminations, a general description of the reason(s) for the termination.

M. Most Favored Nations. For so long as this Agreement remains effective, AUDITOR shall promptly advise LACERA of any fee agreement or arrangement between AUDITOR and any of its clients governed by CERL that contains terms more favorable than those set forth in the then current AUDITOR's Fee Schedule. LACERA shall automatically receive the benefit of any such more favorable terms, at its option.

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

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

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

(3) The scope of the SOC 2 Report shall include work performed by any subcontractors that provide essential support to the AUDITOR for the information functions or processes for the services offered to LACERA under the Agreement. The AUDITOR shall ensure the audit includes all subcontractors operating in the performance of the Contract.

(4) All SOC 2 Audits, including those of the AUDITOR and any subcontractors, shall be performed at no additional expense to LACERA.

(5) The AUDITOR and all relevant subcontractors shall promptly provide a complete copy of the final SOC 2 Report(s) to the Contract Monitor upon completion of each SOC 2 Audit engagement.

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

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

O. Data Breach Verification. AUDITOR shall provide an annual written, signed attestation that no data breach, hacking, or incidental divulging of Member Records has occurred and that no Member Record has been compromised. The attestation shall verify that adequate internal policies and procedures exist to prevent data theft and unauthorized access.

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

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

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

P. Annual Certification and Notice of Changes. AUDITOR shall certify in writing no later than January 31 of each year that each of the representations, warranties and covenants made in this Section are true as of December 31 of the prior year, or shall state in writing the facts that render such representations, warranties and covenants no longer true.

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11. Governmental Provisions.

A. Compliance with Legal Requirements. In performing under this Agreement, AUDITOR agrees to comply with all Legal Requirements, and all provisions required thereby to be included in this Agreement are hereby incorporated by reference.

B. Assurance of Compliance with Civil Rights Laws. AUDITOR hereby assures LACERA that AUDITOR complies with Subchapter VII of the Civil Rights Act of 1964, (42 U.S. Code Sections 2000(e) through 2000(e)(17)), to the end that no person shall, on grounds of race, creed, color, sex, or national origin, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under this Agreement or under any project, program, or activity undertaken pursuant to this Agreement.

C. Nondiscrimination in Employment. AUDITOR agrees to take all necessary action to ensure that job applicants are employed, and that its employees are treated during employment, without regard to their race, color, religion, sex, age, marital status, sexual orientation, disability, medical condition, ancestry or national origin. For purposes of this Section 11.C, the term "employment" shall include, but not be limited to the following: employment, upgrading, promotion, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.

12. Records and Audits.

A. Recordkeeping.

(1) AUDITOR shall maintain accurate and complete financial records of its activities and operations relating to this Agreement in accordance with generally accepted accounting principles ("GAAP"). In performing this Agreement, AUDITOR shall fully document all work efforts including the development of any materials prepared in connection with each task. Such documentation shall include, but not be limited to, the source of data, and schedules, narratives, and other work product supporting the conclusions reached and resultant recommendations. AUDITOR shall also maintain accurate and complete employment and other records relating to its performance of this Agreement.

(2) All such material described in (1) immediately above, including, but not limited to, all financial records, work documents, employment records, and proprietary data and information in whatever format, electronic or otherwise (collectively, with the materials, documents, data, reports, and other information described in Section 13.A.(1), the "Work Records"), shall be kept and maintained by AUDITOR and shall be made available to LACERA during the term of this Agreement and any extension thereof and for a period of seven (7) fiscal years

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thereafter unless AUDITOR is notified in writing by LACERA of the need to extend the retention period or unless written permission is given by LACERA to dispose of any such material prior to such time. All such material shall be maintained by AUDITOR at the AUDITOR's main office located at _____, and at AUDITOR's expense, will be made available to LACERA and its agents upon request, and delivered to LACERA's offices located at 300 North Lake Avenue, Suite 840, Pasadena, CA 91101. [ALTERNATIVE: All such material shall be maintained by AUDITOR at a location in Los Angeles County, provided that if any such material is located outside Los Angeles County, then, at LACERA's option, AUDITOR shall pay LACERA for travel, per diem, and other costs incurred by LACERA to examine, audit, excerpt, copy or transcribe such material at such other location.]

B. Record Review and Audit. AUDITOR agrees that LACERA, or any duly authorized representative of LACERA, including any successor auditor designated by LACERA, will have access to and the right to examine, audit, excerpt, copy or transcribe any Work Records at any time during the term of this Agreement, or at any time for up to seven years after the termination of this Agreement. LACERA agrees that any such review and audit will be conducted in a manner to minimize interference with AUDITOR's normal business activities. Upon reasonable advance notice to AUDITOR (which in no event be more than three business days), AUDITOR will make the Work Records available for review and audit during normal business hours. AUDITOR will make the persons responsible for creating and maintaining the Work Records available to LACERA during such review and audit for the purpose of responding to LACERA's reasonable inquiries. LACERA will pay all costs associated with such audit, other than any costs incurred by AUDITOR to make personnel available as required by the preceding sentence; however, if the audit reveals that AUDITOR has materially violated any of the provisions of this Agreement, AUDITOR will pay all costs associated with such audit.

C. Audit Settlement. If representatives of LACERA conduct an audit of AUDITOR regarding the work performed under this Agreement, and if such audit finds that LACERA's dollar liability for such work is less than payment made by LACERA, then the difference will be either repaid by AUDITOR to LACERA by cash payment upon demand or, at the option of LACERA, deducted from any amounts otherwise due to AUDITOR from LACERA. If such audit finds that LACERA's dollar liability for such work is more than the payments made by LACERA, then the difference will be paid to AUDITOR by LACERA; however, the total payments shall not exceed the maximum not-to-exceed price for the relevant fiscal year.

13. Confidentiality; Proprietary Rights.

A. LACERA's Confidential and Proprietary Materials.

(1) LACERA's Proprietary Rights. All materials, documents, data, reports, and other information developed under this Agreement become the sole

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property of LACERA, and upon the expiration or earlier termination of this Agreement, AUDITOR will promptly deliver to LACERA all finished or unfinished materials, documents, data, reports and other information prepared by AUDITOR under this Agreement; however, AUDITOR may retain possession of all Work Records prepared by AUDITOR, and LACERA shall have the right during and subsequent to the term of this Agreement to inspect any and all such Work Records, make copies or obtain hard copy print outs of electronic files thereof, and use the Work Records and the information contained therein. Both parties hereto acknowledge that AUDITOR retains the right to use its experience, expertise and knowledge on similar projects for other clients, so long as AUDITOR protects LACERA's interests in all of its confidential records and property.

(2) LACERA's Covered Information. All information disclosed by LACERA to AUDITOR in any form whatsoever, including verbal, written, and electronic, all copies of information disclosed by LACERA to AUDITOR, and all information, including but not limited to and all working papers and internal AUDITOR communications, created by AUDITOR referencing, repeating, analyzing, or otherwise relating or referring in any way to information disclosed by LACERA to AUDITOR shall be "Covered Information". Notwithstanding any previous disclosure of information made by LACERA to any third party or other public availability of information from any source or any reason, LACERA maintains the right to control the release of its information. Accordingly, this Agreement applies to all information disclosed by LACERA to AUDITOR without regard to whether information may have been previously disclosed by LACERA or is publicly available from another source. The information described in this Section 1 as covered by this Agreement is referred to as "Covered Information."

(3) Except as LACERA otherwise agrees or consents in writing, AUDITOR agrees as follows: (a) to hold Covered Information in strict confidence; (b) to restrict disclosure of Covered Information to its employees and representatives (i.e., accountants and attorneys) ("Representatives") with a "need to know" (for purposes of this Paragraph, a "need to know" means that the person requires the Covered Information to perform his/her responsibilities in connection with the Business Purpose) and to no other persons; (c) not to disclose Covered Information to any third parties except as required by law, governmental body, court order, or other legal process. If AUDITOR believes that disclosure of Covered Information is required by law, governmental body, court order, or other legal process, AUDITOR shall (to the extent legally permissible) provide LACERA with at least ten (10) business days' notice before making any disclosure; and (d) not to use any Covered Information for any purpose except for the business purpose.

(4) AUDITOR acknowledges that when performing under this Agreement, AUDITOR may be exposed to Member Records and that such Member Records are considered confidential and protected from public disclosure by law. AUDITOR will maintain the confidentiality of all Member Records according to all applicable federal, state, county and local laws, regulations, ordinances and

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directives relating to confidentiality. If LACERA determines that AUDITOR is a “business associate” as defined in Section 160.103 of the Final Privacy issued by the Department of Health and Human Services (“HHS”) in accordance with the Health Insurance Portability and Accountability Act of 1996, as amended (“HIPAA”), AUDITOR agrees to enter into a “business associate contract” with LACERA within 30 days of the Agreement Date, which contract will, at minimum:

(a) describe the permitted and required uses and disclosure of protected health information (as defined in 45 CFR 164.501, “PHI”) by AUDITOR;

(b) prohibit AUDITOR from disclosing PHI beyond the permitted uses and disclosures;

(c) require AUDITOR to implement safeguards to prevent the improper use and disclosure of PHI;

(d) require AUDITOR to report to LACERA any improper use or disclosure of PHI;

(e) require AUDITOR make PHI available in compliance with member’s rights to access, amend, and receive an accounting related to such information;

(f) require AUDITOR to return or destroy PHI upon termination of LACERA’s business relationship with AUDITOR;

(g) require AUDITOR to make its books and records available to HHS for purposes of determining LACERA’s compliance with HIPAA;

(h) impose the above standards on any and all of AUDITOR’s subcontractors; and

(i) authorize LACERA to terminate its contract with AUDITOR for cause if AUDITOR violates a material term of the business associate contract.

(5) LACERA's Asset Policies, Procedures and Strategies. AUDITOR will protect the security of and keep confidential all materials, data, and other information received by AUDITOR regarding LACERA’s assets and investments, and its policies, procedures and strategies for the evaluation, acquisition, development, management and disposition of same.

(6) Protection of Confidential and Proprietary Rights.

(a) AUDITOR shall protect the security of and keep confidential all material, data and information received or produced under this

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Agreement. Further, AUDITOR shall use whatever security measures are necessary to protect all such material, data and information from loss or damage by any cause, including, but not limited to, fire and theft.

(b) AUDITOR shall not disclose to any party any information identifying, characterizing or relating to any risk, threat, vulnerability, weakness or problem regarding data security in LACERA's computer systems, or to any safeguard, countermeasure, contingency plan, policy or procedure for data security contemplated or implemented by LACERA, without LACERA's prior written consent.

(7) Duty to Inform Agents. AUDITOR will inform all of its Agents of the confidentiality provisions of this Agreement.

B. AUDITOR's Proprietary Materials.

(1) Absent AUDITOR's written consent authorizing disclosure, LACERA will use reasonable means to protect and maintain the confidentiality of any of AUDITOR's materials which AUDITOR considers to be proprietary, so long as:

(a) AUDITOR clearly and prominently marks all such material "confidential;" and

(b) public disclosure of such material is not required by law, including the California Public Records Act (Cal. Government Code Section 6250 et seq., and the Ralph M. Brown Act, Cal. Government Code section 54950, collectively the "Acts"), or by the order of any tribunal having jurisdiction.

(2) If an action is commenced against LACERA under the Acts or otherwise that challenges LACERA's refusal to disclose AUDITOR's proprietary material, AUDITOR will defend LACERA in the action at AUDITOR's expense, if requested by LACERA, and will pay any judgment for damages or attorneys' fees that may be entered as a result of LACERA's refusal to disclose AUDITOR's confidential material.

(3) LACERA's obligations under subsection (1) do not apply to:

(a) any confidential information that LACERA can demonstrate has become public information through no breach of this Agreement by LACERA;

(b) any confidential information that LACERA receives from a third party on a non-confidential basis; and

(c) any confidential information that LACERA develops independently without any use of AUDITOR's confidential information; and

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(d) the Work Records.

(4) For the avoidance of doubt, nothing in this Section 14.B precludes LACERA from sharing AUDITOR's confidential information with LACERA's Board members, employees, consultants, advisors, attorneys and persons with similar responsibilities and duties on a need-to-know basis.

14. Conflicts and Disqualification. AUDITOR acknowledges that its agreement, representations, and warranties contained in this Section 14 constitute a material inducement to LACERA to enter into and remain in this Agreement with AUDITOR.

A. Definitions: For purposes of this Section 13:

(1) "Conflicting Work" means any actuarial, audit, consulting, investigation, or valuation services, review or analysis of any nature whatsoever, for or without compensation, pertaining to LACERA or to pension, other retirement-related or post-employment related benefits administered by LACERA.

(2) "County" means the County of Los Angeles, California.

(3) "County Board" means the Board of Supervisors of Los Angeles County.

(4) "Employee Association" means any entity representing or compensated by all or any group of current or retired County employees.

(5) "LACERA information" means any materials, data, and other information received or developed by AUDITOR regarding LACERA's membership, assets, obligations, policies, procedures and/or strategies, including, without limitation, the Work Records.

B. Regarding the County and Employees Associations:

(1) AUDITOR acknowledges that:

(a) the County is the plan sponsor of the pension trust fund administered by LACERA, and an actual or potential conflict of interest would arise in the event AUDITOR should perform any Conflicting Work for the County or any Employee Association during the term of this Agreement; and

(b) AUDITOR's making any LACERA Information available to the County or any Employee Association, intentionally or otherwise, could substantially impact LACERA's ability to effectively administer the pension trust fund.

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(2) AUDITOR represents and warrants that:

(a) AUDITOR has not been requested by the County Board of by any Employee Association, respectively, to perform, and has not performed any Conflicting Work for the County Board or for any Employee Association;

(b) During the term of this Agreement, AUDITOR will not perform any Conflicting Work for the County Board or for any Employee Association; and

(c) AUDITOR will not make any work performed for LACERA pursuant to this Agreement or any LACERA Information available to the County or to any Employee Association, except as directed elsewhere in this Agreement or with the prior consent of LACERA's Project Manager.

(3) As a material inducement to LACERA to enter into this Agreement, AUDITOR agrees that during and after the term of this Agreement, AUDITOR shall not, without the prior written consent of LACERA, which consent LACERA may withhold in its sole and absolute discretion:

(a) intentionally or otherwise make any LACERA Information available to the County or to any Employee Association; and

(b) perform any Conflicting Work for the County or for any Employee Association.

C. Regarding Other Work. AUDITOR agrees that during the entire term of this Agreement, as a material inducement to LACERA to enter into this Agreement:

(1) AUDITOR shall not bid to provide or provide services to the County in connection with the preparation or audit of the County's Comprehensive Annual Financial Report.

(2) AUDITOR acknowledges that during the term of this Agreement, LACERA may, in its sole discretion, disqualify AUDITOR from bidding on and performing any services for or on behalf of LACERA that are not included in the Statement of Work.

(3) AUDITOR acknowledges that LACERA may consider it a "best practice" to change auditors from time to time, and therefore may not permit or invite AUDITOR to participate in any request for proposals to serve as LACERA's auditor after the expiration or earlier termination of this Agreement.

EXHIBIT C

15. AUDITOR's Training Seminars.

A. Governmental and Pension Auditing. LACERA staff will be permitted to attend the AUDITOR's internal training courses in governmental and pension accounting and auditing, at no additional charge, during the term of this Agreement. AUDITOR will provide LACERA a list of applicable courses when they become available to the AUDITOR.

B. Seminars and Training Programs. If AUDITOR conducts seminars, training sessions or similar events which are generally made available to AUDITOR's clients, LACERA shall be invited to attend upon the same terms and conditions as such other clients.

C. Expenses. In consideration for the fees payable to AUDITOR and as part of the bargained-for consideration to LACERA under this Agreement, AUDITOR agrees that if it offers to pay the cost of the events described in Sections 15.A and 15.B and/or the travel or lodging expenses incurred by its clients in connection with attending such events, AUDITOR shall reimburse LACERA for such expenses on the same basis as AUDITOR reimburses the expenses of its other clients.

16. Publicity.

A. Non-Disclosure of Details. AUDITOR shall not disclose any details in connection with this Agreement to any person or entity except as may be otherwise provided in this Section 16 herein or required by law.

B. Publicizing the Relationship. In recognizing AUDITOR's need to identify its services and related clients to sustain itself, LACERA shall not inhibit AUDITOR from publishing its role under this Agreement within the following conditions:

(1) AUDITOR shall develop all publicity material in a professional manner;

(2) AUDITOR shall not publish or disseminate commercial advertisements, press releases, or feature articles using the name of LACERA without the prior consent of LACERA's Project Manager. LACERA shall not unreasonably withhold consent, and approval by LACERA may be assumed in the event no adverse comments are received in writing within two weeks after submission of written request for consent.

C. AUDITOR's Proposals and Sales Materials. AUDITOR may, without the prior written consent of LACERA, indicate in its proposals and sales materials that it has been awarded this Agreement with the Los Angeles County

EXHIBIT C

Employees Retirement Association, provided that the requirements of this Section 16 shall apply.

17. Surviving Provisions. The parties agree that the provisions and obligations with respect to Section 7 (Term and Termination), Section 8 (Indemnification), Section 9 (Insurance), Section 10 (AUDITOR's Representations, Warranties and Covenants), Section 12 (Records and Audits), Section 13 (Confidentiality; Proprietary Rights) and Section 14 (Conflicts and Disqualification) and other provisions which by their nature are intended to survive expiration or termination of this Agreement will survive any expiration or termination of this Agreement.

18. General Provisions.

A. Changes and Amendments. LACERA reserves the right to change any portion of the work, services, or deliverables under this Agreement, or to amend such other terms and conditions as reasonably necessary subject to the following conditions:

(1) Any change which does not affect the scope of work, period of performance, payments, or any term or condition included under this Agreement, requires a change notice signed by LACERA's Project Manager and AUDITOR's Project Manager.

(2) Any change which affects the scope of work, period of performance, payments, or any term or condition included in this Agreement, requires a negotiated written amendment to the Agreement executed by authorized officials of LACERA and AUDITOR.

(3) Notwithstanding (1) and (2), special project work will be memorialized by an engagement letter executed by authorized officials of LACERA and AUDITOR, rather than by a written amendment to the Agreement.

B. Notices. All notices, requests, demands or other communications required or desired to be given under this Agreement or under any law now or hereafter in effect are to be in writing, addressed as provided below. Such notices, if properly addressed, will be deemed received (i) on the day delivered, if delivered to the recipient (ii) on the business day transmitted, if transmitted by facsimile to the number shown below (but on the next business day after transmittal if transmitted on a non-business day or after 5:00 p.m. recipient's time), (ii) one business day after delivery to a reputable overnight courier, with delivery charges for next business day delivery paid by or charged to the sending party, or (iii) five calendar days after deposit in the U.S. Mail, first class registered or certified mail, postage prepaid:

EXHIBIT C

To LACERA:

Richard Bendall
Chief Audit Executive
LACERA
300 N. Lake Ave., Ste. 840
Pasadena, CA 91101-4199
Phone No. 626-564-6000 ext. 3523
Fax No. 626-685-4632

With copy to:

Gregg Rademacher
Chief Executive Officer
LACERA
300 N. Lake Ave., Ste. 820
Pasadena, CA 91101
Phone No. 626-564-6000 ext. 3494
Fax No. 626-564-6110

To AUDITOR:

Phone No. ____-____-____
Fax No. ____-____-____

With copy to:

Phone No. ____-____-____
Fax No. ____-____-____

Either party may notify the other of its change in address in the manner provided above. Notwithstanding the prescribed method of delivery set forth above, actual receipt of written notice by the natural person designated above shall constitute notice given in accordance with this Agreement on the date received, unless deemed earlier given pursuant to the foregoing paragraph.

C. Compliance with LACERA Communication Policy. AUDITOR agrees to comply with the following communication policy adopted by the Board:

All formal notices required to be given to LACERA by a service provider pursuant to the service provider's contract with LACERA shall be addressed and delivered in accordance with the terms and conditions of the contract.

A service provider, or person or entity related to a service provider, shall provide to LACERA's Chief Executive Officer a copy of all written communications to LACERA (other than purely personal or social correspondence, routine announcements, generally-distributed newsletters, and the like) related to LACERA's business. If the communication relates to investment-related services provided to LACERA, a copy shall also be provided to LACERA's Chief Investment Officer. If the communication relates to an actual or potential contract dispute, a copy shall also be provided to LACERA's Chief Counsel.

EXHIBIT C

The addresses for LACERA's Chief Executive Officer and Chief Counsel are:

Gregg Rademacher
Chief Executive Officer
LACERA
300 N. Lake Ave., Ste. 820
Pasadena, CA 91101

Steven Rice
Chief Counsel
LACERA
300 N. Lake Ave., Ste. 620
Pasadena, CA 91101

D. Attorneys' Fees, Costs and Expenses. In any legal proceeding which arises out of or relates to this Agreement (whether in contract, tort or any other legal theory whatsoever), the party not prevailing shall pay to the prevailing party all reasonable costs and expenses incurred therein by the prevailing party including, without limitation, reasonable attorneys' fees, court costs, expert witness fees and costs, travel time and associated costs, copy costs, deposition costs, exhibit costs, costs on appeal, fees and costs associated with execution upon any judgment or order, special transcript costs, and the appointment of a Special Master or discovery referee. These expenses shall be in addition to any other relief to which the prevailing party may be entitled and shall be included in and as part of the judgment or decision rendered in such proceeding.

E. Section Headings; Interpretation. Caption and paragraph headings used in this Agreement are for convenience and reference only and do not affect in any way the meaning, construction or interpretation of this Agreement. Each party and its counsel have participated fully and equally in the review and negotiation of this Agreement. The language in all parts of this Agreement shall in all cases be construed according to its fair meaning, and not strictly for or against any party hereto. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party does not apply in interpreting this Agreement.

F. Entire Agreement. This Agreement, and any and all Exhibits attached to this Agreement, contains the entire and exclusive statement of the terms of the agreement between the parties pertaining to the subject matter of this Agreement, and supersedes all previous oral and written agreements or understandings, and all contemporaneous oral and written negotiations, commitments, understandings and communications between the parties, relating to the subject matter of this Agreement.

G. Severability. If any provision of this Agreement is held by any court to be void, illegal, invalid, or unenforceable, in whole or in part, the remaining terms and provisions will not be affected thereby, and each of such remaining terms and provisions of this Agreement will be valid and enforceable to the fullest extent permitted by law, unless a party shows by a preponderance of the evidence that the invalidated provision was an essential economic term of the agreement or that an essential purpose of this Agreement would be defeated by the loss of the void, illegal, invalid or unenforceable provision.

EXHIBIT C

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

I. Governing Law and Venue.

(1) This Agreement is governed by, and construed and enforced in accordance with, the laws of the State of California without regard to principles of conflicts of laws.

(2) Any party bringing a legal action or proceeding against any other party relating to or arising out of this Agreement (whether in contract, tort or any other legal theory whatsoever), must bring the legal action or proceeding in either the United States District Court sitting in the County of Los Angeles County, California, or in any court of the State of California sitting in the County of Los Angeles, California.

(3) Each party to this Agreement consents to the exclusive jurisdiction of any United States District Court sitting in the County of Los Angeles, California and any court of the State of California sitting in the County of Los Angeles, California, and their appellate courts for the purpose of all legal actions and proceedings arising out of or relating to this Agreement or the transactions it contemplates.

J. Assignment and Delegation. AUDITOR may not assign any of its rights or delegate or subcontract any of its duties under this Agreement without LACERA's prior written consent, which consent may be granted or withheld in LACERA's sole discretion. Despite LACERA's consent, no assignment releases AUDITOR of any of its obligations or alters any of its primary obligations to be performed under this Agreement, unless such consent expressly provides for such release or alteration. Payments to any assignee under this Agreement shall be subject to set-off, recoupment, or other reduction for any claim that LACERA may have against AUDITOR. If AUDITOR is a partnership, this Agreement inures to the benefit of the surviving or remaining partners of such partnership. Any attempted assignment or delegation of this Agreement shall be void and shall entitle LACERA to terminate this Agreement for default in accordance with Section 6.C, *infra*.

K. Reserved.

L. Notice of Delays. Except as otherwise provided herein, when either party has knowledge that any actual or potential situation is delaying or threatens to delay the timely performance of this Agreement, that party will, within 5 business

EXHIBIT C

days, give notice thereof, including all relevant information with respect thereto, to the other party.

M. Time of the Essence. Time is of the essence in respect to all provisions of this Agreement that specify a time for performance.

N. Joint and Several Liability. If AUDITOR (or any permitted assignee) consists of more than one person or entity, the liability of each such person or entity signing this Agreement as AUDITOR is joint and several.

O. Word Usage. Unless the context clearly requires otherwise, (i) the plural and singular number each include the other; (ii) the masculine, feminine, and neuter genders each include the others; (iii) "or" is not exclusive; (iv) "includes" and "including" are not limiting; and (v) "hereof," "herein," and other variants of "here" refer to this Agreement as a whole; and (vi) "default" and "breach" are used interchangeably. The phrase "term of this Agreement" or similar phrase means the original term and the Extended Term, if any.

P. Recitals. The Recitals set forth above are incorporated into the body of this Agreement.

Q. Cooperation in Contract Administration. AUDITOR agrees to cooperate with such consultants as LACERA may retain from time to time to assist LACERA in the administration of this Agreement, including, without limitation, auditors, attorneys, and accountants. This provision shall survive termination of this Agreement.

R. Execution in Counterparts; Facsimile or Electronic Signatures. The parties may execute this Agreement in any number of duplicate originals, each of which constitutes an original, and all of which, collectively, constitute only one agreement. The parties may execute this Agreement in counterparts, each of which constitutes an original, and all of which, collectively, constitutes only one agreement. Any party delivering an executed counterpart of this Agreement by facsimile or electronic document format shall also deliver a manually executed counterpart of this Agreement, but the failure to do so does not affect the validity, enforceability or binding effect of this Agreement.

IN WITNESS WHEREOF, the Los Angeles County Employees Retirement Association has caused this Agreement to be subscribed on its behalf by its duly authorized officer, and _____ has caused this Agreement to be subscribed on their behalf by its duly authorized officer(s), as of the day, month, and year first written above.

[Signatures appear on following page]

EXHIBIT C

LACERA:

LOS ANGELES COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

By: _____
Name: _____
Title: _____

APPROVED AS TO FORM:
LACERA Legal Office

By: _____
John Harrington
Staff Counsel

AUDITOR:

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

**EXHIBIT A
TO
AUDIT SERVICES AGREEMENT**

**MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR
CALIFORNIA PUBLIC RETIREMENT SYSTEMS**

**STATE OF CALIFORNIA
OFFICE OF THE CONTROLLER**



**MINIMUM AUDIT REQUIREMENTS
AND REPORTING GUIDELINES
FOR
PUBLIC RETIREMENT SYSTEMS**

**EXHIBIT A
TO
AUDIT SERVICES AGREEMENT**

**MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR
CALIFORNIA PUBLIC RETIREMENT SYSTEMS**

INTRODUCTION

The following audit requirements are not intended to be a comprehensive audit program or check list of things to be completed during a retirement system audit. This is intended to include only the minimum requirements which the State Controller prescribes in conjunction with implementing Sections 7501-7504 of the Government Code.

The county auditor, certified public accountant or public accountant undertaking an audit of a public retirement system should:

4. Have sufficient knowledge and training to enable him to comply with generally accepted auditing standards.
5. Have an adequate knowledge of government accounting.
6. Have or acquire sufficient knowledge of pension accounting and actuarial science.

MINIMUM AUDIT REQUIREMENTS

The audit shall be made in accordance with generally accepted auditing standards. In meeting these standards, the following standards and procedures, although not all inclusive, should be considered:

13. A proper study and evaluation of the existing internal control and the financial organizational structure should be made. The purpose of the study is to decide how much the auditor can rely on internal control. Furthermore, it is used as a basis for determining the nature, extent, and timing of the audit tests to be applied in the examination of the financial statements.
14. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination. If the internal control is so deficient that an auditor must qualify his opinion in this regard, the reason for this qualification must be set forth in the audit report.
15. The auditor should review the regulations applicable to the transactions of the retirement system. Should there be indications that the retirement system may have failed to comply with such legal requirements, the transactions should be referred to proper legal counsel for interpretation of applicable law. Noncompliance, if so determined, should be commented upon in the report and the auditor's opinion should be qualified or disclaimed if necessary.

**EXHIBIT A
TO
AUDIT SERVICES AGREEMENT**

**MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR
CALIFORNIA PUBLIC RETIREMENT SYSTEMS**

**MINIMUM AUDIT REQUIREMENTS
(Continued)**

16. A review should be made to see if the report of financial transactions to the State Controller as filed agrees with the official records of the system for the period covered by the audit.
17. A review should be made of the previous audit report workpapers and program if available.
18. The auditor should ascertain the basis of accounting, that is: cash, accrual or modified accrual. The accrual basis of accounting should be employed to provide a fair and fully disclosed financial position for the retirement system.
19. The auditor should obtain confirmations from depositories for (1) all bank accounts, time certificates or savings and loan accounts, and (2) collateral securing such accounts, if applicable. Collateral should also be examined or confirmed with the depository holding the collateral as trustee. The auditor should determine the adequacy and propriety of the collateral pledged.
20. The collections and recording of all ascertainable revenues, such as employee retirement contributions and dividends from investments, should be tested during the period under audit. The test should be sufficient to determine that receipts have been recorded properly for the period.
21. The auditor should determine that expenditures were properly authorized and supported by proper documents.
22. A review should be made of nonrevenue receipts and non-expense disbursements to determine if they were legal and properly recorded.
23. All other assets such as investments, prepaid expenses, fixed assets and similar items should be verified in accordance with generally accepted auditing standards.
24. All liabilities should be verified in accordance with generally accepted auditing standards. Proper authorities should be contacted to ascertain existence of any possible contingent liabilities.

**EXHIBIT A
TO
AUDIT SERVICES AGREEMENT**

**MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR
CALIFORNIA PUBLIC RETIREMENT SYSTEMS**

AUDIT REPORT REQUIREMENTS

6. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
7. The report shall state whether such principles have been observed in the current period in relation to the preceding period.
8. The audit report shall contain the footnote disclosures and supplementary information in accordance with Governmental Accounting Standards Board Statement 25.
9. The audit report shall contain an opinion regarding the fairness of the financial statements as enumerated by the State Board of Accountancy Rules 58.1 and 58.2². The types of opinions that may be expressed are:
 - a. an unqualified opinion
 - b. a qualified opinion
 - c. an adverse opinion
 - d. a disclaimer of opinion
10. The report should be based on fair value as described in GASB Statement 25. The net appreciation (depreciation) in the fair value of investments, as defined in GASB Statement 25 must be disclosed separately in the financial statements.

AUDIT REPORT FORMAT

It is suggested that the audit report be prepared in accordance with the following general format.

5. Title page
6. Table of contents
7. Scope, opinion and other necessary paragraphs
8. Basic financial statements:
 - a. Statement of Plan Net Assets
 - b. Statement of Changes In Plan Net Assets
 - c. Notes to the Financial Statements
 - d. Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement 25.

² 16 Cal Admin. Code 58.1 – 58.2.

**EXHIBIT A
TO
AUDIT SERVICES AGREEMENT**

**MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR
CALIFORNIA PUBLIC RETIREMENT SYSTEMS**

Some of the supplementary information such as schedules, comments, and statistical tables are optional and often enhance the usefulness of a report. An agency-wide audit is acceptable if the audit report includes a pension fund Statement of Plan Net Assets, Statement of Changes In Plan Net Assets, and the required supplementary information in combining or individual fund financial statements. Appropriate footnotes are also required.

MANAGEMENT LETTER

Management of the retirement system has the responsibility for establishing and maintaining internal controls and checks. The auditor should issue a separate letter containing suggestions and recommendations relating to opportunities for improvement in the systems accounting and financial controls.

**EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER**

- 7501 It is the intent and purpose of the Legislature, in enacting this chapter, to safeguard the solvency of all public retirement systems and funds. The Legislature finds and declares that public agencies maintaining retirement systems can benefit from periodic and independent analysis of their financial condition. It is the purpose of * * * Sections 7502, 7503, and 7504 to enable the State Controller to gather information to compare and evaluate the financial condition of such systems and to make such comparisons and evaluations.
- 7502 The State Controller shall review the annual financial report of each state and local public retirement system submitted pursuant to Section 7504 giving particular consideration to the adequacy of funding of each system. The State Controller shall also review the triennial valuation of each public retirement system submitted pursuant to Section 7504 and shall give particular consideration to the assumption concerning the inflation element in salary and wage increases, mortality, service retirement rates, withdrawal rates, disability retirement rates, and the rate of return on total assets. The State Controller shall establish an advisory committee which shall include enrolled actuaries, as defined in Section 7504, and state and local public retirement system administrators, to assist in carrying out the duties imposed by this section.

**EXHIBIT A
TO
AUDIT SERVICES AGREEMENT**

**MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR
CALIFORNIA PUBLIC RETIREMENT SYSTEMS**

**EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)**

- 7503 All state and local public retirement systems shall prepare an annual report in accordance with generally accepted accounting principles.
- 7504 (a) All state and local public retirement systems shall, not less than triennially, secure the services of an enrolled actuary. An enrolled actuary, for the purposes of this section, means an actuary enrolled under subtitle C of Title III of the Employee Retirement Income Security Act of 1974 and who has demonstrated experience in
- 7504 public retirement systems. The actuary shall perform a valuation of the system utilizing actuarial assumptions and techniques established by the agency which are, in the aggregate, reasonably related to the experience and the actuary's best estimate of anticipated experience under the system. Any differences between the actuarial assumptions and techniques used by the actuary which differ significantly from those established by the agency shall be disclosed in the actuary's report and the effect of such differences on the actuary's statement of costs and obligations shall be shown.
- (b) All state and local public retirement systems shall secure the services of a qualified person to perform an attest audit of the system's financial statements. A qualified person means any of the following:
- (1) A person who is licensed to practice as a certified public accountant in this state by the State Board of Accountancy.
 - (2) A person who is registered and entitled to practice as a public accountant in this state by the State Board of Accountancy.
 - (3) A county auditor in any county subject to the County Employees Retirement Law of 1937.
 - (4) A county auditor in any county having a pension trust and retirement plan established pursuant to Section 53216.

**EXHIBIT A
TO
AUDIT SERVICES AGREEMENT**

**MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR
CALIFORNIA PUBLIC RETIREMENT SYSTEMS**

**EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)**

7504
(Cont'd)

(c) All state and local public retirement systems shall submit audited financial statements to the State Controller at the earliest practicable opportunity within six months of the close of each fiscal year. However, the State Controller may delay the filing date for reports due in the first year until such time as report forms have been developed which, in his judgment, will satisfy the requirements of this section. The financial statements shall be prepared in accordance with generally

accepted accounting principles in the form and manner prescribed by the State Controller. The penalty prescribed in Section 53895 shall be invoked for failure to comply with this section. Upon a satisfactory showing of good cause, the State Controller may waive the penalty for late filing provided by this subdivision.

(d) The State Controller shall compile and publish a report annually on the financial condition of all state and local public retirement systems containing, but not limited to, the data required in Section 7502.

53216

The Legislative body of a local agency may establish a pension trust funded by individual life insurance contracts, individual annuities, group policies of life insurance, or group annuities, or any one or combination of them, or by any other investment authorized by this article for the benefit of its officers and employees.

The legislative body of a local agency may make participation in any plan under such pension trust optional with the officers and employees of the local agency or it may make participation in such pension trust plan compulsory for the officers and employees of such agency.

Officers and employees who participate in such pension trust plan, whether it is optional or compulsory, shall have their plan contributions deducted from their compensation.

The legislative body of a local agency may establish a pension trust funded by individual life insurance contracts, individual annuities, group policies of life insurance, or group annuities, or any one or combination of them, or by any other investment authorized by this article for the benefit of its officers and employees.

**EXHIBIT A
TO
AUDIT SERVICES AGREEMENT**

**MINIMUM AUDIT REQUIREMENTS AND REPORTING GUIDELINES FOR
CALIFORNIA PUBLIC RETIREMENT SYSTEMS**

**EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)**

53216 The legislative body of a local agency may make participation in any plan
under
(Cont'd) such pension trust optional with the officers and employees of the local
agency or it may make participation in such pension trust plan compulsory for
the officers and employees of such agency.

Officers and employees who participate in such pension trust plan, whether it
is optional or compulsory, shall have their plan contributions deducted from
their compensation.

53895 (a) An officer of a local agency who fails or refuses to make and file his or her
report within twenty days after receipt of a written notice of the failure from the
Controller shall forfeit to the state * * *

(1) One thousand dollars (\$1,000), in the case of a local agency with total
revenue, in the prior year, of less than one hundred thousand dollars
(\$100,000), as reported in the Controller's annual financial reports.

(2) Two thousand five hundred dollars (\$2,500) in the case of a local
agency with total revenue, in the prior year, of at least one hundred
thousand dollars (\$100,000) but less than two hundred fifty thousand
dollars (\$250,000), as reported in the Controller's annual financial reports.

(3) Five thousand dollars (\$5,000) in the case of a local agency with total
revenue, in the prior year, of at least two hundred fifty thousand dollars
(\$250,000), as reported in the Controller's annual financial reports.

(b) Upon the request of the Controller, the Attorney General shall prosecute
an action for the forfeiture in the name of the people of the State of California.

**EXHIBIT B
TO
AUDIT SERVICES AGREEMENT**

**STATEMENT OF WORK
ANNUAL ATTEST AUDITS OF LACERA'S FINANCIAL STATEMENTS
Fiscal Years Ending June 30, 2017 through June 30, 2021**

The Statement of Work set forth below is also included as Section II of the Request for Proposal.

A. Scope of Services

AUDITOR shall perform an annual financial statement audit (Financial Audit) and express an opinion (attestation) on the fair presentation of LACERA's financial statements, which include the Pension Trust, the OPEB Trust and the OPEB Agency Fund, in accordance with all applicable current professional standards and applicable federal and State laws, regulations, and rules. With respect to schedules LACERA prepares for compliance with GASB Pronouncements 68 and 75, AUDITOR shall also express a separate opinion (attestation) on the fair presentation (attestation) of those schedules.

Inasmuch as LACERA's financial statements are a component of Los Angeles County's ("County") financial statements, AUDITOR will coordinate with the external, financial auditors of the County and with LACERA's actuary to provide the County the information and data needed for completion of the County's annual financial statements. AUDITOR will comply fully with SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, AU-C section 600, *Audits of Group Financial Statements*.

In addition to a broad sampling of LACERA's general and safety membership files to establish the accuracy and validity of the data and calculations contained therein, AUDITOR shall separately sample files for those members who have requested disability retirement. This supplemental sampling is to assist LACERA in determining that LACERA's service connected disability retirement (SCDR) application process and related Board determination are thorough, accurate, timely, consistent, free from fraud and abuse, and in compliance with Board policies. AUDITOR will provide a written statement indicating that a sampling of disability retirement cases has been audited, together with any audit findings, recommendations and management responses.

AUDITOR shall perform special projects that are directly related to or result from the annual financial statement audit, as requested and defined by LACERA, from time to time.

B. Professional Standards

AUDITOR understands that promulgating bodies may revise or change the professional standards, laws, regulations, and rules from time to time. AUDITOR will utilize all applicable components of professional standards in auditing, preparing and reporting on the financial statements of LACERA, including but not limited to, the following:

- U.S. Generally Accepted Auditing Standards (GAAS),

**EXHIBIT B
TO
AUDIT SERVICES AGREEMENT**

**STATEMENT OF WORK
ANNUAL ATTEST AUDITS OF LACERA'S FINANCIAL STATEMENTS
Fiscal Years Ending June 30, 2017 through June 30, 2021**

- Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (GAGAS),
- American Institute of Certified Public Accountants (AICPA) standards included in its *"Audits of Employee Benefit: Audit and Accounting Guide"* (March 1, 2009),
- U.S. Generally Accepted Accounting Principles (GAAP),
- Governmental Accounting Standards Board (GASB) Statements, and
- California State Controller's *"Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems"* included as **Exhibit A to the Audit Services Agreement**.

C. Reports and Due Dates

The table below includes a list of reports LACERA believes AUDITOR is required to issue at the completion of the Financial Audit and LACERA's mandatory due dates. AUDITOR will prepare all reports required by applicable professional standards and applicable federal and State laws, regulations, and rules in effect for the engagement period and meet all due dates specified by LACERA.

| Report Title | Due Date |
|---|--|
| 3. Independent Auditor's Report re Financial Statements) – Draft (5 copies) 4. Independent Auditor's Report re GASB Pronouncements 68 and 75 – Draft (5 copies) | October 5 |
| 6. Independent Auditor's Report re GASB 68 & 75 – Final | TBD <small>(but probably very much sooner than October 5)</small> |
| 2. Independent Auditor's Report re Financial Statements – Final 7. Report on Internal Control and Compliance 8. Required Communication to the Audit Committee Report 9. Report to Management 10. Service Connected Disability Retirement Review Report. | October 15 |

Reports must be delivered to the Project Manager indicated below. Unless otherwise specified by the Project Manager, AUDITOR shall deliver eighty-five (85) copies and an electronic version of each report to:

**EXHIBIT B
TO
AUDIT SERVICES AGREEMENT**

**STATEMENT OF WORK
ANNUAL ATTEST AUDITS OF LACERA'S FINANCIAL STATEMENTS
Fiscal Years Ending June 30, 2017 through June 30, 2021**

Project Manager
Richard Bendall, Chief Audit Executive
LACERA
300 N. Lake Avenue, Suite 840
Pasadena, CA 91101-4199
Ph: 626-564-6000 x3523
Facsimile: 626-685-4632
Email: rbendall@lacera.com

D. Meetings with LACERA Staff and Boards

5. Entrance Conference

Prior to commencing fieldwork for each Financial Audit, AUDITOR will attend an entrance conference at LACERA's offices with LACERA's Project Manager, Financial and Accounting Services Division (FASD) management and other LACERA staff. The purpose of this meeting will be to establish and discuss the following:

- The liaisons appointed by LACERA and the AUDITOR for the audit;
- LACERA's critical deadlines and AUDITOR's plans to ensure they are met;
- AUDITOR'S critical deadlines and LACERA's plans to ensure they are met;
- Prior, current and/or anticipated audit issues;
- Overview of the interim and year-end work to be performed by AUDITOR; and
- Arrangements for work space and other needs of AUDITOR.

6. Weekly Status Meetings

During the time the AUDITOR is performing its fieldwork for each Financial Audit, AUDITOR shall conduct weekly status meetings at LACERA's offices with FASD management and other LACERA staff as necessary, to review and discuss the progress of the Financial Audit, substantive testing, and other issues pertaining to the audit work and any potential findings.

7. Exit Conference(s)

AUDITOR shall attend one or more exit conference(s) annually, as determined by LACERA, with LACERA's Project Manager, LACERA management and other LACERA staff to describe the audit process and review the final audit reports (listed above). If

**EXHIBIT B
TO
AUDIT SERVICES AGREEMENT**

**STATEMENT OF WORK
ANNUAL ATTEST AUDITS OF LACERA'S FINANCIAL STATEMENTS
Fiscal Years Ending June 30, 2017 through June 30, 2021**

requested by LACERA, AUDITOR shall also discuss findings and recommendations from each report with LACERA's Audit Committee, Board of Retirement, or Board of Investments. AUDITOR will make additional presentations deemed necessary by LACERA to the Boards and their Committees.

8. GASB 74/75 Task Force Meetings

[NOTE: The GASB 74/75 Task Force is comprised of representatives from LACERA, the Plan Sponsor (County of Los Angeles) and its external auditor, some of the Plan's participating employers and their external auditors, and LACERA's actuaries. Its object is to assure all parties that the requirements of GASB 74/75 are met in a timely fashion.]

AUDITOR shall become a Task Force Member and participate in the monthly meetings of the Task Force, which may be done by conference call.

E. Engagement Support

LACERA will prepare year-end closing entries, draft financial statements, notes, and all required supplementary schedules and statistical data.

Throughout the Financial Audit engagement, LACERA will make available clerical support personnel to provide assistance for tasks such as identifying locations of required records and documentation, obtaining listings, and other tasks that will serve to expedite completion of the Financial Audit.

LACERA will arrange for reasonable office space, desks, tables, chairs, and telephones. The AUDITOR will also be provided with access to photocopying facilities, facsimile machines and to financial records and member records on a read-only basis.

F. Reporting Irregularities and Illegal Acts

AUDITOR will adhere to all professional standards, laws, regulations and rules in regards to reporting irregularities and illegal acts. LACERA has adopted a "Misconduct and Illegal Acts" policy that requires employees to report misconduct or illegal acts to LACERA's Chief Audit Executive. Internal Audit staff will conduct an appropriate investigation.

G. Government Finance Officers Association Award

AUDITOR will review each Comprehensive Annual Financial Report ("CAFR") for consistency and reasonableness, and review the CAFR against the guidelines for the Government Finance Officers Association ("GFOA") Certificate of Achievement for Excellence in Financial Reporting to ensure compliance with the GFOA award program requirements.

**EXHIBIT C
TO
AUDIT SERVICES AGREEMENT**

**AUDITOR'S FEE SCHEDULE FOR PENSION TRUST – PART 1
SCHEDULE OF PROFESSIONAL FEES AND EXPENSES**

FISCAL YEAR END 20XX (Prepare a Schedule for each Year)

| | Audit Hours (A) | Standard Hourly Rates (B) | Quoted Hourly Rates (C) | Total (A x C) |
|---|------------------------------|---|---|-------------------------|
| Partners | _____ | \$ _____ | \$ _____ | \$ _____ |
| Managers | _____ | \$ _____ | \$ _____ | \$ _____ |
| Seniors / Supervisory | _____ | \$ _____ | \$ _____ | \$ _____ |
| Staff | _____ | \$ _____ | \$ _____ | \$ _____ |
| Administrative | _____ | \$ _____ | \$ _____ | \$ _____ |
| Other (specify): | | | | |
| _____ | _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | \$ _____ | \$ _____ | \$ _____ |
| Estimated Out of Pocket Expenses (specify): | | | | \$ _____ |
| _____ | | | | \$ _____ |
| _____ | | | | \$ _____ |
| _____ | | | | \$ _____ |
| Total Not-To-Exceed Maximum Fees for [Insert Year] | | | | \$ _____ |

**EXHIBIT C
TO
AUDIT SERVICES AGREEMENT**

**AUDITOR'S FEE SCHEDULE FOR PENSION TRUST – PART 2
NOT-TO-EXCEED MAXIMUM FEE**

| | Year 1 - FYE 2017 | Year 2 - FYE 2018 | Year 3 - FYE 2019 | Year 4 - FYE 2020 | Year 5 - FYE 2021 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Not-To-Exceed Maximum Fee* | \$ | \$ | \$ | \$ | \$ |
| | _____ | _____ | _____ | _____ | _____ |
| Total (Not-To-Exceed Maximum Fee for 5 Years)* | \$ | | | | |
| | _____ | | | | |

*To perform LACERA's Pension Trust Annual Financial Statement Audit.

**EXHIBIT C
TO
AUDIT SERVICES AGREEMENT**

**AUDITOR'S FEE SCHEDULE FOR OPEB TRUST AND OPEB AGENCY FUND (combined) –
PART 1
SCHEDULE OF PROFESSIONAL FEES AND EXPENSES**

FISCAL YEAR END 20XX (Prepare a Schedule for each Year)

| | Audit Hours (A) | Standard Hourly Rates (B) | Quoted Hourly Rates (C) | Total (A x C) |
|---|------------------------------|---|---|---|
| Partners | _____ | \$ _____ | \$ _____ | \$ _____ |
| Managers | _____ | \$ _____ | \$ _____ | \$ _____ |
| Seniors / Supervisory | _____ | \$ _____ | \$ _____ | \$ _____ |
| Staff | _____ | \$ _____ | \$ _____ | \$ _____ |
| Administrative | _____ | \$ _____ | \$ _____ | \$ _____ |
| Other (specify): | _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | \$ _____ | \$ _____ | \$ _____ |
| _____ | _____ | \$ _____ | \$ _____ | \$ _____ |
| Estimated Out of Pocket Expenses (specify): | | | | \$ _____ |
| _____ | | | | \$ _____ |
| _____ | | | | \$ _____ |
| _____ | | | | \$ _____ |
| Total Not-To-Exceed Maximum Fees for [Insert Year] | | | | \$ _____ <u> </u> |

**EXHIBIT C
TO
AUDIT SERVICES AGREEMENT**

**AUDITOR’S FEE SCHEDULE FOR OPEB TRUST AND OPEB AGENCY FUND (combined) –
PART 2
NOT-TO-EXCEED MAXIMUM FEE**

| | Year 1 - FYE 2017 | Year 2 - FYE 2018 | Year 3 - FYE 2019 | Year 4 - FYE 2020 | Year 5 - FYE 2021 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Not-To-Exceed Maximum Fee* | \$ | \$ | \$ | \$ | \$ |
| | _____ | _____ | _____ | _____ | _____ |
| Total (Not-To-Exceed Maximum Fee for 5 Years)* | \$ | | | | |
| | ===== | | | | |

*To perform LACERA’s OPEB Trust and OPEB Agency Fund Annual Financial Statement Audits combined.

**EXHIBIT D
TO
AUDIT SERVICES AGREEMENT**

CERTIFICATION REGARDING FINANCIAL CONTACTS AND SOLICITATIONS

_____ (“Auditor”) acknowledges that the Los Angeles County Employees Retirement Association (LACERA) is responsible for the administration of the employees’ retirement trust fund. The members of LACERA’s Board of Retirement and the Board of Investments (hereinafter referred to as the “Boards”) are the sole and exclusive trustees and fiduciaries of this statutory trust.

Auditor agrees to assist the Boards in discharging their mutual fiduciary obligations and to affirmatively assist in identifying potential conflicts of interests. Auditor hereby acknowledges that the Boards are directing Auditor to file an annual certification regarding contacts that may represent potential conflicts of interest and further agrees to furnish the annual certification.

In the event any person described below (a “Designated Person”) contacts Auditor with respect to a financial transaction or solicitation which is not solely on behalf of LACERA’s business with Auditor, Auditor shall promptly report by telephone and in writing such contact to the Chairs of the Boards and the Chief Executive Officer. For purposes of reporting contacts, a “solicitation” includes, as an example and without limitation, a request for contribution to any campaign for any elected seat on either Board, or for a seat on the Board of Supervisors of Los Angeles County, made by or on behalf of a Designated Person. A Designated Person is:

- (1) Any member of either Board;
- (2) Any candidate for an elected seat on either Board;
- (3) Any member of the Board of Supervisors of Los Angeles County;
- (4) Any candidate for a seat on the Board of Supervisors of Los Angeles County;
- (5) Any of the LACERA Staff designated on Attachment No. 1 hereto; and
- (6) Any person claiming to represent or to have influence with any person described in (1) through (5) above.

LACERA may amend Attachment No. 1 from time to time by written notice to Auditor.

Auditor further agrees to furnish an annual certification, attested to by a responsible officer of Auditor. The certification shall describe each contact reportable under the foregoing paragraph, listing the date(s) of such contact, the person making the contact and the subject matter of the contact. The certification shall state that except as specifically described in the certification, Auditor has not been contacted by or on behalf of a Designated Person with respect to a financial transaction or solicitation which is not solely on behalf of LACERA’s business with Auditor. Such certification shall be filed annually by January 31 of each year for the preceding calendar year.

**EXHIBIT D – ATTACHMENT 1
TO
AUDIT SERVICES AGREEMENT**

LIST OF DESIGNATED PERSONS

BOARD OF RETIREMENT

1. Shawn R. Kehoe, Chair
2. Vivian Gray, Vice Chair
3. William De La Garza, Secretary
4. Marvin Adams
5. Anthony Bravo
6. Yves Chery
7. Joseph Kelly
8. David L. Muir
9. Ronald A. Okum, Alternate
10. William R. Pryor, Alternate
Safety Member
11. Les Robbins

Contact Person

Bonnie Nolley, Secretary
300 North Lake Avenue, Suite 820
Pasadena, CA 91101

BOARD OF INVESTMENTS

1. David Green, Chair
2. Shawn R. Kehoe, Vice Chair
3. Joseph Kelly, Secretary
4. Diane A. Sandoval
5. Herman B. Santos
6. Michael S. Schneider
7. Kenneth M. Simril
8. Estevan R. Valenzuela
9. Valerie Rose Villarreal

Contact Person

Linda Ghazarian, Secretary
300 North Lake Avenue, Suite 820
Pasadena, CA 91101

STAFF

Gregg Rademacher
Chief Executive Officer

John Popowich
Assistant Executive Officer

David Redman
Senior Internal Auditor

Gabriel Tafoya
Senior Internal Auditor

George Lunde
Senior Internal Auditor

Darla Vidger
Internal Auditor

Robert R. Hill
Assistant Executive Officer

Richard Bendall
Chief Audit Executive

Nathan Amick
Internal Auditor

Quoc Nguyen
Principal Internal Auditor

Christina Logan
Senior Internal Auditor

Leisha Collins
Principal Internal Auditor

**EXHIBIT D – ATTACHMENT 1
TO
AUDIT SERVICES AGREEMENT**

LIST OF DESIGNATED PERSONS

Beulah S. Auten
Chief Financial Officer

Ted Granger
Assistant Division Manager

Gloria Harriel
Accounting Officer

Calvin Chang
Accounting Officer

Margaret Chwa
Senior Accountant

Elda Villarroel
Senior Accountant

Imelda Saldivar
Senior Accountant

Claro Lanting
Senior Accountant

Susana Seeckts
Senior Accountant

Steven Rice
Chief Counsel

Frank Boyd
Senior Staff Counsel

Fern M. Billingy
Senior Staff Counsel

Michael D. Herrera
Senior Staff Counsel

Johanna M. Fontenot
Senior Staff Counsel

Christine Roseland
Senior Staff Counsel

Jill Rawal
Staff Counsel

John Harrington
Staff Counsel

Margo McCabe
Legal Analyst

Lisa Garcia
Legal Analyst

Darla Davis
Operations Manager – Legal Office

Barry Lew
Legislative Affairs Officer

Vincent A. Lim
Chief Counsel – Disability Litigation

Eugenia Der
Senior Staff Counsel – Disability Litigation

Steve Tallant
Senior Staff Counsel – Disability Litigation

Allison Barrett
Senior Staff Counsel – Disability Litigation

James Pu
Division Manager, Systems

Derwin Brown
Division Manager, QA & Metrics

Vache Mahseredjian
Interim Chief Investment Officer

John McClelland
Principal Investment Officer

Christopher J. Wagner
Principal Investment Officer

Ted Wright
Principal Investment Officer

David Chu
Investment Officer

James Rice
Senior Investment Officer

Robert Z. Santos
Investment Officer

David Simpson
Investment Officer

**EXHIBIT D – ATTACHMENT 1
TO
AUDIT SERVICES AGREEMENT**

LIST OF DESIGNATED PERSONS

Trina Sanders
Investment Officer

Amit Aggarwal
Investment Officer

Esmeralda del Bosque
Senior Investment Analyst

Ron Senkandwa
Senior Investment Analyst

Michael Romero
Investment Analyst

Chad Timko
Senior Investment Analyst

Cassandra Smith
Division Manager, Retiree Health Care

Shelly Tilaye
Senior Investment Analyst

Dale Johnson
Investment Officer

Erin Szymanowski
Senior Investment Analyst

Sergik Tahmazyan
Investment Analyst

Mel Tsao
Investment Analyst

Inga Tadevosyan
Investment Analyst


Bernardo Buenaflor
Division Manager, Benefits



March 29, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

Leisha Collins 
Principal Internal Auditor

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: INTERNAL AUDIT RISK ASSESSMENT PROCESS

Internal Audit performs a risk assessment in accordance with the Internal Audit Charter and Institute of Internal Auditors (IIA) Professional Standards to use in the development of the annual audit plan. We began revising our risk assessment approach last year and incorporated an internal control questionnaire which was sent to all division managers prior to our annual risk meetings with division management.

We informed the Audit Committee that we planned to expand on this approach by adding a section to these questionnaires to further evaluate risk within each division, specifically in relation to auditable areas.

We are still in the process of initiating our risk assessment for this year and will be bringing our completed risk assessment along with our Audit Plan for Fiscal Year 2016-17 to your committee for approval at your July meeting. The intent of the following presentation is to explain our approach and share with you the criteria and process we plan to use in evaluating risk.

We look forward to your feedback.

Risk Assessment Process

FYE 2017

April 15, 2016

Audit Plan

Audit Plan Status Report
November 20, 2015

INTERNAL AUDIT PLAN FYE 2016

The following table provides the status of both the planned and unplanned internal Audit projects for the Fiscal Year Ending 2016.

| MANAGEMENT, GOVERNANCE & COMPLIANCE | | |
|--|----------------|-------------------|
| PROJECT | TYPE | REPORT DATE |
| 1. Audit Committee Consultant - KFF | KFF | November 16, 2015 |
| 2. Compliance Testing | Audit | |
| 3. County Medical Reimbursement | Audit | |
| 4. Felony Convictions Plan Sponsor Reporting | Audit | |
| 5. Fraud Testing | Audit | |
| 6. Foreign Paycos | Audit | October 16, 2015 |
| 7. Internal Audit Contractor Pool | KFF | |
| 8. Human Resources Compliance Review | Biannual Audit | November 16, 2015 |
| 9. LACERA Office Building Renovation | Audit | November 24, 2015 |
| 10. New Paycos (Madras) Testing | Audit | |
| 11. PEPPA CEO Hours Testing | Audit | November 20, 2015 |
| 12. PEPPA Employer Audit & Monitoring | Audit | |
| 13. PEPPA Pay Code Compliance Testing | Audit | |
| 14. PEPPA Pensionable Cap Compliance | Audit | |
| 15. Privacy Compliance Audit Oversight | Biannual Audit | |
| 16. Quality Assurance Review | Biannual Audit | |
| 17. Risk Assessment (FYE 2017) | Admin | |
| 18. Tenant Improvements | Unplanned | |
| 19. Travel Policy Compliance Review | Audit | |

| GOVERNANCE ADMINISTRATION | | |
|---|-----------|-------------------|
| PROJECT | TYPE | REPORT DATE |
| 20. 415b Adjustments | Audit | |
| 21. Active Death Process | Audit | |
| 22. Certificate Data Input Verification | Audit | |
| 23. Member Validation | Audit | |
| 24. Minor Survivor Testing | Audit | |
| 25. New Benefita Tier Plan | Audit | |
| 26. Over/Under Payment Process | Audit | |
| 27. RDS Program Oversight | Oversight | |
| 28. ReLumal Automatic Deposit Receipts (ADRs) | Audit | November 24, 2015 |

| INFORMATION SYSTEMS | | |
|---|----------------|-------------------|
| PROJECT | TYPE | REPORT DATE |
| 29. Calculation Engine Consulting | Consulting | |
| 30. Data Backup/Monitoring Testing | Audit | |
| 31. Member Applications Change Control Review | Audit | |
| 32. Member Data File Change Testing | Audit | TBD |
| 33. Software License Compliance Review | Audit | November 24, 2015 |
| 34. System Audit Consultant Pool | KFF | |
| 35. Systems Penetration Testing | Biannual Audit | |

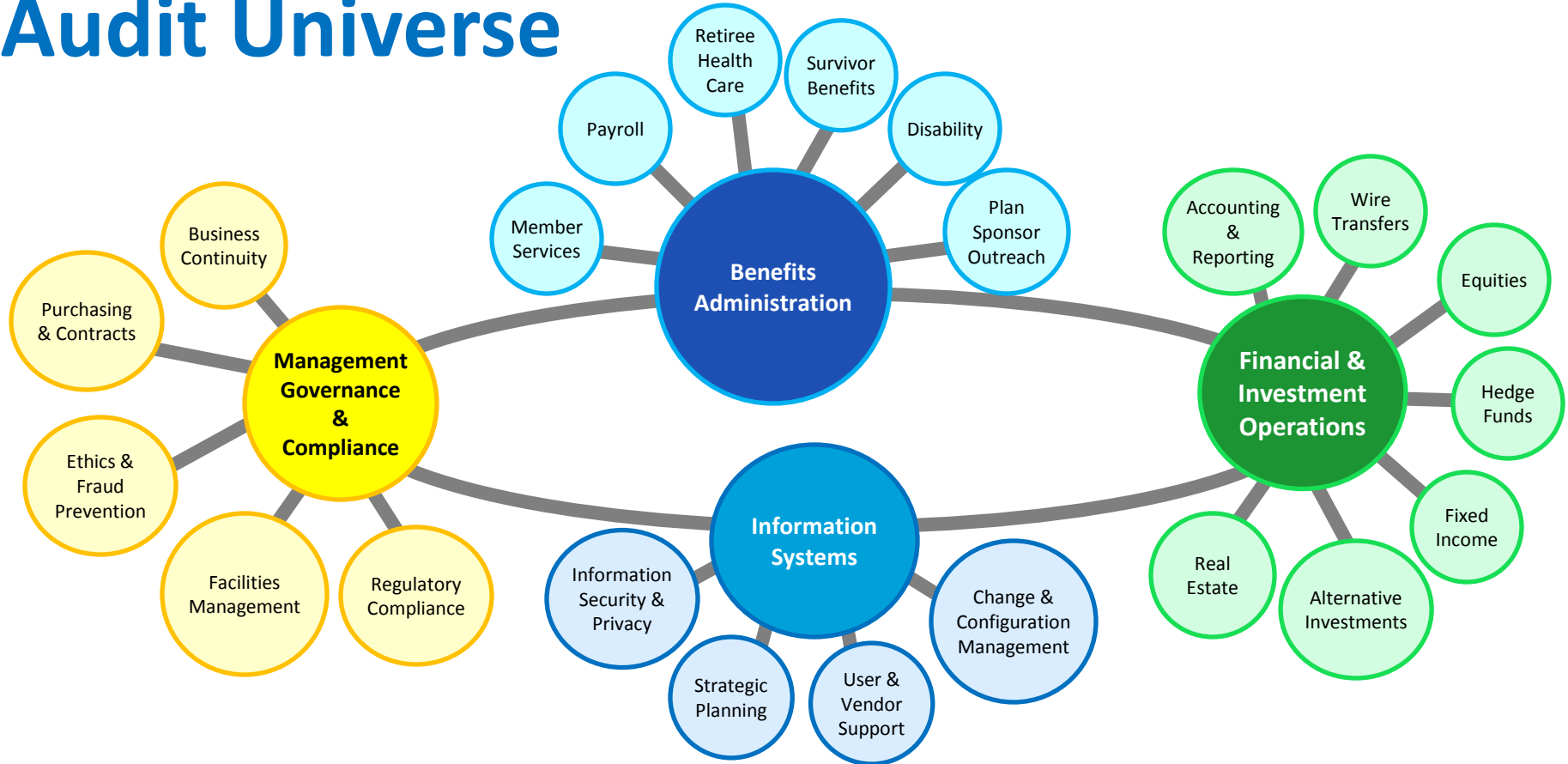
In Process
 Ongoing
 Completed Project

3

Audit Plan Status Report
November 20, 2015
FINANCIAL & INVESTMENT OPERATIONS
 In Process
 Ongoing
 Completed Project

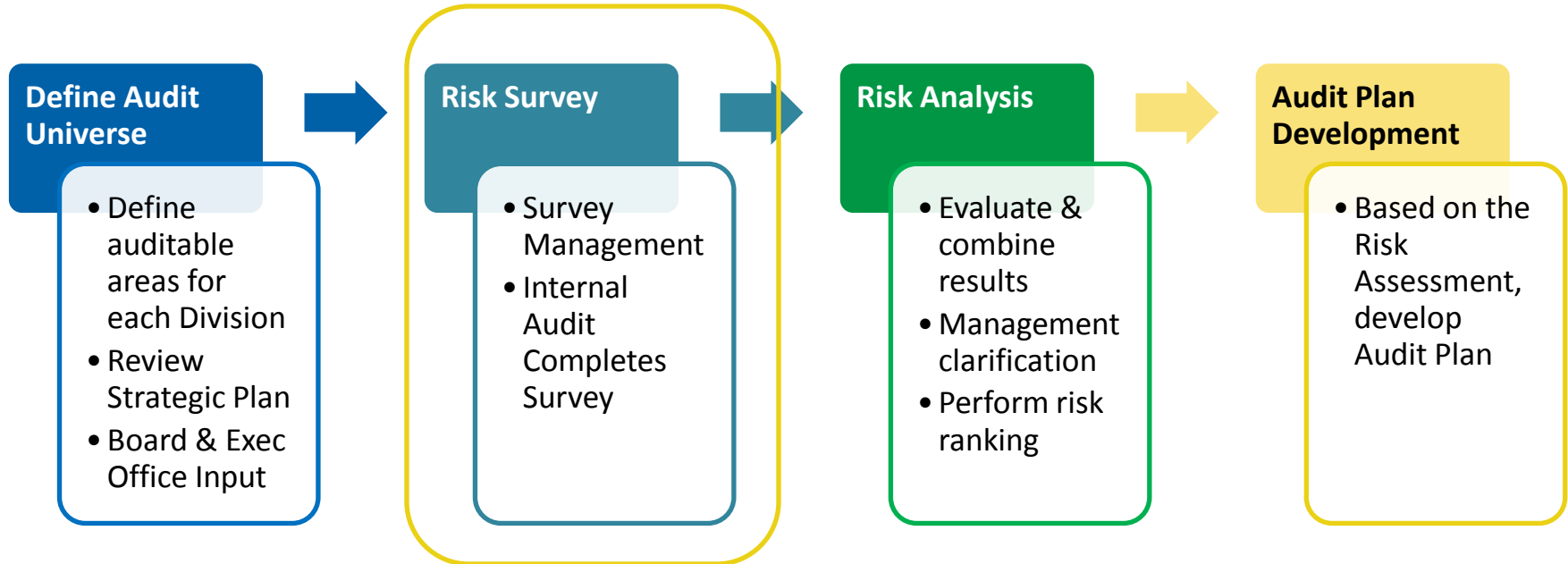
3

Audit Universe



Risk Assessment Process

The diagram here represents our Risk Assessment Process to be discussed in detail in the following section.



Risk Assessment Survey

Internal Audit Risk Assessment Survey |



Division: Survey Completed By: Date:

Instructions: Please answer the following questions to the best of your ability. You may use a separate sheet of paper if you require additional space for your answers. Thank you!

| | |
|---|--|
| 1. What are the key objectives/goals of your division? | |
| 2. What are the most significant hurdles that will prevent your division from accomplishing goals? <i>Describe at a high level.</i> | |
| 3. Have there been any significant staffing changes in the | |

Risk Assessment Survey

Manager Survey Page 3

| Risk Criteria | Definition |
|--------------------|--|
| Materiality | Significant issue(s) that could negatively affect the system of internal controls OR result in a material financial loss |
| Privacy | Risk to member data privacy or business critical information |
| Change | Recent or imminent changes to regulatory environment, staffing, business process, etc. |
| Focus | Board, Executive or Division Management and/or Strategic Plan area of focus |
| Headline | Reputational risk |
| Other | Other risk or mitigating control |

Questions and Feedback


- Risk **Criteria**
- Risk Assessment **Methodology**



March 23, 2015

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **INTERNAL AUDIT GOAL REPORT**

As the Audit Committee (Committee) term follows the calendar year, Internal Audit provides the Committee with new calendar year goals at the first meeting of the year and a final goal report during the last meeting of the year. Hence, Internal Audit's 2015 Calendar Year Goals were presented to the Committee at the March 2015 meeting. The following Internal Audit Goal Report includes a status update on the completion of these goals, as well as the Internal Audit Goals proposed for the 2016 Calendar Year.

Following the brief presentation of our past and proposed goals, we welcome the opportunity for any discussion, clarification, or feedback from your Committee.

RB:lc:dv

Attachment

Internal Audit Goals Report | 2015 Calendar Year

1. Complete the Annual Risk Assessment incorporating and Internal Control Questionnaire of division managers, and development of an appropriate Audit Plan for the Audit Committee's approval at their July meeting.

Measure of Performance:

Audit Committee Approved Audit Plan for Fiscal Year 2015/16 (3 Year Audit Plan 2015-2018) by the Audit Committee's July 2015 meeting.

Status:

Completed. We completed the risk assessment, incorporating for the first time, as recommended by the Audit Committee an Internal Control Questionnaire of division managers. We did use this and our assessment of risks to develop and obtain approval of the Annual Audit Plan at the Audit Committee's July 15 meeting. However, based on input from the Audit Committee we presented a one year annual audit plan rather than a 3 year plan. This plan is more reflective of where we anticipate focusing our audit attention on during the Fiscal Year and allows the Audit Committee to more accurately assess our performance of the plan. As always, the plan is developed as of the beginning of the year and adjustments to the plan may be made as risks or priorities change during the year.

2. Develop a framework for a more formal process for scheduling, performing and reporting the results of fraud, compliance and member high-risk validation testing.

Measure of Performance:

Provide the Audit Committee with the formal framework for testing fraud, compliance, and member validation to be approved by the Audit Committee for inclusion to the Audit Plan at the July 2016 meeting.

Status:

This goal was forwarded to the Calendar Year 2016 Internal Audit Goals.

3. Facilitate the completion of the Investment Best Practice and Risk Management Study.

Measure of Performance:

Final report of the selected consultant/auditor to the Board of Investments' Risk Management Committee and/or the Board of Investments or demonstration to the Audit Committee of substantial completion of work by the consultant/auditor by the December 2015 Audit Committee meeting.

Status:

Completed. Pension Consulting Alliance (PCA) completed the Investment Best Practice Study in November 2015 and provided their report to the BOI Risk Committee at the December 9, 2015 meeting.

4. Complete the RFP process for the selection of a QAR auditor, facilitate that auditor's completion of their work, and deliver the final QAR report with Internal Audit responses to any recommendations by the Audit Committee's December 2015 meeting.

Measure of Performance:

Final QAR Report with Internal Audit responses to the Audit Committee by the December 2015 meeting.

Status:

Completed. Due to staffs focus on the Investment Risk Project along with other audits and projects, we fell short of our original goal to have this work completed and presented to the Audit Committee by the December 2015 meeting. The QAR was completed in January 2016 and the reviewer found that Internal Audit generally conforms to the Standards. This opinion, which is the highest of three possible ratings, means that policies, procedures, and practices are in place to implement the Standards and other requirements necessary for ensuring a professional Internal Audit activity. We will provide the QAR report to the Committee at the April 2016 meeting.

5. Hire a consultant to assist in reviewing the roles of the CAE as Privacy Officer of LACERA as well as update the Privacy Policy and Privacy training materials.

Measure of Performance:

Provision to the Audit Committee of the results of the work with the consultant, including an understanding of the roles of the CAE as Privacy Officer, an updated Privacy Policy (approved by the Boards) and updated training materials.

Status:

Completed. At the January 2015 meeting, The Board of Investments, jointly with the Board of Retirement, directed staff to retain the law firm of Alston & Bird and their subcontractor Stroz Friedberg to perform an audit and data mapping of LACERA's operations insofar as they involve private, confidential, and business critical information.

6. Ensure that Internal Audit is fully staffed at the level of the positions budgeted through staff development, hiring, and promotion.

Measure of Performance:

Successful report to the Audit Committee of a fully staffed office at the level of the positions budgeted by the December 2015 meeting.

Status:

Completed. Two staff were promoted to Principal Internal Auditor during the year and we hired two Senior Internal Auditors.

Internal Audit Goals Report | 2016 Calendar Year

The following are goals for Calendar Year End 2016:

1. Develop a framework for a more formal process for scheduling, performing and reporting the results of fraud, compliance and member high-risk validation testing.

Measure of Performance:

Provide the Audit Committee with the formal framework for testing fraud, compliance and member validation to be approved by the Audit Committee for inclusion to the Audit Plan at the July 2016 meeting.

Status:

This goal was forwarded from the Calendar Year 2015 Internal Audit Goals. The framework is developed and we plan to expand the amount of work performed in the areas of fraud detection and compliance and present the framework and approach to the Audit Committee. We excluded high-risk member validation testing from our framework since the Benefit's Division has taken on the role of performing high-risk member validations beginning January 2016. We had anticipated presenting an overview of the framework at the December 2015 meeting but due to other projects taking precedence we will present it to the Committee by the April 2016 meeting. In the recent hiring of staff, we acquired one Senior Internal Auditor with strong experience in automated audit testing and use of Audit Command Language (ACL) which is very beneficial to reaching this goal.

2. Develop a formal Quality Assurance and Improvement Program (QAIP) and report results of the QAIP to the Audit Committee on an annual basis.

Measure of Performance:

Internal Audit will provide the Audit Committee with the formal framework for the QAIP at the December 2016 meeting. We anticipate completing the first QAIP during the first quarter of 2017.

Status:

Staff will begin developing the framework for the QAIP in August 2016.

3. Develop an Audit Work Program template to document audit procedures for each audit.

Measure of Performance:

Internal Audit will develop an Audit Work Program (Audit Program) template which auditors will use to document audit procedures. The CAE or Principal Internal Auditors will review and approve the Audit Program and any significant changes to audit work. Staff will begin using the Audit Program Template April 1, 2016.

Status:

Complete. Staff developed and implemented the new Audit Program Template in March 2016. The template will now be a part of the standardized work papers in each Teammate audit file.

4. Update the Audit Committee and Internal Audit Charters.

Measure of Performance:

Internal Audit will revise the current Audit Committee and Internal Audit Charters to ensure that charters are in compliance with IIA Standards and align with industry best practices. At the April 2016 meeting, we will provide the Committee with our proposed revisions. We anticipate finalizing the charters by the July 2016 Meeting.

Status:

In Progress. Staff is currently revising the Audit Committee and Internal Audit Charter. Staff will request the Audit Committee's approval of both charters at the April 2016 meeting.

5. Update the Internal Audit Operation Guide.

Measure of Performance:

Internal Audit will complete a comprehensive update of the Internal Audit Operations Guide by the December 2016 meeting.

Status:

Staff will begin working on the IA Operation Guide in May 2016. We plan to complete the guide by December 2016.

6. Update the Internal Audit Internet and Intranet Website

Measure of Performance:

Internal Audit will complete a comprehensive update of the Internal Audit Internet and Intranet website Guide by the December 2016 meeting.

Status:

In Progress. Staff has prepared revisions to update the format and content of the websites. However, the timing for completing the website will weigh heavily on the availability of the Communication Divisions. We anticipate completing this goal by the December 2016 or first quarter of 2017 at the latest.

7. Revise the Audit Plan Format

Measure of Performance:

Internal Audit will revise the current format of the Audit Plan to further enhance the reporting of IA resource requirements. As suggested in the 2016 QAR report, Internal Audit will develop a risk based audit frequency guideline. The audit frequency of each auditable activity, as well as time estimates and staff resources to complete audits will be presented in the new Audit Plan. Staff will provide the revised Audit Plan to the Committee at the July 2016 meeting.

Status:


In Progress. Staff is reviewing different formats for the Audit Plan.



March 31, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **AUDIT PLAN STATUS REPORT**

The *Audit Plan Status Report (Report)* as follows documents the status of the Internal Audit Plan for the Fiscal Year Ending 2016. Your Committee approved this Audit Plan at your July 15, 2015 meeting.

During the period from November 30, 2015 to March 31, 2016 there were 3,939 staff hours available. A total of 3,291 staff hours (84 percent) were applied to audit projects, while 648 staff hours (14 percent) were applied to administrative projects. Of the fifty-two (52) projects on the current Audit Plan, twenty-eight (28) projects have been tackled during this period with nine (9) completed and nineteen (19) in progress.

The *Report* encompasses all LACERA divisions and is included in the Audit Committee materials. This provides detail on each project including the objective of the project, the rationale for the work, and a brief synopsis on the “progress” or “conclusion” of the project. Completed projects with corresponding audit reports are provided for your information under separate cover.

2016



Los Angeles County Employees Retirement Association

Audit Plan Status Report

FYE 2016 Plan Status as of March 31, 2016

Submitted to the Audit Committee
April 15, 2016

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Los Angeles County Employees Retirement Association

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of the Board of Retirement & Board of Investments

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INTERNAL AUDIT PLAN FYE 2016

The following table provides the status of both the planned and unplanned Internal Audit projects for the Fiscal Year Ending 2016.

| MANAGEMENT, GOVERNANCE & COMPLIANCE | | |
|--|----------------|---|
| PROJECT | TYPE | REPORT/COMPLETION DATE |
| 1. Audit Committee Charter - Revision | Unplanned | March 29, 2016 |
| 2. Audit Committee Consultant – RFP | RFP | November 16, 2015* |
| 3. Compliance Testing | Audit | |
| ▪ Minor Survivor Testing | Audit | |
| ▪ Duplicate Vendor Payments | Audit | March 29, 2016 |
| 4. County Medical Reimbursements | Audit | |
| 5. Felony Convictions Plan Sponsor Reporting | Audit | |
| 6. Fraud Testing | Audit | |
| 7. Foreign Payees | Audit | October 16, 2015* |
| 8. Internal Audit Charter - Revision | Unplanned | March 29, 2016 |
| 9. Internal Audit Contractor Pool | RFP | |
| 10. Human Resources Compliance Review | External Audit | November 16, 2015* |
| 11. LACERA Office Building Renovation | Audit | |
| 12. New Payees (Retirees) Testing | Audit | |
| 13. PEPR 960 Hours Testing | Audit | November 20, 2015* |
| 14. Office Renovations | Audit | |
| 15. PEPR Employer Audit & Monitoring | Audit | |
| 16. PEPR Pay Codes Compliance Testing | Audit | |
| 17. PEPR Pensionable Cap Compliance | Audit | |
| 18. Privacy Compliance Audit Oversight | External Audit | |
| 19. Quality Assurance Review | External Audit | January 15, 2016 |
| 20. Risk Assessment (FYE 2017) | Admin | |
| 21. Tenant Improvements | Unplanned | November 24, 2015* |
| 22. Travel Policy Compliance Review | Audit | |
| BENEFITS ADMINISTRATION | | |
| PROJECT | TYPE | REPORT/COMPLETION DATE |
| 23. 415b Adjustments | Audit | January 8, 2016 |
| 24. Active Death Process | Audit | |
| 25. Certificate Data Input Verification | Audit | |
| 26. Member Validation | Audit | <i>Transitioned Out of Internal Audit</i> |
| 27. New Benefits Tier Plan | Audit | |
| 28. Member Account Settlements Process | Audit | |
| 29. RDS Program Oversight | Oversight | |
| 30. Returned Automatic Deposit Receipts (ADRs) | Audit | November 24, 2015* |
| INFORMATION SYSTEMS | | |
| PROJECT | TYPE | REPORT/COMPLETION DATE |
| 31. Calculation Engine Consulting | Consulting | |
| 32. Data Backup/Retention Testing | Audit | |
| 33. Member Applications Change Control Review | Audit | |
| 34. Member Data File Change Testing | Audit | March 24, 2016 |

| INFORMATION SYSTEMS cont. | | |
|--|----------------|------------------------|
| 35. Software License Compliance Review | Audit | November 24, 2015* |
| 36. System Audit Consultant Pool | RFP | |
| 37. Systems Penetration Testing | External Audit | |
| FINANCIAL & INVESTMENT OPERATIONS | | |
| PROJECT | TYPE | REPORT/COMPLETION DATE |
| 38. FYE 16 Annual Financial Audit – <i>Contract Admin.</i> | External Audit | |
| 39. Audit of Actuarial Consulting Services | Oversight | |
| 40. GASB 67/68 Task Force | Consulting | |
| 41. External Financial Auditor - RFP | RFP | March 24, 2016 |
| 42. GASB 74/75 Task Force | Consulting | |
| 43. Hedge Fund Investments Accounting Practice | Consulting | |
| 44. Investments Best Practices Oversight | Consulting | December 9, 2015 |
| 45. Investment Fee Reporting & Validation | Audit | |
| 46. Private Equity Fee Verification RFP | Unplanned | March 17, 2016 |
| 47. Real Estate Investment Operations | Audit | |
| 48. Real Estate Advisor Review (<i>Emmes</i>) | Audit | |
| 49. Real Estate Advisor Review (<i>Cornerstone</i>) | Audit | |
| 50. Real Estate Debt Program Review | Audit | |
| 51. Securities Lending | Audit | |
| 52. Real Estate External Financial Audit & Tax Service | Oversight | |

In Process
 Ongoing
 Completed Project

*NOTE: Completed project reported in prior reporting period.

WORK COMPLETED & IN PROGRESS

The following provides a more detailed narrative of both the planned and unplanned Internal Audit projects that have been completed thus far for the **Fiscal Year Ending June 30, 2016**. The projects are ordered by Division. Project detail includes the objective, rationale, and a brief synopsis of the project’s conclusion or status as of November 20, 2015.

ADMINISTRATIVE SERVICES

Office Renovations

| | | | |
|--------------------|---|--------------------|--|
| DIVISION(S) | ADMINISTRATIVE SERVICES | REPORT DATE | |
| OBJECTIVE | To determine if the internal controls, procedures, and processes for planning, executing, and managing Office Renovations is effective and appropriate. | | |
| RATIONALE | Office renovations are made on a regular basis to accommodate changing staffing needs, technology upgrades, and other Company changes. Administrative Services (“Admin Services”) handles the planning, budgeting, and tracking of LACERA’s Office Renovations for each division. The budget for Office Renovations for fiscal years 2013-2014, 2014-2015, and 2015-2016 were \$445,000, \$350,000, and \$350,000. | | |
| CONCLUSION | Field work is completed and the final report is currently in the draft stage. Based on our audit, Admin Services controls and procedures relating to the Office Renovation process are generally effective. However we identified a few specific areas to further strengthen controls relating to documenting vendor selection, formalizing procedures for change orders, and defining Renovation Team expectations between Admin Services and Systems. | | |

BENEFITS

415(b) Adjustments

| | | | |
|--------------------|---|--------------------|-------------|
| DIVISION(S) | BENEFITS | REPORT DATE | JAN 8, 2016 |
| OBJECTIVE | To assure that LACERA pays affected retirees no more than the maximum amount of the annual benefit permitted under Section 415(b) of the <i>Internal Revenue Code</i> ; any entitlement beyond that being paid via the County-funded and administered Replacement Benefit Plan. | | |
| RATIONALE | Section 415(b) limits the amount an individual can receive from a defined benefit plan each year. Violation can result in loss of LACERA's "exempted" status with the IRS. This audit was requested by the Executive Office. | | |
| CONCLUSION | Fieldwork completed. Final report issued. Addressing questions from Board Member. | | |

BENEFITS

Minor Survivor Benefits Testing

| DIVISION(S) | BENEFITS | REPORT DATE |
|------------------|--|-------------|
| OBJECTIVE | Assess Management's controls over the processing of minor survivor payees to confirm all payees are eligible in accordance with California Employee Retirement Law requirements, and to ensure all those qualified to receive a minor survivor benefit are paid. | |
| RATIONALE | Unlike spouses whose primary requirement to receive a survivor benefit is to be married to the member one year prior to retirement, minor survivors must meet numerous requirements in order to receive their survivor benefit. The decision to add this project to the 2015-2016 Audit Plan was based on the complexity of minor survivor requirements and finite status of the minor survivor continuance. | |
| PROGRESS | Fieldwork completed. The final report is currently in the draft stage. Based on testwork, controls appear to be functioning as intended. Internal Audit did make two recommendations to further strengthen controls. | |

Certificates Processing Audit

| DIVISION(S) | BENEFITS, MEMBER SERVICES, RHC, & ADMIN SERVICES | REPORT DATE |
|------------------|---|-------------|
| OBJECTIVE | To assess the adequacy and effectiveness of the governance, risk management and controls for inputting and validating member certificate information. This assessment will include a review of: <ol style="list-style-type: none"> 1. The accuracy of certificate data entry in LACERA's information systems, and 2. The process for authenticating and updating members' certificates received by LACERA. 3. Additionally, we will assess whether the certificates used to validate members' eligibility for benefits are adequate based on established criteria. | |
| RATIONALE | As part of our Fiscal Year End 2016 Audit Plan, and based on Executive Office concerns regarding the accuracy of LACERA data derived from members' certificates, we have planned a review of the process and the system of internal controls for the handling and validation of certificates. | |
| PROGRESS | The entrance meeting for this audit was completed during this past period and fieldwork is currently underway. | |

EXECUTIVE OFFICE

Calculation Engine Project

| DIVISION(S) | EXECUTIVE | REPORT DATE |
|------------------|--|-------------|
| OBJECTIVE | Provide consulting services to the Executive Office and the Systems Division in reviewing the process for updating the member benefits calculation engine upgrade. Specifically, the Executive Office requested Internal Audit to provide assurance that the annuity factor tables were properly uploaded in the new system and the annuity factor retrieval process within the new calculation engine does operate as intended. | |
| RATIONALE | The Executive Office has decided to replace the calculation engine which calculates our members': 1) Retirement Estimates, 2) Final Calculations for the payroll, 3) SCD, NSCD and Service Retirements, 4) Death Benefits, 5) Optional Retirements. The purpose for the upgrade is to improve the efficiency of the calculations and provide additional benefit calculations the current engine cannot perform. This project involves the Executive Office, Systems Division, Claims Processing, Member Services, Quality Assurance, and Internal Audit. The Executive Office asked Internal Audit to verify that the Systems Division performed certain steps properly. | |
| PROGRESS | Internal Audit is currently working with the Calculation Engine team and will be involved in the testing review process as the project progresses. | |

PEPRA Employer Audit Analysis

| DIVISION(S) | EXECUTIVE OFFICE | REPORT DATE |
|------------------|---|-------------|
| OBJECTIVE | Determine the full effect of LACERA responsibility for compliance with the employer audit provisions (audit of the County) included in the Public Employees Pension Reform Act (PEPRA) which became effective January 1, 2013. In addition, develop Employer Audit procedures based on LACERA's new audit authority and responsibility. | |
| RATIONALE | PEPRA provisions allow retirement systems (LACERA) to audit the employer (County) and assess fees to recover the cost of the audit if the retirement system determines that the employer failed to comply with specific reporting requirements included in PEPRA. PEPRA requires the employer to properly identify the pay period in which compensation was earned, to report compensation that does not exceed earnable compensation defined by PEPRA, and to report all instances of convicted felonies arising out of or in the performance of the employees' official duties. | |
| PROGRESS | <p>Internal Audit has contacted several 37 Act Counties to obtain information on their audit procedures. Internal Audit is working with the Executive Office and Systems Division to obtain an understanding of how compensation is reported to LACERA. Internal Audit has worked with County and LACERA executives to establish a felony conviction reporting process which is now in place. Internal Audit has attended a CalPERS Employer Audit Seminar and will work with Management to develop a process for auditing the County.</p> <p>Currently, Internal Audit is working with each LACERA division responsible for performing certain components of verifying the County's PEPRA compliance. Internal Audit will gather the procedures from each division related to their individual PEPRA compliance process. Ultimately, these procedures will be compiled into a centralized LACERA policy and procedures document.</p> | |

EXECUTIVE OFFICE

PEPRA Paycode Compliance Testing

| DIVISION(S) | EXECUTIVE OFFICE | REPORT DATE | |
|------------------|---|-------------|--|
| OBJECTIVE | Work with the Executive Office, Systems, and QA to develop a test to verify that the County is collecting contributions from active members in accordance with PEPRA | | |
| RATIONALE | <p>When PEPRA became effective in January 2013, it triggered LACERA's Board of Retirement to make a determination on each County payroll earnings code (aka "pay code") on whether the pay code was pensionable or non-pensionable based on PEPRA's provisions. As a result, LACERA's Board evaluated and made a pensionable determination on over 800 different County pay codes. These pay codes affect compensation for both legacy and new PEPRA members. Once the Board finalized their determination, LACERA forwarded the pay codes to the County. The County then programmed its payroll system (known as eHR) to collect (or not collect) contributions from each employee's pay component accordingly based on the Board's determination.</p> <p>If errors occur in the way the County categorizes the pay codes, there is a risk that over time, LACERA could over or under collect contributions which could ultimately affect LACERA's funded status. Furthermore, the efforts of correcting these under or over collected contributions for each affected member could result in resource drains on LACERA. To mitigate this risk, Internal Audit is working with LACERA's management team to develop a periodic test to verify that the County correctly coded each pay code in eHR according the Board's determination.</p> | | |
| PROGRESS | Internal Audit is currently working with LACERA's management team to develop a test to verify the County's compliance with PEPRA pay code requirements. | | |

FINANCIAL AND ACCOUNTING SERVICES

Duplicate Vendor Payments

| DIVISION(S) | FASD | REPORT DATE | MAR 29, 2016 |
|-------------------|---|-------------|--------------|
| OBJECTIVE | To determine whether the FASD Division was paying duplicate invoices and to assess the effectiveness of its internal controls to detect duplicate invoices and avoid unnecessary payments. | | |
| RATIONALE | This audit is a component of our fraud and compliance testing program which leverages data analytics using audit software such as Audit Command Language (ACL). ACL allows us to analyze large sets of data relatively quickly using algorithmic formulas. As such, we determined this type of analytical testing would be appropriate to apply to an audit area such as duplicate vendor payments. | | |
| CONCLUSION | Overall, based on the data analytics that were performed, we noted that LACERA's FASD Accounting controls related to preventing duplicate payments are functioning as intended. Our audit testing and analysis determined there is minimal risk of LACERA issuing duplicate payments to vendors | | |

Education & Travel Policy Compliance Review

| DIVISION(S) | FASD & Board Travel Committee | REPORT DATE | |
|------------------|--|-------------|--|
| OBJECTIVE | To determine if LACERA's Education and Travel Policy, procedures, and process are in line with industry standards and designed in line with LACERA's objectives, and if Board and staff are in compliance with the policy. | | |
| RATIONALE | Internal Audit last audited Board and staff travel in 2010, and in general, this is an expense highly scrutinized by the media and public. | | |
| PROGRESS | Staff is currently working with FASD to understand, review, and test the process for reviewing and reimbursing and/or reconciling expenses related to Education & Travel. We plan to issue the Final Report by May 15, 2016. | | |

LACERA Annual Financial Audit Facilitation – FYE 2016

| DIVISION(S) | FASD | MEMO DATE | |
|------------------|--|-----------|--|
| OBJECTIVE | Facilitate LACERA's annual, external, financial statement audit for FYE 2016. | | |
| RATIONALE | External auditors require information data and documentation; also advice, direction, assistance; and with regard to inquiries, timely responsiveness from LACERA staff and management in order to complete their work satisfactorily in a suitable fashion. | | |
| PROGRESS | The external auditors, Brown Armstrong, have just begun to address LACERA's annual audit by submitting a tentative, Critical Dates List. | | |

FINANCIAL AND ACCOUNTING SERVICES

GASB 67 and 68 Task Force

| DIVISION(S) | FASD | REPORT DATE | DEC 31, 2015 |
|--------------------|--|--------------------|--------------|
| OBJECTIVE | To assure a successful and smooth transition to new, additional, financial statement disclosures required of LACERA and Los Angeles County relating to pension benefit liabilities. | | |
| RATIONALE | GASB 67 & 68 (as well as 71) required significant changes be made to both LACERA's and Los Angeles County's financial statements; and the changes to the County's statements include information that can be provided only by LACERA. In order to ensure that both organizations meet the new requirements, a Task Force was formed that includes LACERA's FASD Division, Internal Audit Division, external auditors, and actuaries; also included are pertinent L.A. County Departments and the County's external auditors. LACERA's "Outside Districts" were also invited. | | |
| CONCLUSION | Project completed. Both LACERA and L.A. County's financial statements now reflect the new requirements. With the conclusion of this project, the GASB 67/68 Task Force has transitioned into the GASB 74/75 Task Force to address similar requirements relating to OPEB. | | |

GASB 74 and 75 Task Force

| DIVISION(S) | FASD | REPORT DATE | |
|--------------------|--|--------------------|--|
| OBJECTIVE | To assure a successful and smooth transition to new, additional, financial statement disclosures required of LACERA and Los Angeles County relating to OPEB (health care) liabilities. | | |
| RATIONALE | Almost identical to the GASB 67 & 68 Task Force considerations but dealing with OPEB (health care), GASB 74 & 75 requires further significant changes be made to LACERA's and Los Angeles County's financial statements. Again the County's statements must include information provided only by LACERA. Ensuring that all organizations meet the newest requirements, the GASB 67 & 68 Task Force transformed itself into the GASB 74 & 75 Task Force with the same participants. | | |
| PROGRESS | LACERA must implement GASB 74 for Fiscal Year 2017 and foresees no significant difficulty in doing so because of the similarities to GASB 67. The County must implement GASB 75 for Fiscal Year 2018 and, based upon its experience with GASB 68 plus the similarities to GASB 68, LACERA foresees no significant difficulties in fulfilling the County's needs. | | |

INVESTMENTS

Investment Fee Reporting and Validation

| DIVISION(S) | INVESTMENTS DIVISION | REPORT DATE | |
|------------------|---|-------------|--|
| OBJECTIVE | Assess LACERA's controls over reporting and validating investment fees paid to investment managers. Perform test work to verify that LACERA is accurately paying investment fees according with the investment managers' contracts. | | |
| RATIONALE | As part of Internal Audit's FY 2015-16 approved audit plan, Internal Audit will be performing an audit of LACERA's investment fees. According the LACERA's fiscal year 2014-15 Comprehensive Annual Financial Report, LACERA paid approximately \$161 million in investment management fees. This audit was added to our audit plan to verify that LACERA has adequate controls to report and validate investment management fees paid to the investment managers of all the various asset classes with the exception of private equity. Internal Audit performed an audit of private equity operations in fiscal year 2014-2015, and LACERA is currently in the process of hiring a third party to review and validate private equity investment fees. | | |
| PROGRESS | Internal Audit has begun fieldwork and is anticipating completing the audit by June 2016. | | |

Private Equity Fee Verification RFP

| DIVISION(S) | INVESTMENTS DIVISION | REPORT DATE | MAR 17, 2016 |
|-------------------|---|-------------|--------------|
| OBJECTIVE | Recommend a firm(s) to the CEO for providing private equity fee verification services | | |
| RATIONALE | <p>Board of Investments directed Staff to hire a firm(s) to provide LACERA with private equity fee verification services. In September 2015, Staff issued a Request for Proposals ("RFP") for two separate engagements:</p> <ol style="list-style-type: none"> 1) A retrospective audit of private equity management fees and carried interest, and 2) On-going private equity management fees and carried interest verification services <p>Staff received eight proposals for the retrospective task and six proposals for the on-going task. The quoted fees in most of the proposals exceeded the Chief Executive Officer's ("CEO") delegated signature authority of \$75,000. Consequently, the Board of Investments authorized the CEO to execute a contract(s) that exceeds that delegated authority for the two engagements in order to expedite the selection process. Staff (Internal Audit, Investments, FASD) are working together to evaluate the proposals.</p> | | |
| CONCLUSION | Staff has recommended two different firms to perform the 1) retrospective task and 1) on-going task, to the CEO, and the CEO has approved the recommendations. | | |

Investment Risk Best Practice Study Oversight

| | | | |
|--------------------|---|--------------------|--------------|
| DIVISION(S) | INVESTMENTS DIVISION | REPORT DATE | DEC 19, 2016 |
| OBJECTIVE | Internal Audit is working with the Investment Office in developing a Request For Proposal (RFP) for the hiring of a consultant to perform an investment risk management review and best practice study. Internal Audit will serve as project manager and primary point of contact for this consulting engagement. | | |
| RATIONALE | Investment is an inherently risky area due to the potential high monetary amounts at risk. Therefore, The Audit Committee requested Internal Audit to hire a consultant to perform a best practice study relating to investment risk. This is a collaborative project with the Investment Office, since the Board of Investment Risk Portfolio Committee requested the Investment Office to complete a similar study. | | |
| CONCLUSION | The Board of Investments hired Pension Consulting Alliance (PCA), to perform the risk study. PCA completed the study and presented the final report to the Board of Investments at the December 2015 meeting. | | |

INTERNAL AUDIT

Internal Audit Consultant Pool RFP

| DIVISION(S) | INTERNAL AUDIT | MEMO DATE | |
|------------------|---|-----------|--|
| OBJECTIVE | Internal Audit will issue an RFP to hire a pool of audit consultants to perform audit services on an on-going basis. | | |
| RATIONALE | Internal Audit will use the consultants on an as needed basis to ensure appropriate resources are available to complete audits and projects included in the Audit Plan. | | |
| PROGRESS | Staff is in the process of completing the RFP and anticipates issuing the RFP by April 30, 2016. | | |

Quality Assurance Review – Internal Audit

| DIVISION(S) | INTERNAL AUDIT | REPORT DATE | JAN 15, 2016 |
|-------------------|---|-------------|--------------|
| OBJECTIVE | Evaluate whether Internal Audit's activities are in conformance with the Institute of Internal Auditors' International Professional Practices Framework ("IPPF") and its Code of Ethics; and also identify areas for improvement in operational efficiency and effectiveness. | | |
| RATIONALE | LACERA Internal Audit complies with the IPPF, which requires an external assessment be conducted at least once every 5 years by a qualified, independent reviewer from outside LACERA. The last such assessment was made in 2010. | | |
| CONCLUSION | Internal Audit's Quality Assurance Review (QAR) was completed in January 2016. The primary objective of the QAR was to evaluate Internal Audit's compliance with the Institute of Internal Auditor's <i>International Standards for Professional Practice of Internal Auditing (Standards)</i> . The consultant found that Internal Audit generally conforms to the <i>Standards</i> . This opinion, which is the highest of three possible ratings, means that policies, procedures, and practices are in place to implement the <i>Standards</i> and other requirements necessary for ensuring a professional Internal Audit activity. | | |

Request for Proposal – External Financial Auditor

| DIVISION(S) | INTERNAL AUDIT | MEMO DATE | MAR 24, 2016 |
|---------------------|--|-----------|--------------|
| OBJECTIVE | Solicit bids from qualified firms to perform the annual financial audit on LACERA's financial statements, which include the OPEB Trust and the OPEB Agency Fund. The final objective is to have an auditor under contract by January 1, 2017. | | |
| RATIONALE | The current, financial audit contract with Brown Armstrong expires with the completion of LACERA's June 30, 2016, financial statements. LACERA must provide for an external, financial statement auditor for 2017 and the immediately subsequent years. | | |
| COCONCLUSION | A draft of an RFP & the related Services Agreement (contract) has been completed and will be submitted for the Audit Committee's consideration at the Committee's next meeting. This draft has been vetted through the Financial & Accounting Services and the Legal Divisions, with relevant portions reviewed by the Systems and the Investments Divisions. After incorporating any changes the Audit Committee directs as necessary, Internal Audit will immediately issue the finalized version. | | |

INTERNAL AUDIT

Audit Committee Charter & Internal Audit Charter Updates

| DIVISION(S) | INTERNAL AUDIT | MEMO DATE | MAR 29, 2016 |
|-------------------|---|-----------|--------------|
| OBJECTIVE | To review and update the Audit Committee and Internal Audit Charters. | | |
| RATIONALE | <p>The Institute of Internal Auditors (IIA) and Association of Public Pension Fund Auditors (APPFA) advise the Audit Committee Charter be reviewed and updated periodically. Internal Audit reviewed the templates provided by the IIA and APPFA, and several peer pension funds, and compared these against the Audit Committee Charter dated December 9, 2009. Based on these comparisons, Internal Audit identified some of the Audit Committee’s responsibilities were no longer aligned with industry standards and were not consistent with the Audit Committee’s fiduciary duties. Internal Audit is proposing both formatting and substantive updates to better align LACERA’s Audit Committee Charter with the IIA and APPFA’s best practices.</p> <p>The IIA and APPFA advise the Internal Audit Charter be reviewed and updated periodically. Internal Audit reviewed the IIA’s mandated <i>Standards</i>, which all internal audit functions must comply with, the templates provided by the IIA and APPFA, and several peer pension funds, and compared these against LACERA’s Internal Audit Charter dated November 17, 2010. Based on this comparison, Internal Audit determined several of the mandated <i>Standards</i> were no longer aligned with IIA’s requirements and needed to be revised. Internal Audit is proposing both formatting and substantive updates to ensure adherence to the IIA’s mandated <i>Standards</i> and to better align with industry standards.</p> | | |
| CONCLUSION | Internal Audit has proposed updates to the Audit Committee Charter and Internal Audit Charter to be reviewed and discussed with the Audit Committee during the April 2016 Audit Committee meeting. | | |

SYSTEMS

Member Data File Exception Processing

| | | | |
|--------------------|---|--------------------|--------------|
| DIVISION(S) | SYSTEMS | REPORT DATE | MAR 24, 2016 |
| OBJECTIVE | To validate member data file exception processing by Systems Analysts are supported with appropriate justifications and authorizations in the membership WorkSpace system. To assess internal controls for restricting Systems Analyst access to member data files and processing transactions, except those for which an authorized and specific request is received from Benefits Division. | | |
| RATIONALE | Member data is created and maintained by a complex series of in-house developed computer programs, system interfaces, calculations and manual data entry by nearly 150 operations staff. Extensive edits, validations, program testing and access controls ensure the integrity of member data file accuracy and completeness. Occasionally member file transactions become too complex or non-standardized and require a Systems Analyst to complete these exception transactions. | | |
| CONCLUSION | Systems Analyst exception processing is documented and easily validated through the membership Workspace System. A well-established review process exists for Benefits Division processing staff to escalate exception processing to Lead and Supervisory staff prior to requesting Systems Analyst help. Improved documentation facilitates the review and validation of member accounts by Benefits Division, and Quality Assurance & Metrics Division (e.g. at the time of a member's retirement.) | | |

ONGOING TESTING, MONITORING & CONSULTING

The following provides a brief narrative of ongoing Internal Audit projects for the **Fiscal Year Ended 2015**. These recurring projects include testing, monitoring, and consulting assignments performed on an ongoing basis to prevent fraud and ensure compliance throughout LACERA’s business units. Project detail includes the objective, rationale, and a brief synopsis of the project’s status as of November 20, 2015.

BENEFITS

New Payee Validation Continued Process Test (CPT)

| | |
|--------------------|---|
| DIVISION(S) | BENEFITS |
| OBJECTIVE | To confirm by reviewing supporting file documentation that benefits were only paid to eligible former Los Angeles County employees or their beneficiaries. Internal Audit examines 100% of the new benefit payees using computer assisted audit techniques. Internal Audit tests all new payees on a monthly basis. |
| RATIONALE | In some instances, Internal Audit performs process-monitoring activities for LACERA. One of these monitoring activities is the continuous process testing of scheduled benefit payments to new service and disability retirees and also new survivor payees. |
| PROGRESS | Internal Audit has tested 100 percent of all new benefit payees from November 2015 through February 2016. Based on our testing performed, Internal Audit found no exceptions to the scheduled new benefit payees. |

Member Status and Identity High Risk Verification

| | |
|--------------------|--|
| DIVISION(S) | BENEFITS / MEMBER SERVICES |
| OBJECTIVE | To provide reasonable assurance that LACERA’s members receive their benefits, fraud is deterred, and overpayments and payment errors are prevented. |
| RATIONALE | Up until Dec. 31, 2015, Internal Audit performed ad hoc high risk case verification analysis on a continuous basis. Benefits and Member Services Divisions' staff Identified cases based on established high risk indicators. These were forwarded to Internal Audit for analysis and follow up. Internal Audit determines the appropriate steps for resolution based on account research and, in some cases, an investigation administered by ICS Merrill Investigative Services. |
| PROGRESS | As of Jan. 1, 2016 and under the guise of Benefits Division Management, this activity has been relocated to the Benefits division, specifically to the newly created Benefits Protection Unit. Internal Audit will continue to be involved on an ad hoc basis. |

INTERNAL AUDIT

Recommendation Follow-up

| | |
|--------------------|--|
| DIVISION(S) | INTERNAL AUDIT |
| OBJECTIVE | In compliance with the Institute of Internal Auditors' <i>International Professional Practices Framework</i> , the Chief Audit Executive must establish and maintain a system to monitor the disposition of audit results communicated to management. |
| RATIONALE | Internal Audit monitors the implementation status of prior audit recommendations made to LACERA Management to ensure that Management action plans have been effectively implemented or that Senior and Executive Management have accepted the risk of not taking action. |
| PROGRESS | The status of all, audit recommendation related, management action plans are reported to the Audit Committee regularly. The most recent review cycle was completed through February 29, 2016. This project will continue through FYE 2016 and on indefinitely. |

Board and Committee Monitoring

| | |
|--------------------|---|
| DIVISION(S) | INTERNAL AUDIT |
| OBJECTIVE | To monitor all LACERA board and committee meetings, to ensure interaction and reporting is accurate and adequate. |
| RATIONALE | Internal Audit's scope of work includes the monitoring of LACERA's network of risk management, control, and governance processes, as designed and represented by Management. Monitoring is done to ensure the various LACERA governance groups/management are communicating and to ensure information is accurately and adequately conveyed to the necessary parties. |

General Consulting (< 2 hours)

| | |
|--------------------|--|
| DIVISION(S) | INTERNAL AUDIT |
| OBJECTIVE | Assist LACERA Management with advice and/or resources. |
| RATIONALE | Internal Audit is often consulted for advice or additional information on organizational processes, projects, and issues. Any consulting project requiring two hours or less of an auditor's time is placed in this category. Consulting projects requiring an excess of two hours time are typically documented and reported as individual projects. The 194 hours spent this fiscal year to date, represents auditors providing consulting/advice in many different areas on various topics. |

INVESTMENTS**Real Estate External Financial Audit and Tax Services – FYE 2015**

| DIVISION(S) | INVESTMENTS |
|--------------------|--|
| OBJECTIVE | <ul style="list-style-type: none"> ▪ To ensure annual audited financial statements are completed for each of LACERA’s wholly owned real estate entities and are provided to LACERA Financial Accounting and Services Division for inclusion in LACERA’s Annual Audited Financial Statement. ▪ In conjunction with the Legal Office, to contract and monitor tax services for wholly owned real estate properties. ▪ Review and coordinate real estate audit and tax invoice payments with the Investment Office. |
| RATIONALE | <p>It is common industry practice that external financial audit firms are selected and contractually managed by the real estate investment advisers who manage wholly owned real estate assets on behalf of clients. However, LACERA believes an inherent conflict of interest exists when an investment adviser selects the auditors and administers the external, real estate audits of the assets the adviser manages for its clients. Internal Audit acts as the contract manager and primary point of contact for the audits of LACERA’s wholly owned real estate assets. Internal Audit selects the external financial auditors and administers the associated audit contracts for all wholly owned real property investments.</p> |
| CONCLUSION | <p>Financial statements for fiscal year ending June 30, 2015, were completed by September 15, 2015. All applicable tax filings and extensions for fiscal years ending June 30, 2015 are complete.</p> |

EXTERNAL AUDIT SERVICES

The following provides a brief narrative of External Audit projects that have been completed thus far for the **Fiscal Year Ending June 30, 2016**. Project detail includes the objective, rationale, and a brief synopsis of the project’s status as of November 20, 2015.

LACERA WIDE

Privacy Compliance Audit Oversight

| DIVISION(S) | ALL DIVISIONS | REPORT DATE | |
|------------------|--|-------------|--|
| OBJECTIVE | <p>The purpose of the Information Privacy Audit is to have a qualified third party perform a comprehensive study of LACERA’s business operations with the following objectives:</p> <ol style="list-style-type: none"> 1) To determine whether LACERA’s data privacy policies and practices are adequate and conform to the requirements of all applicable data protection laws and regulations, both domestic and international, as well as best practices; 2) To determine whether LACERA is actually abiding by the policies and procedures identified during the audit. This will require an investigation of and test work to verify how personal data is handled in practice within the various business units, across divisions, and when dealing with third parties; and 3) A legal opinion on LACERA’s compliance obligations as they relate to the Health Insurance Portability and Accountability Act (HIPAA) and recommendations for changes in privacy policies and practices as necessary to further comply with relevant privacy legislation and best practices. | | |
| RATIONALE | <p>At the March 18, 2015 Audit Committee meeting, staff discussed hiring a privacy consultant to review LACERA’s current privacy policy and practices. At that time, it had not yet been determined whether or not a more comprehensive audit was required. Following the Committee meeting and prompted by two key incidents involving privacy, a cross-functional team comprised of staff from the Executive Office, Legal, Systems, and Internal Audit determined that, rather than hire a consultant with limited scope, it would be prudent to contract for a full independent audit of LACERA’s privacy policies and practices as well as the handling of business critical information (such as that handled by the Investment Division and other parts of the organization).</p> | | |
| PROGRESS | <p>Fieldwork for this audit is underway with a report anticipated in the next period.</p> | | |

RETIREE HEALTH CARE

RDS Program Oversight

| DIVISION(S) | RETIREE HEALTHCARE | REPORT DATE |
|------------------|---|-------------|
| OBJECTIVE | Monitor progress of the audits of LACERA’s past RDS final claims cost reports submitted by carriers for completeness, accuracy, and compliance with the Centers for Medicare & Medicaid Services (CMS) rules and regulations; potentially reopening and resubmitting RDS applications (dependent on audit results). Also, participate in the production and issuance of an RFP (directed by the Insurance, Benefits & Legislation Committee) that provides for similar services on a going-forward basis; and participate as well in the evaluation and selection of RFP respondents. | |
| RATIONALE | At LACERA's request, Milliman conducted audits to provide the County with an independent, third-party assessment. The Retiree Health Care Division coordinates the audits and the potential reopening & resubmission of RDS applications submitted by the carriers for Plan Year 2005-06 and all subsequent years to the present. It also coordinates with the IBL Committee and Milliman. The RFP in process solicits bids for similar services for future years. | |
| PROGRESS | Milliman completed its work for Plan Years 2005-06 through 20112-13. Currently, it is auditing Plan Year 2013-14 for Anthem Blue Cross. Staff is working with Milliman, Aon, Caremark, and Anthem Blue Cross to complete reconciliation steps. To date, approximately \$108mm+ in additional CMS subsidies have been received. Further funds should be received from the carriers for the audit costs. All funds recovered belong to the County. The RFP is currently in the final draft stage. | |

INVESTIGATION SERVICES

LACERA has a responsibility to its trustees, members, beneficiaries and the County of Los Angeles as a whole to maintain the highest ethical standards when conducting business. Individuals are encouraged to report in good faith any suspected fraud, waste, abuse, or ethics policy violations in connection with programs administered by LACERA.

Internal Audit provides an independent, objective review of facts related to alleged incidents of misconduct, fraud, or abuse. Due to its independent reporting structure, Internal Audit is uniquely positioned to investigate non-criminal allegations of misconduct or fraud as well as coordinate with external authorities when criminal allegations are made.



March 22, 2016

TO: Each Member
2016 Audit Committee Members

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

Quoc Nguyen 
Principal Internal Auditor

FOR: April 15, 2016 Audit Committee Meeting

SUBJECT: **RECOMMENDATION FOLLOW-UP REPORT**

BACKGROUND

The Institute of Internal Auditors' (IIA) Performance Standard #2500 pertains to monitoring the implementation progress of Internal Audit's recommendations made to Management. To be in compliance with the IIA Performance Standards, the Chief Audit Executive is required to establish and maintain a system to monitor the disposition of Management's corrective results and communicate those results to Executive Management. As part of our reporting process, we also communicate these results to your Committee at each Audit Committee meeting.

AUDIT RECOMMENDATIONS STATUS

In the most recent reporting period, **November 1, 2015 through February 29, 2016**, the following audit recommendation activity occurred:

- Seven (7) new recommendations were made. These recommendations resulted from a benefit's process audit (returned automated deposit receipts), software compliance audit, and tenant improvements audit.
- Eight (8) recommendations were implemented:
 - Four (4) were implemented by the Benefits Division.
 - Two (2) were implemented by the Legal Office.
 - One (1) was implemented by the Human Resources Division.
 - One (1) was implemented by the Systems Division.

The chart below provides the status of all recommendations during this reporting period (e.g., new, pending, and implemented/closed). A summary report containing the relevant audit recommendations for each division can be found in **Attachment A**.

AUDIT RECOMMENDATIONS STATUS
November 1, 2015 – February 29, 2016

| Division | New Recommendations | Implemented/ Closed | Management Accepts Risk | Pending |
|--------------------------|---------------------|------------------------|----------------------------|-----------|
| Administrative Services: | 3 | | | 8 |
| Benefits Division: | 3 | 4 | | 10 |
| Communications: | | | | |
| Disability Litigation: | | | | |
| Disability Retirement: | | | | |
| Executive-Org. level: | | | | 3 |
| FASD: | | | | 6 |
| Human Resources: | | 1 | | |
| Internal Audit: | | | | 1 |
| Investments: | | | | 6 |
| Legal: | | 2 | | |
| Member Services: | | | | |
| Quality Assurance: | | | | |
| Retiree Health Care: | | | | 2 |
| Systems: | 1 | 1 | | |
| Actuary: | | | | |
| Total: | 7 | 8 | 0 | 36 |

AUDIT RECOMMENDATIONS AGING REPORT

Internal Audit included an aging report to provide additional transparency into the amount of time it takes LACERA to fully implement audit recommendations. Audit recommendations made to address higher risk issues are most often implemented immediately or certainly within the first year whenever possible. As requested by the Audit Committee at the December 3, 2015 meeting, Internal Audit has also included a status from Management for those recommendations that have been outstanding for longer than two years (see page 5).

To better understand any particular number, please refer to **Attachment A** and review the **Implemented** and **Pending** recommendations. Significantly more detail can be made available on each recommendation. Should you require such additional information, please contact me (qnguyen@lacera.com) or Mr. Bendall (rbendall@lacera.com) and we will be pleased to assist you.

RECOMMENDATION FOLLOW-UP PROCESS

During the audit process, Internal Audit, as well as external auditors (financial, fiduciary, actuarial, and IT), regularly identify areas where LACERA Management may implement changes to improve risk controls in its processes and Management provides action plans indicating how and when planned improvements will be made. These recommendations and action plans are included in each formal audit report. Additionally, Internal Audit makes recommendations and management identifies improvement plans during Internal Audit consulting assignments. All recommendations and management action plans are documented in Internal Audit's *Recommendation Follow-Up* database for tracking, monitoring, and follow-up reporting.

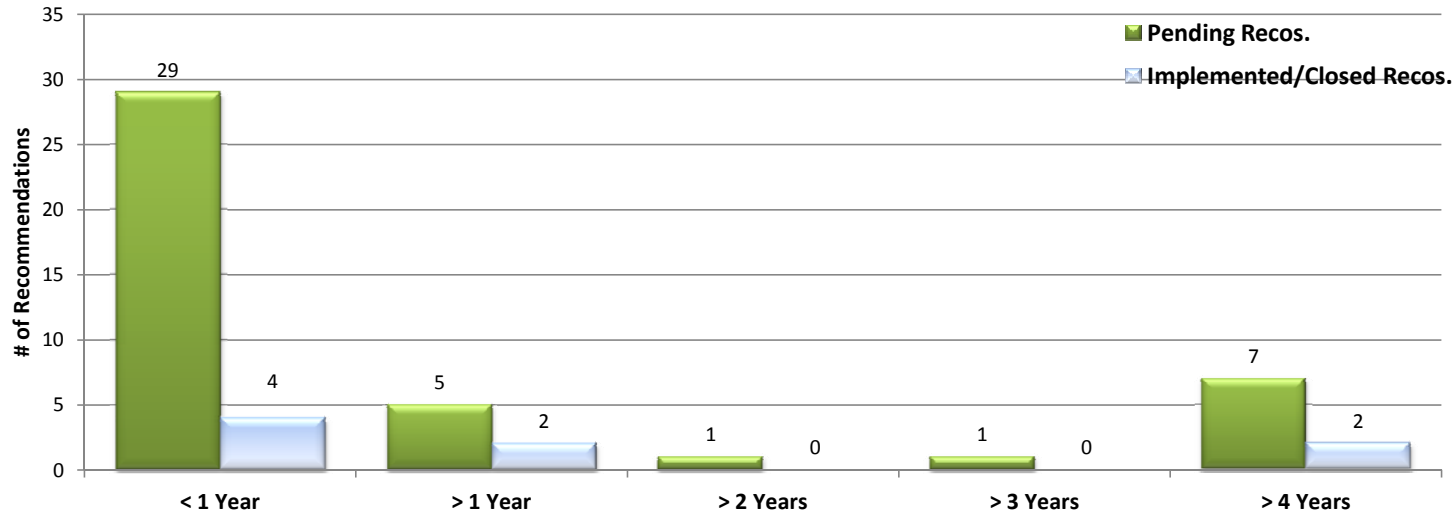
It is Internal Audit's responsibility to ensure that Management's action plans have been effectively implemented, or in the case of action plans that have yet to be implemented, to ensure that Management remains aware of the risks it has accepted by not taking action. In certain situations, if reported observations and recommendations are significant enough to require immediate action by Management, Internal Audit persistently monitors actions taken by Management until the observed risk is corrected and the recommendation implemented.

It is not the responsibility of the Chief Audit Executive to resolve the risks identified during audit work. However, in accordance with IIA Performance Standard #2600, it is Internal Audit's responsibility to communicate the acceptance of risks when the Chief Audit Executive concludes that Management has accepted a level of risk that may be unacceptable to the organization. As a result of this responsibility, Internal Audit communicates all pending *Management Action Plans* to LACERA's Executive Management for resolution. In this manner, Internal Audit escalates unsatisfactory responses or lack of Management actions - including the assumption of risk - to the appropriate levels of Executive Management.

QN/qn

Audit Recommendation Aged Report

November 1, 2015 through February 29, 2016



| Pending Recos. | < 1 Year | > 1 Year | > 2 Years | > 3 Years | > 4 Years |
|-------------------------|-----------|----------|-----------|-----------|-----------|
| Administrative Services | 4 | 1 | | | 6 |
| Benefits Division | 7 | 4 | 1 | 1 | |
| Communications | | | | | |
| Executive Office | 3 | | | | |
| FASD | 6 | | | | |
| Human Resources | | | | | |
| Internal Audit | | | | | 1 |
| Investments | 6 | | | | |
| Legal | | | | | |
| Retiree Health Care | 2 | | | | |
| Systems Division | 1 | | | | |
| Pending Total: | 29 | 5 | 1 | 1 | 7 |

| Implemented/Closed Recos. | < 1 Year | > 1 Year | > 2 Years | > 3 Years | > 4 Years |
|----------------------------------|----------|----------|-----------|-----------|-----------|
| Administrative Services | | | | | |
| Benefits Division | 1 | 2 | | | 1 |
| Human Resources | | | | | 1 |
| Internal Audit | | | | | |
| Investments | | | | | |
| Legal | 2 | | | | |
| Quality Assurance | | | | | |
| Retiree Health Care | | | | | |
| Systems Division | 1 | | | | |
| Implemented/Closed Total: | 4 | 2 | 0 | 0 | 2 |

Status of Recommendations Outstanding For More Than Two Years

| Division | Issue | Recommendation | Aging (years) | Revised Est. Implementation | Current status of implementation (Management's response) |
|-----------------------|---|--|---------------|-----------------------------|--|
| Admin Services | <i>Reception area in Administrative Services is not keycard controlled</i> | Install barrier to entry | 4 | 12/30/2016 | Management is currently in the design process for this renovation project which was funded for fiscal year 2015-2016. |
| | <i>All LACERA staff have access to the DPC</i> | DPC should be physically seperated | 4 | 6/30/2016 | Management is currently in the design process for this renovation project which was funded for fiscal year 2015-2016. |
| | <i>Employees must pass through the mail room to gain access to the copy center</i> | Secure Mail Room | 4 | 6/30/2016 | Management is currently in the design process for this renovation project which was funded for fiscal year 2015-2016. |
| | <i>Greater clarity & expansion needed in Purchasing Policy & the related Admin Manual</i> | Admin Services Division should modify & expand both the Purchasing Policy and the related Admin Manual | 4 | 6/30/2016 | Policy drafts are complete and Admin Services Management is working with division managers and the Legal Division to finalize the policy. This finalized draft will be presented to the Operations Oversight Committee for final approval in June 2016. |
| | <i>Daily operating procedures ("desk procedures") need enhancement re control procedures</i> | Procurement Unit should update & expand its written, daily operating procedures | 4 | 6/30/2016 | Policy drafts are complete and Admin Services Management is working with division managers and the Legal Division to finalize the policy. This finalized draft will be presented to the Operations Oversight Committee for final approval in June 2016. |
| | <i>"Sole-source" or bidding documentation not found</i> | (1) Promulgate requirements to other Divisions (2) Update desk procedures & (3) Contact FASD & agree upon document retention | 4 | 6/30/2016 | Policy drafts are complete and Admin Services Management is working with division managers and the Legal Division to finalize the policy. This finalized draft will be presented to the Operations Oversight Committee for final approval in June 2016. |
| Internal Audit | <i>Quality assurance and improvement programs are required</i> | Improve quality assurance program | 4 | 6/30/2016 | Internal Audit has included in its calendar year 2016 goals to develop a formal quality assurance and improvement program as required by Institute of Internal Auditing (IIA) Standards. |
| Benefits | <i>Need to review non-CIB transactions</i> | Forward non-CIB cases to QA for review | 3 | 6/30/2016 | Systems Management is developing a "work tree" that could potentially one day allow Benefits to forward non-Client In Basket cases to QA for review. As such, it is a long-term solution that will be considered when resources are available. It will be revisited before 6/30/2016, although no commitment to implement it has yet been reached. |
| | <i>1st Payment - Separation of Duties</i> | Implement secondary review | 2 | 6/30/2016 | This recommendation requires a cross-functional feasibility analysis and implementation between Systems and Benefits. As such, it is a long-term solution that will be considered when resources are available. It will be revisited before 6/30/2016, although no commitment to implement it has yet been reached. |

Audit Recommendation Follow Up

Administrative Services Division

Status: **New**

Audit Project: **Tenant Improvements (Nov. 24, 2015)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|---|--------------------------------------|--------|-----------|---------|
| Develop a formal policy to determine when Steering Committee's approval is required for TI projects and change orders | Policy Development | | 3/31/2016 | |
| Admin Services develop a process to independently reconcile TI projects' approved budget vs actual | Independently Reconcile Projects | | 3/31/2016 | |
| Admin Services and CBRE meet at the conclusion of each TI project to recap project | Conduct End-of-Project Recap Meeting | | 3/31/2016 | |

Status: **Pending**

Audit Project: **Privacy Review (Jul. 7, 2011)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|---|--|--------|------------|------------|
| Reception area in Administrative Services is not keycard controlled | # 8 - Install barrier to entry. | | 12/31/2011 | 12/31/2016 |
| All LACERA staff have access to the DPC | #5 - DPC should be physically seperated. | | 12/31/2011 | 6/30/2016 |
| Employees must pass through the mail room to gain access to the copy center | #7 Secure Mail Room | | 12/31/2011 | 6/30/2016 |

Audit Project: **Purchasing/Procurement (May 8, 2011)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|--------|----------------|--------|-----------|---------|
|--------|----------------|--------|-----------|---------|

Audit Recommendation Follow Up

Administrative Services Division

Status: **Pending**

Audit Project: **Purchasing/Procurement (May 8, 2011)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|---|--|--------|------------|-----------|
| Greater clarity & expansion needed in Purchasing Policy & the related Admin Manual | Admin Services Division should modify & expand both the Purchasing Policy and the related Admin Manual | | 12/30/2011 | 6/30/2016 |
| Daily operating procedures ("desk procedures") need enhancement re control procedures | Procurement Unit should update & expand its written, daily operating procedures | | 12/31/2011 | 6/30/2016 |
| "Sole-source" or bidding documentation not found | (1) Promulgate requirements to other Divisions (2) Update desk procedures & (3) Contact FASD & agree upon document retention | | 12/31/2011 | 6/30/2016 |

Audit Project: **Records Retention Guidelines (Jul. 26, 2013)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|--|----------------------|--------|-----------|------------|
| Record Retention Training - Division Manager Education | Management Education | | 6/30/2014 | 12/30/2016 |

Audit Project: **Vendor Master File Testing (Jun. 24, 2015)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|-------------------------|-------------------------------|--------|------------|---------|
| Vendor File Maintenance | Eliminate Unnecessary Vendors | | 12/31/2016 | |

Audit Recommendation Follow Up

Benefits Division

Status: **Implemented**

| Audit Project: Benefit Conversion Purchases (May 8, 2012) | | Actual | Estimated | Revised |
|--|---|-----------|------------|------------|
| Issue: | Recommendation | | | |
| Ongoing Contract Monitoring and Contract Rollover Reviews | Formalize Selection and Review Criteria | 2/29/2016 | 12/31/2011 | 12/31/2015 |

| Audit Project: Member Account Locks (Nov. 20, 2013) | | Actual | Estimated | Revised |
|--|---|-----------|-----------|------------|
| Issue: | Recommendation | | | |
| Dormant Accounts with Unclaimed Contributions | Locked all dormant accounts with unclaimed member contributions | 2/18/2016 | 6/30/2014 | 11/30/2015 |

| Audit Project: Previous service to contracts (QC/QA/CP) (Feb. 26, 2014) | | Actual | Estimated | Revised |
|--|---------------------------|------------|------------|-----------|
| Issue: | Recommendation | | | |
| Incomplete Member Disclosures | Update Member Disclosures | 12/31/2015 | 12/31/2014 | 1/31/2016 |

| Audit Project: Retired Death Benefit Audit (Oct. 28, 2014) | | Actual | Estimated | Revised |
|---|-------------------------------|-----------|-----------|-----------|
| Issue: | Recommendation | | | |
| Improving the Payment Hold Function | Access - Account Inactivation | 2/24/2016 | 6/30/2015 | 6/30/2016 |

Status: **New**

| Audit Project: Returned ADR Process Review (Nov 24, 2015) | | Actual | Estimated | Revised |
|--|-----------------------------|--------|-----------|---------|
| Issue: | Recommendation | | | |
| Member Notification of Possible Benefit Hold | Implement Member Disclosure | | 6/30/2016 | |
| Returned ADR Hold Tracking & Follow-Up | Develop Tracking Process | | 6/30/2016 | |

Audit Recommendation Follow Up

Benefits Division

Status: **New**

Audit Project: **Returned ADR Process Review (Nov 24, 2015)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|-----------------------|--------------------------------|--------|-----------|---------|
| Documented Procedures | Need for Documented Procedures | | 6/30/2016 | |

Status: **Pending**

Audit Project: **Claims - Process Objectives, Risks, Contols, Process Flows,and Procedural Gaps (April 12, 2012)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|------------------------------------|----------------------------|--------|------------|-----------|
| 1st Payment - Separation of Duties | Implement secondary review | | 12/31/2012 | 6/30/2016 |

Audit Project: **Claims Payroll Supervisor Policies/Procedures (Jul. 2, 2013)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|-------------------------------------|--|--------|------------|-----------|
| Need to review non-CIB transactions | Forward non-CIB cases to QA for review | | 12/31/2013 | 6/30/2016 |
| Potential for input errors | Develop field for logging first payment and monthly payment data | | 6/30/2014 | 6/30/2016 |

Audit Project: **Previous service to contracts (QC/QA/CP) (Feb. 26, 2014)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|----------------------|--------------------------|--------|-----------|-----------|
| Recreating Timelines | Certify Member Timelines | | 6/30/2014 | 6/30/2017 |

Audit Project: **Retired Death Benefit Audit (Oct. 28, 2014)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|--------------------------------|-----------------------------|--------|------------|-----------|
| Survivor Direct Deposit Set-up | Direct Deposit Confirmation | | 12/31/2014 | 6/30/2016 |

Audit Recommendation Follow Up

Benefits Division

Status: **Pending**

Audit Project: **Returned ADR Process Review (Nov 24, 2015)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|---|---|--------|-----------|---------|
| ADR Open Holds | ADR Open Holds - Member Verification | | 6/30/2016 | |
| ADR Hold Tracking Code | Implement ADR Hold Tracking Code | | 6/30/2016 | |
| ADR Open Holds | ADR Open Holds - Health Care Benefits Reinstatement | | 6/30/2016 | |
| Criteria for Placing & Removing ADR Holds | Review Criteria for Placing & Removing ADR Holds | | 6/30/2016 | |

Audit Project: **SCD Tax Indicator (Jul. 3, 2012)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|------------------------------------|---|--------|-----------|-----------|
| Two Different Disability Databases | Eliminate Double Entry and Continue Reconciling Disability Status | | 6/30/2014 | 7/31/2016 |

Audit Recommendation Follow Up

Executive Office

Status: **Pending**

| Audit Project: External Business Partner Security/Privacy (Jul. 10, 2015) | | | | |
|--|---------------------------------------|--------|------------|-----------|
| Issue: | Recommendation | Actual | Estimated | Revised |
| Due Diligence | Promulgate Due Diligence Policy | | 12/31/2015 | 4/30/2016 |
| Due Diligence | Conduct On-going Due Diligence | | 12/31/2015 | 4/30/2016 |
| Due Diligence | SOC-2 Review by Data Security Officer | | 12/31/2015 | 4/30/2016 |

Audit Recommendation Follow Up

Financial and Accounting Services Division

Status: **Pending**

Audit Project: **Investment Private Equity Operations (Jun. 25, 2015)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|--|--|--------|-----------|---------|
| No Process for Validating Private Equity Fees | Validate Private Equity fees | | 6/30/2016 | |
| No verification of the GPs auditors, financial statement opinions, or pro-rata valuation of investment | Verify that GP's auditors are reputable and registered with PCAOB | | 6/30/2016 | |
| No verification of the GPs auditors, financial statement opinions, or pro-rata valuation of investment | Verify results of GP's audit report | | 6/30/2016 | |
| No verification of the GPs auditors, financial statement opinions, or pro-rata valuation of investment | Develop process to annually reconcile LACERA's pro-rata share of NAV | | 6/30/2016 | |
| Compliance with GASB 72 Requirements | Ensure compliance with new GASB 72 requirements | | 6/30/2016 | |

Audit Project: **Wire Transfers Audit (Jul. 2, 2015)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|--------------------------------------|---------------------------|--------|-----------|-----------|
| Mangement of Wire Transfer Templates | Delete Obsolete Templates | | 1/31/2016 | 6/30/2016 |

Audit Recommendation Follow Up

Human Resources

Status: **Implemented**

| Audit Project: Time Card Fraud - HR (Apr. 23, 2008) | | Actual | Estimated | Revised |
|--|---|----------|-----------|------------|
| Issue: | Recommendation | | | |
| No Divisonal requirement to track employee attendance. | #1 - Development policy and procedure requirments for tracking employee attendance. | 2/1/2016 | 8/31/2010 | 12/31/2015 |

Audit Recommendation Follow Up

Internal Audit

Status: **Pending**

| Audit Project: External QAR of Internal Audit (Nov. 10, 2010) | | | | |
|--|--|--------|-----------|-----------|
| Issue: | Recommendation | Actual | Estimated | Revised |
| Quality assurance and improvement programs are required | #4 - Improve quality assurance program | | 6/30/2011 | 6/30/2016 |

Audit Recommendation Follow Up

Investments

Status: **Pending**

| Audit Project: Investment Private Equity Operations (Jun. 25, 2015) | | | | |
|--|----------------|--------|-----------|---------|
| Issue: | Recommendation | Actual | Estimated | Revised |

| | | | | |
|--------------------------------|--------------------------------|--|------------|-----------|
| No documented sourcing process | Develop sourcing documentation | | 12/31/2015 | 3/31/2016 |
|--------------------------------|--------------------------------|--|------------|-----------|

Audit Recommendation Follow Up

Investments Office

Status: **Pending**

Audit Project: **Investment Private Equity Operations (Jun. 25, 2015)**

| Issue: | Recommendation | Actual | Estimated | Revised |
|---|--|--------|------------|-----------|
| Due Diligence Checklists | Include guidelines for checklists and sign-off on checklists | | 12/31/2015 | 3/31/2016 |
| Limited back office due diligence performed | Include manager back-office review as part of due diligence | | 12/31/2015 | 3/31/2016 |
| Contract Compliance | Consider developing contract compliance function | | 3/31/2016 | |
| Private Equity Staffing and Consulting Services Levels | Evaluate Private Equity Staffing and Consultant Service Levels | | 3/31/2016 | |
| No formal Information Management System or CRM System to manage information | Consider implementing CRM System | | 6/30/2016 | |

Audit Recommendation Follow Up

Legal Division

Status: **Implemented**

| Audit Project: External Business Partner Security/Privacy (Jul. 10, 2015) | | Actual | Estimated | Revised |
|--|---|-----------|-----------|-----------|
| Issue: | Recommendation | | | |
| Contract Language & Form | Coordination of Legal, Privacy, & Data Security | 2/10/2016 | 9/30/2015 | 1/31/2016 |
| Contract Language & Form | Legal Office Review | 2/10/2016 | 9/30/2015 | 1/31/2016 |

Audit Recommendation Follow Up

Retiree Healthcare Division

Status: **Pending**

| Audit Project: External Business Partner Security/Privacy (Jul. 10, 2015) | | | | |
|--|------------------------------|--------|------------|-----------|
| Issue: | Recommendation | Actual | Estimated | Revised |
| Aon / RGS Printing - Contract Admin | Contract with RGS or New RFP | | 10/31/2015 | 7/31/2016 |
| Aon's Use of 3rd Party Vendor | Due Diligence at Aon | | 12/31/2015 | 7/31/2016 |

Audit Recommendation Follow Up

Systems Division

Status: **Implemented**

| Audit Project: Systems WebPortal Review October 31, 2014 | | Actual | Estimated | Revised |
|---|---------------------------|-----------|-----------|-----------|
| Issue: | Recommendation | | | |
| Portal Access Vulnerabilities | Vulnerability Remediation | 1/29/2016 | 4/1/2015 | 1/31/2016 |

Status: **New**

| Audit Project: Software License Compliance (Nov. 24, 2015) | | Actual | Estimated | Revised |
|---|---|--------|-----------|---------|
| Issue: | Recommendation | | | |
| Software License Compliance Monitoring Guidelines Needed | Develop software licensing compliance guidelines. | | 6/30/2016 | |




March 28, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

Gabriel Tafoya 
Senior Internal Auditor

Nathan Amick 
Internal Auditor

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **CONTINUOUS AUDITING PROGRAM PRESENTATION**

At the December 3, 2015 Audit Committee meeting, we presented the status of the Chief Audit Executive Goals Report which included a goal of developing the framework for a more formal process for scheduling, performing, and reporting the results of fraud detection and compliance testing. At that time, we indicated that the goal was in-progress and that we would provide the Audit Committee an overview of our framework and approach by the July 2016 Audit Committee meeting.

In the following presentation, we include the framework for our Continuous Auditing Program (CAP) which is our approach to develop a more formal process for scheduling, performing, and reporting fraud detection and compliance testing. The benefits of our CAP Program include the ability to analyze 100% of the data in a particular test and the ability to efficiently perform these tests on a frequent and repeated basis once they are set-up. Furthermore, Internal Audit can provide on-going assessments and more timely insights into LACERA's risk and internal control environment.

During our presentation we will explain how data analytics is an integral tool for our CAP Program. Finally, we will provide a live demonstration of how data analytics was used to perform a recent audit that was part of our CAP Program. We welcome the Audit Committee's comments and/or questions related to our presentation.

Continuous Auditing Program

By

Nate Amick and Gabe Tafoya

Introduction



Why are we talking about our Continuous Auditing Program (CAP)?

- Internal Audit's Calendar-Year **2015 Goals** included:
Develop a framework for a more formal process for scheduling, performing, and reporting the results of compliance and fraud indicator testing.

Presentation Roadmap



- **Defining Our Program**
 - What is CAP?
 - What is Continuous Auditing
 - What is Data Analytics? Why is it integral to CAP?
 - What is Fraud Testing? What is Compliance Testing?
- **Live Demonstration: *How we use data analytics***

Continuous Auditing Program



What is a “*Continuous Auditing Program?*”

- *Continuous audit testing for fraud and compliance incorporating data analytics as the primary auditing tool (e.g., **ACL**).*

Continuous Auditing



What is “*Continuous Auditing?*”

- *The performance of auditing activities on a repeated basis to provide on-going assessment and more timely insight into risk and control issues.*

Data Analytics



What does “*data analytics*” mean to us?

- The science of examining large data sets using audit software (e.g., ACL) to uncover exceptions, anomalies, hidden patterns, unknown correlations, to assist with the audit process.

Data Analytics Benefits



- 100% testing of data
- Enhanced understanding of controls in tested areas and more effective risk assessment
- Focused compliance and fraud testing

Data Analytics in Action



How do we currently use ACL?

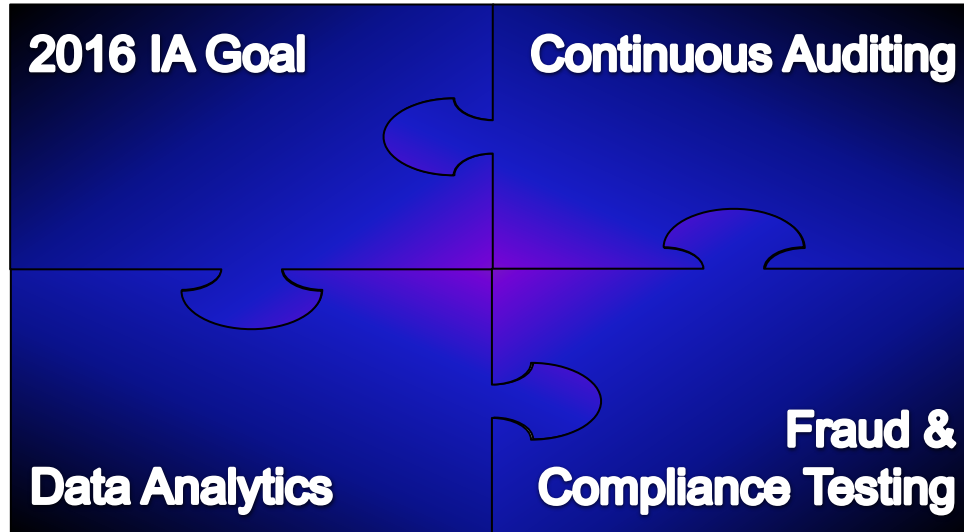
- Limited on-going audit tests (e.g., *New Payee Testing*)
- Audit tests on an “*ad hoc*” basis

Fraud & Compliance Testing



- ***Fraud testing***- Provides timely insight into fraud indicators. (e.g., *Benford's Law Test*)
- ***Compliance testing***- Ensuring compliance thru testing transactional data against established internal control rules and transactional profiles. (e.g., *960-Hour Limit Test*)

The Big Picture



Recent Fraud Test



Example: *Testing for Vendor-Employee Address Match*

- Started with a population of:
 - 4,000+ vendors, and;
 - 300+ employees
- Used ACL to sort & match by Zip Code

Recent Compliance Test



Example: *Testing for Duplicate Vendor Payments*

- Started with a population of 8,942 vendor payments valued at \$23,860,669.
- Used ACL to identify duplicate payment records by sorting and matching a variation of the following fields:
 - Vendor numbers
 - Invoice numbers
 - Invoice dates
 - Invoice amounts

ACL: Live Demonstration



We start with a population of 8,942 vendor payments valued at \$23,860,669.

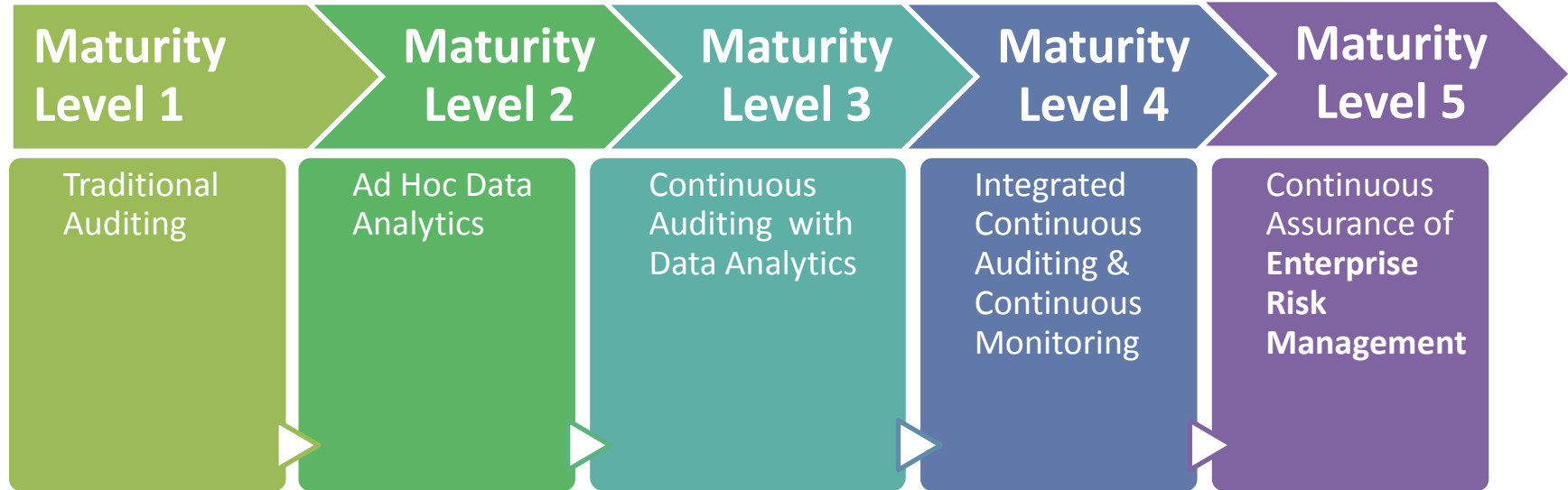
With a few clicks, ACL can provide results for vendor payments that have the:

- 1) Same vendor numbers, invoice numbers, invoice dates, and invoice amounts.
- 2) Same vendor numbers, invoice numbers, invoice dates, **but different invoice amounts.**
- 3) Same vendor numbers, invoice numbers, and invoice amounts, **but different invoice dates.**
- 4) Same vendor numbers, invoice dates, and invoice amounts, **but different invoice numbers.**
- 5) Same invoice numbers, invoice dates, and invoice amounts, **but different vendor numbers.**

Audit Maturity Model



Where are we **now**, and where do we **want to be**?



Thank You!!!

- Questions?






March 23, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **QUALITY ASSURANCE REVIEW – 2016**

Internal Audit's Quality Assurance Review (QAR) was completed in January 2016. The QAR, which is conducted at least once every five years, is performed in accordance with the Institute of Internal Audit International *Standards for the Professional Practice of Internal Auditing*. The primary objectives of the QAR include:

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

The consultant, George Shemo, found that Internal Audit **generally conforms** to the *Standards*. This opinion, which is the highest of three possible ratings, means that policies, procedures, and practices are in place to implement the *Standards* and other requirements necessary for ensuring a professional Internal Audit activity. As part of the QAR, Mr. Shemo also identified opportunities for improvement that will assist Internal Audit in more fully complying with the *Standards* and providing enhanced services to LACERA. Staff will discuss the QAR Report at the April 2016 meeting.

RB:lc

Attachment

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REPORT ON THE EXTERNAL QUALITY ASSESSMENT OF

LOS ANGELES COUNTY
EMPLOYEES RETIREMENT ASSOCIATION
OFFICE OF INTERNAL AUDIT

January 15, 2016

Overall Opinion on Conformance

January 15, 2016

Under a contractual agreement with the Los Angeles County Employees Retirement Association (LACERA), I have conducted an independent external Quality Assessment (QA) of LACERA Internal Audit (IA). Being recognized by the IIA as fully qualified to conduct this QA of LACERA IA, my review was made in accordance with the methodology prescribed within the Institute of Internal Auditors' (IIA) "Quality Assessment Manual" (Issued August 1, 2013), and the requirements of IIA *Standard 1312*. The QA was conducted during the period of January 7, 2016 to January 15, 2016 at the offices of LACERA in Pasadena, California.

As a result of my review, it is my opinion, as of January 15, 2016, LACERA IA "Generally Conforms" with the IIA "Definition of Internal Auditing", the *Standards*, and the Code of Ethics. Further, I have found LACERA IA to be effective in carrying out its mission, as set forth in its charter and expressed in the expectations of the LACERA Audit Committee and senior management.

The overall assessment of "Generally Conforms" is the highest of three possible ratings that can be determined through a Quality Assessment; the others being "Partially Conforms" and "Does Not Conform". Please see "Attachment A", which is an integral part of this report, for an assessment of conformance with individual IIA *Standards*. I have provided recommendations to increase conformance for those individual IIA *Standards* that have been rated as "Partial Conformance", and to enhance the IA efforts in adding value to LACERA.

George J Shemo, CPA, CGMA

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Executive Summary

Purpose

As requested by the LACERA Chief Audit Executive (CAE), G Shemo Consulting conducted an independent external QA of LACERA IA. The principal objectives of the QA were to:

- Assess IA conformance to The IIA “Definition of Internal Auditing”, *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Code of Ethics;
- Evaluate IA’s effectiveness in carrying out its mission, as set forth in its charter and expressed in the expectations of the LACERA Audit Committee and senior management;
- Identify opportunities to enhance IA management and work processes, as well as its ability to add value to LACERA.

Scope and Methodology

Prior to my onsite arrival at LACERA to conduct the QA, the CAE provided advance preparation documents to me, which contained detailed information about IA and LACERA. Additionally, I conducted a preliminary meeting with the CAE and his staff in order to gather additional background information, select executives and operating managers for interviews during my onsite field work, and to finalize planning and administrative arrangements for the QA. Onsite fieldwork commenced on January 7, 2016 and concluded on January 15, 2016.

During the onsite fieldwork I conducted extensive interviews with a current member of the Audit Committee, members of executive management, selected operating managers, a representative of the external CPA firm, and selected members of the IA staff. I also evaluated the IA risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA work papers and reports.

Executive Summary

Scope and Methodology (Continued)

The QA consisted of my assessing the following IA functions:

- CAE Reporting Lines and Quality Assurance
- Organization of LACERA IA
- Communications with the Audit Committee and Senior Management
- Risk Assessment and Engagement Planning
- Staff Professional Proficiency
- Information Technology Capabilities
- Productivity and Value Added to LACERA
- Audit Engagement Work Papers and Reports
- Audit Tools and Methodologies
- Engagement and Staff Management Processes

Summary of Recommendations

For Conformance

The following recommendations are provided to guide LACERA IA in achieving a level of general conformance with the individual *Standards* identified in Attachment A:

1. Strengthen and enhance Quality Assurance and Improvement
2. Implement procedures for audit engagement work programs

Executive Summary

Summary of Recommendations (Continued)

For Enhancement

The following recommendations are provided as suggestions for enhancing IA ability for adding value to LACERA operations and processes:

1. Review the IA Charter on a more frequent basis
2. Expand management and reporting of IA resource requirements
3. Update the “IA Operations Guide”
4. Enhance engagement audit reports
5. Increase operating management’s awareness of IA

Executive Summary

Commendations

During my review, I observed the LACERA IA environment to be well-structured and progressive, that the IIA *Standards* are appropriately understood, and IA management is endeavoring to provide useful audit tools and implement appropriate practices in order to add value to the operations of LACERA. It is appropriate to commend LACERA IA for the following:

- The CAE maintains a very strong relationship with the LACERA Audit Committee, while also being recognized as a well-respected member of senior management.
- IA is perceived as providing value added assurance and consulting services to their LACERA customers.
- IA staff viewed very positively for their professionalism, objectivity, business acumen, and their communication and collaboration skills.
- IA staff is well credentialed with multiple professional certifications
- IA audit engagements and reports are substantial and valuable.
- IA annual planning for excellent interaction with the Audit Committee and all levels of LACERA management
- IA is instrumental in LACERA risk management.

Recommendations for Conformance

1. Strengthen and enhance Quality Assurance and Improvement

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

References:

Standard 1311

Practice Advisory 1311-1

Practice Guides - Measuring IA Effectiveness and Efficiency

- Quality Assurance and Improvement Program

The CAE has implemented proper procedures that provide for the elements of a Quality Assurance and Improvement Program (QAIP) as it relates to the ongoing monitoring of the performance of the IA activity. Going forward, the CAE should develop procedures that provide for the required internal periodic self-assessment of IA activity conformance with the IIA *Definition of Internal Auditing*, the *Code of Ethics*, and the *Standards*.

The internal periodic self-assessments should be made by individual(s) having sufficient knowledge of internal audit practices and at least an understanding of the elements of the IIA *International Professional Practices Framework*, and could be performed by members of the IA staff or other qualified audit professionals assigned elsewhere within LACERA. The IIA *Quality Assessment Manual* can serve as the basis for periodic internal assessments.

As a means of further enhancing the ongoing monitoring of IA activity performance, the CAE could consider expanding the use of performance metrics. Expansion of metrics could focus on:

- Improvement in staff productivity
- Adequacy of engagement planning and supervision
- Increase in efficiency and effectiveness of the audit process
- Completion of audits timely and on budget

Recommendations for Conformance

1. Strengthen and enhance Quality Assurance and Improvement **(Continued)**

The CAE could also consider further enhancements to the QAIP by adding information regarding the QAIP within the formal written status reports provided periodically to the Audit Committee and senior management, and by updating the “IA Operations Guide” to include all elements of the QAIP.

2. Implement procedures for audit engagement work programs

Implementing Stakeholder: Internal Audit

Reference:

Standards 2240, 2240.A1

Work performed in conducting audit engagements is appropriately planned and properly supervised. However, only the preliminary planning and general audit procedures (planning memo) are documented within the engagement work papers. The detailed testing procedures, which are developed by the CAE, audit manager, and audit staff, are not formally documented within the work papers. The CAE should implement procedures to ensure that the detailed audit procedures are documented in the form of work programs. The written work programs should be in sufficient detail to include the procedures for identifying, analyzing, evaluating, and documenting information and conclusions. The work programs should also provide evidence that supervisory approval has been given, prior to staff conducting the work. Any adjustments to the original work programs should also be approved appropriately.

Recommendations for Enhancement

1. Review the IA Charter on a more frequent basis

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

Reference:

Practice Advisory: 1000-1

The IA Charter is intended to facilitate a periodic assessment of the adequacy of IA purpose, authority, and responsibility. While the IA Charter is complete and appropriately approved by the AC and senior management, the CAE could increase the frequency of his periodic assessment of the Charter's viability. An annual review would be appropriate period of time.

2. Expand management and reporting of IA resource requirements

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

References:

Practice Advisories 2020-1, 2030-1

The process developed by the CAE appropriately provides the Audit Committee and senior management with a risk based annual plan that determines the priorities of the IA activity consistent with LACERA's goals. The plan, as presented to senior management for their review and for the approval of the Audit Committee, properly communicates IA planned activities and resource requirements, and provides the basis for the CAE to ensure that IA resources are appropriate, sufficient, and effectively deployed.

Recommendations for Enhancement

2. Expand management and reporting of IA resource requirements **(Continued)**

There are potential opportunities to further enhance the CAE's management and reporting of IA resource requirements. The CAE could consider the following:

- Develop audit frequency guidelines, with the approval of the Audit Committee and senior management, which establishes a time period over which all auditable entities within the audit universe receive appropriate audit resources commensurate with their assessed risk. The frequency guidelines will establish and represent the “risk appetite” for LACERA. The length of the time period will be established based on the frequency guideline adopted for low risk entities. High risk entities, depending on their frequency guideline, will be audited more than once over the time period. Moderate risk entities may be audited more than once over the time period.
- Revise the annual plan format to include all auditable entities within the audit universe. For each entity to be audited within the current year, based on the established frequency guidelines, provide a resource estimate and brief scope description. For all the other entities, indicate the future year in which you estimate they will be audited.
- Revise the annual plan format to include time estimates for the expenditure of staff resources for non-audit purposes such as vacations, holidays, sick leave, and training. The plan should account for all staff time, except for the CAE.

Recommendations for Enhancement

3. Update the “IA Operations Guide”

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Operating Management

Reference:

Practice Advisory 2040-1

The CAE could boost IA administrative and audit engagement processes by completing a comprehensive update of the “IA Operations Guide”.

The CAE is responsible for establishing policies and procedures to guide IA. While their form and content is not stipulated within the *Standards*, given the size and structure of IA and the complexity of LACERA operations, maintaining a written policies and procedures manual would be appropriate.

A comprehensive update of the Guide would accomplish the following:

- Existing policies and procedures are made current;
- Obsolete information is eliminated;
- New processes are added;
- IA staff functions effectively;
- Consistency added to administrative processes, audit work, and work paper preparation;
- New IA staff members have an authoritative resource for reference and direction;
- Operating management can have a clearer understanding of the purpose and processes of the IA activity;
- Provide a valuable resource in any efforts to implement “Control Self-Assessment” within LACERA.

Recommendations for Enhancement

4. Enhance Audit Engagement Reports

Implementing Stakeholder: Internal Audit

Associated Stakeholders: LACERA Management
Audit Committee

Reference:

Standard 2430

There are potential opportunities to enhance IA audit reports. The CAE could consider the following:

- Based on the results of the QAIP, LACERA IA audit report opinions could be revised to state that audit engagements are “*Conducted in Conformance with the International Standards for the Practice of Internal Auditing*”.
- Increase the consistency in audit report opinions by always, rather than sometimes, addressing the adequacy of policy, procedure, or process design when it is appropriate, in addition to conformance.
- When appropriate, audit report opinions should provide LACERA management with a clear understanding of the level of assurance they can place in the policy, procedure, or process audited. The objective to be achieved is for management to have reasonable, but not absolute assurance.
- Continue current efforts to increase the timeliness of audit reports.

Recommendations for Enhancement**5. Increase operating management's awareness of IA****Implementing Stakeholders: Internal Audit****Operating Management****Reference:****Successful Practice**

The structure of the reporting relationship of IA within LACERA is entirely appropriate. It achieves complete independence for the IA, and establishes the proper environment to allow the IA to effectively support LACERA in fulfilling its mission and achieving its goals and objectives. However, there appears to be an opportunity to enhance the ability of the IA to add value to LACERA by raising the awareness of IA operations and services by operating managers having limited interaction with IA.

One of the keys to having a highly effective IA is the communication links, both formal and informal, between the CAE and all levels of management. At this point in time, the communication links between the CAE and senior management are well established and working effectively. The communication links between the IA and some operating management could be enhanced. Senior management could encourage these operating managers to reach out and include the CAE in the information flow for their operations. Likewise, the CAE could periodically reach out to all levels of operating management to ensure the IA is poised to continually meet their needs.

The CAE could consider taking the following steps for enhancing the relationship with LACERA management:

- Implement a practice of periodic face to face meetings with all operating managers and their staffs with a focus on current events

and ways IA can be of assistance to them, and provide them with an



G Shemo Consulting

Recommendations for Enhancement

5. Increase operating management's awareness of IA (Continued)

- Update the intranet web page for IA providing information on services and activities of IA. The web page could be used to relate issues of common interest found in audit engagements, without disclosing the specific department in which the engagement was performed.
- Encourage and assist operating managers in implementing internal control self-assessment processes. Provide training to operating departments on control evaluation techniques, and serve as facilitators for self-assessment implementation.

CAE Response

I have read this report in its entirety, and accept responsibility for communicating it to the appropriate members of the Audit Committee and executive management. I understand that the “Recommendations for Conformance” should be implemented to achieve a rating of “General Conformance” for the individual IIA *Standards* which have been rated “Partial Conformance” as shown in Attachment A to this report. Accordingly, I accept the “Recommendations for Conformance” as appropriate to the IA of LACERA. Further, I understand the “Recommendations for Enhancement” and I will consider incorporating them as part of the IA “Quality Assurance and Improvement Program” as appropriate. I will prepare an action plan for implementing the appropriate recommendations and provide it to executive management and the Audit Committee.



Richard Bendall
Chief Audit Executive
LACERA Internal Audit

Attachment A

| | | GC | PC | DNC |
|------------------------------|---|----------|----|-----|
| OVERALL EVALUATION | | x | | |
| ATTRIBUTE STANDARDS | | x | | |
| 1000 | Purpose, Authority, and Responsibility | x | | |
| 1010 | Recognition of the Definition of Internal Auditing | x | | |
| 1100 | Independence and Objectivity | x | | |
| 1110 | Organizational Independence | x | | |
| 1111 | Direct Interaction with the Board | x | | |
| 1120 | Individual Objectivity | x | | |
| 1130 | Impairments to Independence or Objectivity | x | | |
| 1200 | Proficiency and Due Professional Care | x | | |
| 1210 | Proficiency | x | | |
| 1220 | Due Professional care | x | | |
| 1230 | Continuing Professional Development | x | | |
| 1300 | Quality Assurance and Improvement Program | x | | |
| 1310 | Requirements of the Quality Assurance and Improvement Program | x | | |
| 1311 | Internal Assessments | | x | |
| 1312 | External Assessments | x | | |
| 1320 | Reporting on the Quality Assurance and Improvement Program | x | | |
| 1321 | Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> " | x | | |
| 1322 | Disclosure of Noncompliance | x | | |
| PERFORMANCE STANDARDS | | x | | |
| 2000 | Managing the Internal Audit Activity | x | | |
| 2010 | Planning | x | | |
| 2020 | Communication and Approval | x | | |
| 2030 | Resource Management | x | | |
| 2040 | Policies and Procedures | x | | |

Attachment A

| | | | | |
|---------------------------|---|----------|---|--|
| 2050 | Coordination | x | | |
| 2060 | Reporting to Senior Management and the Board | x | | |
| 2070 | External Service Provider and Organizational Responsibility for Internal Auditing | NA | | |
| 2100 | Nature of Work | x | | |
| 2110 | Governance | x | | |
| 2120 | Risk Management | x | | |
| 2130 | Control | x | | |
| 2200 | Engagement Planning | x | | |
| 2201 | Planning Considerations | x | | |
| 2210 | Engagement Objectives | x | | |
| 2220 | Engagement Scope | x | | |
| 2230 | Engagement Resource Allocation | x | | |
| 2240 | Engagement Work Program | | x | |
| 2300 | Performing the Engagement | x | | |
| 2310 | Identifying Information | x | | |
| 2320 | Analysis and Evaluation | x | | |
| 2330 | Documenting Information | x | | |
| 2340 | Engagement Supervision | x | | |
| 2400 | Communicating Results | x | | |
| 2410 | Criteria for Communicating | x | | |
| 2420 | Quality of Communications | x | | |
| 2421 | Errors and Omissions | x | | |
| 2430 | Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> " | x | | |
| 2431 | Engagement Disclosure of Nonconformance | NA | | |
| 2440 | Disseminating Results | x | | |
| 2450 | Overall Opinions | NA | | |
| 2500 | Monitoring Progress | x | | |
| 2600 | Management's Acceptance of Risks | x | | |
| IIA Code of Ethics | | x | | |



LACERA INTERNAL AUDIT DIVISION

IRS Section 415(b) Adjustments Audit

January 8, 2016

Audit Conducted By:
David Redman, CIA, CFE
Senior Internal Auditor

EXECUTIVE SUMMARY

Section 415(b) of the Internal Revenue Code limits the amount an individual can receive each year from defined benefit plans such as LACERA's. Compliance by LACERA is important to retain its tax-exempt status.

Limits imposed by Section 415(b) apply only to the employer-paid portion of LACERA retirement benefits and are based on income and age thresholds. Therefore, the determination of the specific threshold limit for each individual member is complex and LACERA employs its consulting actuary, Milliman, to make the determination for anyone that appears close to the limit. LACERA Plans A (General and Safety) are exempted from the 415(b) limits through a "grandfathering" clause in the IRS code section. Plans C-Safety & G are effectively prevented from becoming subject to these limits as the Public Employees Pension Reform Act (PEPRA) that brought about the establishment of these plans imposed far more restrictive limits on the maximum amount of pensionable earnings.

Prior to PEPRA, for the affected plans, the County Employees Retirement Law of 1937 (CERL) imposed no such limits and promised members their full retirement based on their final compensation and years of service. To address this conflict, Congress amended IRS Code Section 415 to allow counties to establish a separately administered and separately funded benefit plan to pay the portion of any promised benefit that exceeds Section 415(b) limits. Los Angeles County created the Replacement Benefit Plan as a result.

LACERA directly pays affected retirees only the maximum amount of their monthly benefit that is permitted under Section 415(b); the difference is paid through the County-funded and administered Replacement Benefit Plan. Retirees impacted by Section 415(b) receive two separate payments each month, one from LACERA and one from the County Replacement Benefit Plan. Each month, those affected do actually receive the total gross amount of the benefit to which they are entitled according to the provisions of their respective LACERA retirement plans.

LACERA utilizes its actuary, Milliman, to assure strict adherence to Section 415(b). LACERA provides Milliman with sufficient information to enable Milliman's detailed calculations, including the identification of benefit amounts that should be excluded from consideration. Milliman provides LACERA with annual updates to 415(b) limits for all those previously subject to them as well as those who fall under them anew; and LACERA provides this information to the County.

This process has never been audited by LACERA and this audit was requested for inclusion in this year's Audit Plan by the LACERA Executive Office. Using a listing of benefit recipients as of April 30, 2015, which is *after* any COLA increases, Internal Audit calculated the annualized benefit payments to be made in 2015 to the 60,670 recipients. This resulted in 34 individual benefits ostensibly limited by Section 415(b) and which required analysis and examination in detail.

The Internal Audit Division's testwork and analysis revealed no negative findings. The policies and procedures in place at LACERA appear to function properly and contain adequate controls to identify and, importantly, preclude problems and errors. LACERA's actuary, Milliman, provides LACERA needed information in a timely fashion. In turn, LACERA provides Milliman and the County with the information needed by them.

415(b) Adjustments Audit

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BACKGROUND

Section 415(b) of the Internal Revenue Code limits the amount an individual can receive each year from a tax qualified, defined benefit plan such as LACERA's. Limits imposed by Section 415(b) apply only to the employer-paid portion of LACERA retirement benefits and are based on income and age thresholds. Should LACERA not comply with IRS Code Section 415(b), it can lose its tax-exempt status. Nonetheless, LACERA benefits are promised under the County Employees Retirement Law of 1937 (CERL), which imposes no such limits.

To address this conflict, Congress amended Section 415 to allow:

- "Grandfathering" of specific members (safety and general) given certain conditions, thus exempting them from Section 415(b) limits. (These are all of LACERA Plan A members.)
- Los Angeles County to establish a separately administered and separately funded benefit plan to pay the portion of any promised benefit that exceeds Section 415(b) limits.
[NOTE: California's Public Employee Pension Reform Act (PEPRA) places far more stringent limits on pensionable compensation, effectively preventing members in Plan C-Safety and Plan G from becoming subject to the Section 415(b) limits.]

It's important to realize that all LACERA retirees (including the highly compensated) will receive the full amount of their promised benefit. The County created the Replacement Benefit Plan (Replacement Benefit Plan) in November, 2010, to ensure all LACERA retirees receive the full amount of the promised benefits. The Replacement Benefit Plan is the separately administered and separately funded benefit plan the County created.

LACERA pays affected retirees the maximum amount of their monthly benefit permitted under Section 415(b); the difference is paid through the County's Replacement Benefit Plan. Each month, those members affected receive the total gross amount of the benefit to which they are entitled according to the provisions of their respective LACERA retirement plans.

Retirees impacted by Section 415(b) receive two separate payments each month, one from LACERA and one from the County Replacement Benefit Plan. Thus, the total gross amount of the retiree's benefit remains unchanged regardless of the 415(b) limit placed on LACERA.

This process has never been audited by LACERA; and this audit was requested for inclusion in the 2015-2016 Audit Plan by the LACERA Executive Office.

LACERA utilizes its actuary, Milliman, to assure strict adherence to Section 415(b). LACERA provides Milliman with sufficient information to enable detailed calculations, including the identification of benefit amounts that should be excluded from consideration. Milliman provides LACERA with annual updates to 415(b) limits for all those previously subject to them as well as those who fall under them anew; and LACERA provides this information to the County.

AUDIT OBJECTIVES

To assess the adequacy of procedures and actual practices of LACERA relating to the County's Replacement Benefits Plan, ensuring that they are consistent, reliable, and appropriately adhere to IRS Code 415(b) and, if necessary, the IRS' "Self-Correction Program".

AUDIT SCOPE

- The most recent full (January thru December) calendar year period and thru the present;
- All established policies, written procedures and actual practices performed during the examination period;
- All benefit payments made in the examination period, including any recoupments necessary;
- All 415(b)-related reports produced by LACERA's Consulting Actuary and LACERA's own Systems Division in the examination period;
- All related General Ledger transactions at LACERA relating to the 415(b) process.

AUDIT METHODOLOGY

- Obtained and analyzed: IRS Code 415(b) itself; L.A. County Code, Title 5, Chapter 5.95 - *Replacement Benefit Plan*; the written procedures of LACERA's Member Services, Benefits, and FASD Divisions; pertinent correspondence and other documentation relating to the initiation of the Replacement Benefit Plan; and information from LACERA's websites, both inter- and intra-net.
 - Interviewed relevant staff members as to procedures actually executed.
- Obtained and reviewed the current "Green Flag" and the "Red Flag Matrix" Reports, the Replacement Benefit Participant Log, and pertinent information provided by LACERA's actuary (Milliman).

NOTE: The Green Flag report, provided by Milliman, shows potential future participants in the Replacement Benefit Plan. The Red Flag Matrix Report shows Milliman's detailed methodology in determining Replacement Benefit Plan participants.
- Obtained a listing of all retirees and survivors/beneficiaries as of April 30, 2015 – that is, *after* any annual COLA increases – containing the amount of monthly benefit paid to each.
 - Calculated the annualized benefit payments to be made in 2015 for the 60,670 recipients on the listing.
 - Determined all retirees and survivors/beneficiaries whose aggregated benefit payments exceeded their respective 415(b) limits, which resulted in 34 cases to be analyzed and examined in detail.
 - Determined that all such cases were being appropriately administered by LACERA and (by inference) the County.
- Reviewed the most recent Financial Accounting Services Division (FASD) reconciliation of *Member & Employer Contributions* and analyzed the process by which the County's Replacement Benefit Plan is funded.

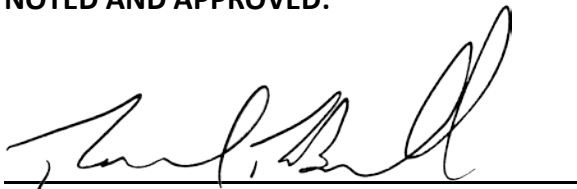
AUDIT RESULTS

- All retirees and survivors/beneficiaries who become subject to the 415(b) limits are handled appropriately.
- No retirees or survivor/beneficiaries subject to the 415(b) limits received overpayments, so none have been subject to the IRS's Self-Correction Program – that is, required recoupments – which was adopted by LACERA.
- The policies and procedures in place at LACERA appear to function properly and contain adequate controls to identify and, importantly, preclude problems and errors.
- The coordination of payment amounts between LACERA and the County appears to function well.
 - LACERA's reconciliation of the County's *Member & Employer [Actual] Contributions* to LACERA's own calculated and anticipated receipts from the County assures appropriate funds are received.
- LACERA's actuary, Milliman, provides needed information in a timely fashion; and LACERA provides Milliman and the County likewise.

CONCLUSION

The Internal Audit Division's testwork and analysis uncovered no negative findings. The Benefits Division is to be congratulated on the efficacy and consistency of its procedures. Internal Audit thanks the Benefits Division staff in particular for critical assistance in this audit and comprehensive explanations of this complicated process.

NOTED AND APPROVED:



Richard Bendall, *Chief Audit Executive*

January 8, 2016

Date

REPORT DISTRIBUTION

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Member Data File Exception Processing

March 24, 2016

AUDIT PERFORMED BY:

George Lunde

Senior Internal Auditor

EXECUTIVE SUMMARY

This was a limited scope review of Systems Division Analyst (Systems Analyst) exception processing of member data. We included this on our Fiscal Year 2015-16 Audit Plan to test the recent enhancements that the Systems Division had made to minimize the need for exception processing and facilitate documentation to support any exception processing when it is performed.

From the time of initial membership in LACERA, each member's data is continually updated in a complex series of retirement system databases. These updates can occur either automatically (e.g. the passage of time changes the members current age), or through periodic interfaces or batch transactions from the County or other Plan Sponsors (e.g. monthly payroll or other organizational changes such as department number changes), or finally through transactions initiated either by the member or LACERA and affected by Member Services or Benefits Division staff. This would include address, name, or beneficiary changes or requests to purchase previous service time.

For each of these interfaces or transactions there are controls built into the system, such as edit checks, reconciliations and audit trails, as well as manual or workflow driven controls including dual blind entry, checker reviews, exception report processing or extensive transaction auditing performed by the Quality Assurance Division. In certain instances, exception processing that cannot be performed through the Workspace System, with its built-in edits and controls, is required. Benefits Division staff must then escalate these requests to their lead and supervisory staff for an authorized request to be submitted to the Systems Analysts for exception processing.

In the normal course of business, the control over the accuracy of Systems Analyst processing is that Benefits Division staff then review the change made during their continued transaction processing of the member. Unauthorized transactions processed may only be detected in the normal course of business when sometime in the future a request is made for processing on the members account, (such as a request for a retirement estimate), and Benefits and Quality Assurance staff then review the members account.

We conducted this audit to validate and assess internal controls for current exception processing procedures by Systems Analysts. We reviewed audit trails of over 2.5 million transactions during the period of January 2015 thru September 2015, and identified 2,700 exception-processing transactions by Systems Analysts during the period.

Our audit determined that all transactions completed by the Systems Analysts were in fact authorized, justified, accurately processed, and well documented in the members accounts in the Workspace system. We also observed the control activities of the Benefits and Quality Assurance Division staff that were performed after the Systems Analyst processing.

Please Note: While our testing included only a relatively small sample of 50 transactions, we intend to refer this audit step to our Continuous Processing Unit for periodic ongoing testing.

Member Data File Changes

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BACKGROUND

Our prior review of Systems Analyst exception processing of member data in 2008 noted that, although audit trails captured transaction activity, sometimes the transaction lacked supporting documentation. Since that review, the Systems Division has made extensive enhancements intended to minimize exception processing and facilitate documentation, when it does occur.

From the time of initial membership in LACERA, each member's data is continually updated in a complex series of retirement system databases. These updates can occur either automatically (e.g. the passage of time changes the members current age), or through periodic interfaces or batch transactions from the County or other Plan Sponsors (e.g. monthly payroll or other organizational changes such as department number changes), or finally through transactions initiated either by the member or LACERA and affected by Member Services or Benefits Division staff. This would include address, name, or beneficiary changes or requests to purchase previous service time. For each of these interfaces or transactions there are controls built into the system, such as edit checks, reconciliations, and audit trails as well as manual or workflow driven controls including dual blind entry, checker reviews, exception report processing or extensive transaction auditing performed by the Quality Assurance Division.

The emphasis of the Systems Division over the last ten (10) years has been to enhance the automated workflow system (Workspace) to provide for the processing of membership transactions through the system. The Systems Division has eliminated access to most of the "01" Screens that previously provided for certain operational staff to access and change member data without restriction, without the built-in edits and controls of the Workspace System. There is still some very limited and restricted access to a few of those screens, but the Systems Division plans to eliminate them all by the end of Fiscal Year 2016.

We conducted this audit to validate and assess internal controls for current exception processing procedures by Systems Analysts only. This review did not include exception processing that may be still performed within the Benefits or other operating divisions. We reviewed audit trails of over 2.5 million transactions during the period of January 2015 thru September 2015, and identified 2,700 exception-processing transactions by Systems Analysts during the period.

AUDIT OBJECTIVES

- To validate member data file exception processing by Systems Analysts is supported with appropriate justifications and authorizations in the membership WorkSpace system.
- To assess internal controls for restricting Systems Analyst access to member data files and processing transactions, except those for which an authorized and specific request is received from the Benefits Division.

AUDIT SCOPE

- All Systems Analyst transactions effecting change in member accounts from January 2015 thru September 2015.
- Access control policies, procedures and reports in effect during the examination period.
- Daily, standard, membership system transaction processing by Benefits Division staff and Member Services Division staff lay outside the scope of this review, except in determining which of them were referred to the Systems Division for Systems Analyst processing.

AUDIT METHODOLOGY

- Developed audit software test scripts and applied them to 2.5 million transactions affecting the status of member accounts.
 - Identified 2,700 exception-processing transactions by Systems Analysts during the period. Noted Systems Analysts generated one third of these transactions to delete or remove erroneous data so that Benefits Division staff could complete processing of a member account. Selected fifty [50] of the remaining 1,900 transactions for detailed validation to source documentation and evidence of authorization.
 - This sample size provided for a review, in detail, of a good cross section of sample transactions from all eleven (11) Systems Analysts currently in the Systems Division.
- Obtained and reviewed system-generated lists of user access privileges and associated roles.
- Reviewed member account monitoring reports and account review processes with Benefits Division and Quality Assurance & Metric Division personnel.

AUDIT RESULTS

- All member data file changes processed by Systems Analysts we tested were supported with appropriate justifications and authorizations in the membership Workspace system. The reason for Systems Analyst processing was consistently noted in Workspace comment annotations.
- There is a well-established review process for Benefits Division staff to escalate exception processing to Lead and Supervisory Benefits Division personnel prior to requesting Systems Analyst help.
- Security access profiles appropriately limit menu options and functional capabilities to ensure proper segregation of duties and minimize risk of transaction or modification errors.

- Daily control report and account review procedures conducted by Benefits Division and Quality Assurance & Metrics Division provide for independent oversight of all transactions performed by Systems Analysts to ensure that all transactions are authorized and appropriate.

CONCLUSION

Overall, Systems Analyst exception processing activities were well-documented and easily validated in the membership Workspace System. Third-party transaction and account monitoring processes, (processes performed by the Benefits and Quality Assurance Divisions), are in effect and working as designed. We would like to thank Systems Division, Benefits Division, and Quality Assurance & Metrics Division staff for their cooperation and assistance in facilitating this assessment.

NOTED AND APPROVED



Richard Bendall
Chief Audit Executive

Date: March 24, 2016

REPORT DISTRIBUTION

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Duplicate Vendor Payments

March 29, 2016

AUDIT PERFORMED BY:

Gabriel Tafoya, CISA
Senior Internal Auditor

EXECUTIVE SUMMARY

As part of our fiscal year 2015-2016 audit plan, we completed an audit of duplicate vendor payments. This audit is a component of our Continuous Auditing Program which leverages technology such as Audit Command Language (or "ACL") software to perform our audit testing. ACL allows us to analyze large sets of data relatively quickly using algorithmic formulas. One of Internal Audit's goals for calendar year 2015 was to enhance our Continuous Auditing Program by adding additional fraud and compliance audits to the program. As such, performing this compliance audit on vendor payments using ACL was in alignment with our divisional goals.

Duplicate vendor payments are one of several types of overpayment errors that can occur within the Financial Accounting and Services Division (FASD) operations if appropriate controls are not in place. Duplicate payments represent a vulnerability to any organization, and a loss if undetected. Additionally, the existence of duplicate payments can indicate that control deficiencies exist within the FASD's vendor payments process. The primary objectives of our audit was to determine if duplicate vendor payments exist and assess the effectiveness of LACERA's internal controls in preventing duplicate payments to vendors.

To perform our audit, we used ACL to conduct a series of data analytics tests on 100% of the vendor invoice payments paid through LACERA's accounting system, Great Plains, for calendar year 2015. LACERA paid approximately 1,040 different vendors during our testing period. This amounted to 8,942 vendor payments totaling \$23,860,669. We also interviewed FASD Management and staff to obtain an understanding of their existing controls related to preventing duplicate payments.

Based on our audit test work, we uncovered no duplicate payments. While our data analytics tests identified 418 potential duplicate records (aka "false positives"), we performed further test work on the false positives and confirmed that they were not in-fact duplicate payments. Overall, we found that FASD accounting controls related to preventing duplicate payments to vendors are functioning as intended. Internal Audit determined there is minimal risk of LACERA issuing duplicate payments to vendors.

FASD Management and Staff are to be congratulated on the efficacy and consistency of their procedures. Internal Audit thanks FASD Management and Staff in particular for their assistance in this audit.

Duplicate Vendor Payments

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INTRODUCTION

As part of our fiscal year 2015-2016 audit plan, we completed an audit of duplicate vendor payments. This audit is a component of our Continuous Auditing Program which leverages technology such as audit analytic software to quickly test and perform analytics on large data sets. One of Internal Audit's goals for calendar year 2015 was to enhance our Continuous Auditing Program by adding additional fraud and compliance audits to the program. As such, performing this compliance audit on vendor payments using audit analytic software is in alignment with our goals. Moreover, this audit provides an assessment of LACERA's internal controls in preventing duplicate payments in an area of operations where LACERA makes approximately 9,000 vendor payments annually totaling over \$20 million.

BACKGROUND

Continuous Auditing Program

Historically, Internal Audit has used audit software on an "ad hoc" basis to perform data analytics for certain audits and special projects. However, as part of our divisional goals of performing additional fraud and compliance audits, we are developing a formal Continuous Auditing Program which will incorporate data analytics as the primary auditing tool for the program. The software used to perform the data analytics is called Audit Command Language (or "ACL").

The framework for our program will allow for a more formal process for scheduling, performing and reporting the results of our fraud and compliance testing. The research and design requirements of each test can take time on the front-end to set-up. However, once each test is set-up and programmed into ACL, performing the same test on different time periods in the future will be fairly easy to implement.

Benefits of our Continuous Auditing Program include the ability to analyze 100% of the data in a particular test and the ability to efficiently perform these tests on a frequent and repeated basis once they are set-up. Specifically, Internal Audit can provide on-going assessments and more timely insights into LACERA's risk and internal control environment.

Fraud and compliance audit areas that can greatly benefit from the use of data analytics are those that involve a high degree of transactions and are associated with significant external cash flows. As such, testing for duplicate vendor payments was a logical audit to perform as part of our Continuous Auditing Program.

Vendor Payments Process and Duplicate Payment Controls

As mentioned previously, LACERA makes approximately 9,000 vendor payments annually totaling over \$20 million. Financial Accounting and Services Division (FASD) is responsible for the vendor payment process which includes entering vendor invoices into LACERA's accounting system, Great Plains, and reviewing each payment to ensure the required approvals exist prior to making the payment. As part of the vendor payment process, FASD must also have controls to prevent making duplicate payments (e.g., sending duplicate payments for the same invoice or paying duplicate invoices sent by the vendor).

Duplicate payments have three major negative impacts on organizations: (1) the direct loss from overpaying for goods and services, (2) the cost of resources to recover overpayments if duplicate payments are subsequently identified, and (3) the unnecessary reductions in cash balances – even if overpayments are recovered.

Many accounting software packages have some controls over paying duplicate invoices. Currently, Great Plains has a built-in automated duplicate invoice check that prevents keying in a duplicate invoice number for the same vendor and warns the user if they attempt to enter a duplicate invoice. FASD also performs a periodic review of vendor transaction history by reviewing management reports to identify any potential duplicate amounts.

Although it appears FASD payment controls are in place that prevents duplicate vendor payments, Internal Audit decided to assess the effectiveness of these controls using data analytics.

AUDIT OBJECTIVE(S)

- Determine if duplicate vendor payments exist.
- Assess the effectiveness of FASD internal controls in preventing duplicate vendor payments.

AUDIT SCOPE

- Our test work **included** all vendor invoice payments paid through the Great Plains accounting system for calendar year 2015.
- Our test work **excluded** wire transfers, procurement cards, investment funding payments, and payments to members.

AUDIT METHODOLOGY

We began by interviewing FASD Management and staff to obtain an understanding of their existing controls related to preventing duplicate payments.

To start our testing, we extracted all vendor payments for calendar year 2015 from Great Plains. This amounted to 1,040 different vendors paid by LACERA and 8,942 vendor payment transactions valued at \$23,860,669. We then analyzed 100% of the transactions using Audit Command Language (ACL) to identify potential duplicate invoice payments to vendors.

To accomplish our test objectives, we used ACL to perform the following five tests:

Provide results for vendor invoice payments that have the:

1. Same vendor numbers, invoice numbers, invoice dates, and invoice amounts.
2. Same vendor numbers, invoice numbers, invoice dates, but different invoice amounts.
3. Same vendor numbers, invoice numbers, and invoice amounts, but different invoice dates.
4. Same vendor numbers, invoice dates, and invoice amounts, but different invoice numbers.
5. Same invoice numbers, invoice dates, and invoice amounts, but different vendor numbers.

We then applied "fuzzy matching" to each of the five tests. Fuzzy matching incorporates a more exact matching process by eliminating dashes and dots from the invoice number.

The methods described above are typical data analytics best practices for identifying potential duplicate payments and are also published within the Information Systems Audit and Control Association (ISACA) White Papers that address duplicate payment testing.

AUDIT RESULTS

Internal Audit's data analytics and testing uncovered no duplicate payments to vendors. Below are detailed results of our testing:

The five tests we performed using data analytics resulted in 418 potential duplicate vendor payment records totaling \$844,030. The table below summarizes the results of each type of test.

| Test # | Vendor # | Invoice # | Invoice Date | Invoice Amount | Potential Duplicate Record Detected |
|--------|-----------|-----------|--------------|----------------------|-------------------------------------|
| 1 | Match | Match | Match | Match | 9 |
| 2 | Match | Match | Match | Different | 10 |
| 3 | Match | Match | Different | Match | 9 |
| 4 | Match | Different | Match | Match | 378 |
| 5 | Different | Match | Match | Match | 12 |
| | | | | Total Records | 418 |
| | | | | Total Amount | \$844,030 |

While the results indicated that 418 records matched our testing criteria for duplicate payments, many times with data analytics, test results can provide false positives. In this case, false positives would be reported exceptions that are not true duplicates but end up in our testing results for various reasons.

To determine whether the 418 records we received were false positives or in-fact duplicate vendor payments, we performed additional test work by sampling 40 records. The first 20 records were selected on a judgmental basis consisting of high dollar values. The last 20 records were selected randomly to provide a more representative sample. We then requested supporting documentation from FASD to determine whether each of the 40 payments (valued at \$340,285 in total) were legitimate.

We found that each of the 40 records sampled and tested, was a false positive. We worked with FASD to confirm the reasons for the false positives, which were primarily due to: 1) multiple invoices from the same vendor that were paid with a single check payment; this accounted for a majority of false positives which is expected since this is a normal business practice, 2) payment transactions that were initially entered incorrectly into Great Plains and had to be voided and re-entered; this accounted for a few false positives.

Using our data analytics and targeted analysis, we did not identify any duplicate vendor payments paid by LACERA in calendar year 2015.

CONCLUSION

Overall, based on our audit, we noted that FASD accounting controls related to preventing duplicate payments are functioning as intended. Our audit testing and analysis determined there is minimal risk of LACERA issuing duplicate payments to vendors. FASD Management and Staff are to be congratulated on the efficacy and consistency of its procedures. We would like to thank FASD Management and Staff for their cooperation and assistance during the audit.

In designing this audit, we set-up the auditing scripts in ACL so we could easily test for duplicate vendor payments in the future. We will continue to assess the effectiveness of FASD's duplicate payment controls on a periodic basis as part of the Continuous Auditing Program.

NOTED AND APPROVED



Richard Bendall
Chief Audit Executive

Date: March 29, 2016

REPORT DISTRIBUTION

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**For further information, contact:
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