

AUDIT COMMITTEE MEETING

OF THE
BOARD OF RETIREMENT & BOARD OF INVESTMENTS

JULY 20, 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

July 20, 2016 – 9:00 a.m.

*The Committee may take action on any item on the Agenda,
and Agenda Items may be taken out of order.*

2016 COMMITTEE MEMBERS

Joseph Kelly – *Chair*
Michael S. Schneider – *Vice Chair*
Vivian Gray – *Secretary*
David Green
Shawn R. Kehoe

AUDIT COMMITTEE CONSULTANT

Rick Wentzel

I. APPROVAL - MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF APRIL 15, 2016 (Attached)

II. PUBLIC COMMENT

III. EXECUTIVE SUMMARY

Richard Bendall, *Chief Audit Executive*
(Updated: June 30, 2016)

IV. ACTION ITEMS

- A. Recommendation, as submitted by Richard Bendall, *Chief Audit Executive*, and David Redman, *Senior Internal Auditor*, that the Audit Committee:
1. Submit a recommendation memo to the LACERA Board of Retirement for the Board's consideration to select one firm named to become LACERA's external financial statement auditor for the five year period beginning January 1, 2017 and ending December 31, 2021, with a two year extension at the option of LACERA, or

AGENDA – REGULAR MEETING OF THE AUDIT COMMITTEE

July 20, 2016

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2. Submit a memo to the LACERA Board of Retirement that refers two or more candidate firms for presentations to the Board for final consideration in selecting LACERA's external financial statement auditor for the five year period beginning January 1, 2017 and ending December 31, 2021, with a two year extension at the option of LACERA

(Memo Dated: June 30, 2016)

- 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: June 30, 2016)

- C. Recommendation that the Audit Committee, if the Charter Changes are Approved, for Amendments to County Code, Section 6.127.040, on LACERA MAP Program as submitted by Steven Rice, *Chief Legal Counsel*, and Johanna Fontenot, *Senior Staff Counsel*.

(Memo Dated: July 1, 2016)

- D. 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: June 30, 2016)

- E. Recommendation that the Audit Committee review and approve the Audit Plan for Fiscal Year End 2017 as submitted by Richard Bendall, *Chief Audit Executive*, and Leisha Collins, *Principal Internal Auditor*, Quoc Nguyen, *Principal Internal Auditor*

(Memo Dated: June 30, 2016)

V. ADMINISTRATIVE REPORTS

- A. **Internal Audit Annual Report – Fiscal Year End 2016**

Richard Bendall, *Chief Audit Executive*

(Report Dated: June 30, 2016)

- B. **Recommendation Follow-Up Report**

Quoc Nguyen, *Principal Internal Auditor*

(Memo Dated: June 30, 2016)

- C. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit**

Richard Bendall, *Chief Audit Executive*

(Verbal Presentation)

VI. AUDIT REPORTS

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

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

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

- D. **Office Renovations Audit**
Christina Logan, *Senior Internal Auditor*
(Report Issued: April 12, 2016)

- E. **Minor Survivor Eligibility Audit**
Nathan Amick, *Internal Auditor*
(Report Issued: June 29, 2016)

VII. FOR INFORMATION ONLY

- A. **Legal Office Opinion on Audit Committee’s Authority Under the Brown Act to Meet in Closed Session with Respect to CAE Personnel Issues**
Steven Rice, *Chief Legal Counsel*
(Memo Dated: July 1, 2016)

- B. **Attorney-Client Privilege/Confidential Memo**
Human Resources Compliance Audit Recommendations
– Liebert Cassidy Whitmore (LCW)
Steven Rice, *Chief Legal Counsel*
Richard Bendall, *Chief Audit Executive*

VIII. CONSULTANT COMMENTS

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

IX. GOOD OF THE ORDER

(For Information Purposes Only)

X. ADJOURNMENT

AGENDA – REGULAR MEETING OF THE AUDIT COMMITTEE

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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].

Persons requiring an alternative format of this agenda pursuant to Section 202 of the Americans with Disabilities Act of 1990 may request one by calling Cynthia Guider at (626)-564-6000 extension 3327, from 8:00 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date.

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

April 15, 2016 – 9:05 a.m.

2016 COMMITTEE MEMBERS

PRESENT: Joseph Kelly – *Chair*
Vivian Gray – *Secretary*
David Green
Shawn R. Kehoe

ABSENT: Michael S. Schneider – *Vice Chair*

BOARD MEMBERS AT LARGE

None

AUDIT COMMITTEE CONSULTANT

Rick Wentzel

STAFF, ADVISORS, AND PARTICIPANTS

Robert Hill	Beulah Auten
John Popowich	Bernie Buenaflor
Richard Bendall	Derwin Brown
Sylvia Botros	Ted Granger
Leisha Collins	Cynthia Guider
Elvia Gonzalez	John Nogales
Christina Logan	James Pu
George Lunde	Steven Rice
Quoc Nguyen	
David Redman	
Gabriel Tafoya	
Darla Vidger	

I. ELECTION OF AUDIT COMMITTEE CHAIR, VICE CHAIR, AND SECRETARY

Mr. Green called for the nomination of the Chair, Vice-Chair, and Secretary of the Audit Committee for the 2016 Calendar Year. Mr. Kehoe nominated Mr. Kelly for Chair and Mr. Green seconded the nomination. Mr. Kelly was unanimously elected Chair of the 2016 Audit Committee.

Mr. Green called for the nomination of the new Vice-Chair. Mr. Kelly nominated Mr. Schneider for Vice Chair and Mr. Green seconded the nomination. Mr. Schneider was unanimously elected Vice Chair of the 2016 Audit Committee.

Mr. Green called for the nomination of Secretary. Mr. Kelly nominated Ms. Gray for Secretary and Mr. Green seconded the nomination. Ms. Gray was unanimously elected Secretary of the 2016 Audit Committee.

II. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF DECEMBER 3, 2015

Mr. Kelly called for a motion to approve the Minutes of the Audit Committee Meeting of December 3, 2015. Mr. Kehoe presented a motion for approval and Mr. Green seconded the motion. The Minutes were approved unanimously.

III. PUBLIC COMMENT

No items to report.

IV. EXECUTIVE SUMMARY

Richard Bendall, *Chief Audit Executive*

Mr. Bendall introduced Rick Wentzel, the new Audit Committee Consultant. Mr. Wentzel provided a brief introduction.

Mr. Bendall provided an overview of the April 15, 2016 Audit Committee meeting and updates to the Audit Committee meeting book.

V. AUDIT COMMITTEE GUIDE AND ORIENTATION

Richard Bendall, *Chief Audit Executive*

Darla Vidger, *Internal Auditor*

Mr. Bendall and Ms. Vidger reviewed the Audit Committee Guide and Orientation.

Mr. Bendall also reviewed the results from Internal Audit's Quality Assurance Review from January 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)

The Audit Committee did not feel it was necessary to change the meeting dates for this calendar year. Instead, the Committee confirmed the subsequent meeting dates of July 20, 2016 and December 1, 2016.

- 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)

Ms. Collins provided an overview of the Audit Committee Charter updates.

The Committee provided feedback that they would like further clarification on the Committee's CAE oversight authority from Mr. Rice as well as greater clarification on the Committee's compliance monitoring responsibilities.

Mr. Kehoe moved that staff incorporate the guidance provided by the Committee and Committee Consultant into the Audit Committee Charter to bring back to the Committee at the next meeting. A second to the motion was provided by Mr. Green. The motion was approved unanimously.

- 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)

As the Audit Committee Charter and the Internal Charter are so closely related, staff noted that they will apply the guidance provided by the Committee on the Audit Committee Charter to the Internal Audit Charter as well. Staff stated that they would bring the updated Charters to the next Audit Committee.

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)

Mr. Redman provided an overview of the External Auditor Request for Proposals (RFP) requirements, timeline and planned evaluation process.

Mr. Kelly inquired how the RFP requirements were changed to allow for more respondents. Staff provided clarification on the proposed changes to the RFP.

Mr. Kelly moved to approve the recommendation as stated. Mr. Green provided a second to the motion. The motion was approved unanimously.

VII. REPORTS

A. Risk Assessment Process

Richard Bendall, *Chief Audit Executive*
(Updated: March 29, 2016)

Mr. Bendall provided an overview of the Internal Audit Risk Assessment Process and its purpose including proposed changes to the process.

B. Internal Audit Goal Report

Richard Bendall, *Chief Audit Executive*
(Updated: March 23, 2016)

Mr. Bendall provided an overview of the Internal Audit Goal Report and the planned goals for the 2016 Calendar Year.

C. Audit Plan Status Report

Richard Bendall, *Chief Audit Executive*
(Memo Dated: March 31, 2016)

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: March 22, 2016)

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.

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

E. Status of Other External Audits Not Conducted at the Discretion of Internal Audit

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

Mr. Bendall noted that the planned RDS Audit will be going to RFP and that Internal Audit has been participating in Private Equity Fee Audit.

F. Continuous Auditing Program (CAP)

Gabriel Tafoya, *Senior Internal Auditor*
Nathan Amick, *Internal Auditor*
(Presentation Dated: March 28, 2016)

Mr. Nguyen and Mr. Tafoya discussed the goals and progression of the Internal Audit Continuous Auditing Program.

VIII. FOR INFORMATION ONLY

A. Quality Assurance Review – 2016

G. Shemo Consulting Inc.
(Report Issued: January 15, 2016)

(This information was taken out of order and discussed by Mr. Bendall immediately following the Committee Orientation.)

B. IRS Section 415b Adjustments Audit

David Redman, *Senior Internal Auditor*
(Report Issued: January 8, 2016)

Mr. Kelly moved that items B, C, and D in the Information Only Section be moved to the July Meeting Agenda and that comments on the reports be provided to the CAE. A second to the motion was provided by Ms. Gray. The motion passed unanimously.

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)

Mr. Wentzel stated that he would be out of the Country and unable to attend the July meeting.

X. GOOD OF THE ORDER

(For Information Purposes Only)

Ms. Gray stated that she was grateful to staff for a well-developed Orientation. Mr. Kelly echoed Ms. Gray's comments and the complemented staff on the quality of the materials.

XI. EXECUTIVE SESSION

A. Performance Evaluation – 2016 Goals & Expectations

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

Title: Chief Audit Executive

XII. ADJOURNMENT

The meeting adjourned at 12:08 p.m.

DV/dv

Talking Points

External Financial Auditor Selection

Audit Charters

2016 Annual Report

Proposed Audit Plan

Executive Summary

LACERA AUDIT COMMITTEE MEETING JULY 20, 2016

This summary provides highlights for the July 20, 2016 meeting.

Selection of LACERA's External Financial Auditor

Finalist respondents to the External Financial Audit Request for Proposals (RFP) will make presentations to the Committee for review and action.

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 action.

Internal Audit Annual Report FYE 2016

Staff will provide a presentation featuring all of the significant work performed since the last Audit Committee meeting. This presentation will include a summary of completed audit projects during the past fiscal year.

Proposed Internal Audit Plan FYE 2017

Internal Audit is requesting your Committee approve the FYE 2017 Internal Audit Plan. Staff will deliver a brief presentation on the development of this Audit Plan including the completed Annual Risk Assessment and highlight planned work to be performed.



July 1, 2016

TO: All Members
LACERA Audit Committee

Rick Wentzel
Audit Committee Consultant

FROM: Richard Bendall *RAB*
Chief, Internal Audit

David Redman *DR*
Senior Internal Auditor

FOR: July 20, 2016 | Audit Committee Meeting

SUBJECT: **SELECTION OF LACERA'S EXTERNAL FINANCIAL AUDITOR**

RECOMMENDATION

1. Submit a recommendation memo to the LACERA Board of Retirement for the Board's consideration to select one firm named to become LACERA's external financial statement auditor for the five year period beginning January 1, 2017 and ending December 31, 2021, with a two year extension at the option of LACERA, or
2. Submit a memo to the LACERA Board of Retirement that refers two or more candidate firms for presentations to the Board for final consideration in selecting LACERA's external financial statement auditor for the five year period beginning January 1, 2017 and ending December 31, 2021, with a two year extension at the option of LACERA

The Audit Committee Charter indicates your Committee is responsible for making a recommendation to the Board of Retirement regarding appointment, compensation and work of the certified public accounting firm employed by LACERA to perform the annual financial statement audit. LACERA's agreement with its current, external financial statement auditor concludes with the completion of this year's financial statement audit for fiscal year ending June 30, 2016.

With your Committee's approval, staff issued a Request for Proposal (RFP) in April of this year from qualified certified public accounting firms to perform the annual attest audits of LACERA's financial statements for a five-year period beginning with fiscal year 2017 and with a two-year extension at LACERA's option. Four accounting firms submitted proposals:

- Brown Armstrong Accountancy Corporation
- Eide Bailly LLLP
- Mayer Hoffman McCann P.C.
- Plante & Moran PLLC

RFP responses were reviewed by a staff Evaluation Group comprised of two LACERA Division Managers and four senior staff members from several LACERA Divisions who evaluated and came to a consensus on the scoring for each firm's proposal. The Evaluation Group found three top scoring firms best qualified to perform the annual attestation audits of LACERA's financial statements and removed the lowest scoring audit firm from further consideration in this search.

The three finalist firms, Brown Armstrong, Eide Bailly, and Plante & Moran have been invited to make presentations to you for consideration at this July 20, 2016, meeting.

CONCLUSION

Internal Audit recommends your Committee review attached information and the results of the RFP evaluation panel's attached evaluations, appraise the finalists' presentations, and direct Internal Audit to either:

1. Submit a recommendation memo to the LACERA Board of Retirement for the Board's consideration to select one firm named to become LACERA's external financial statement auditor for the five year period beginning January 1, 2017 and ending December 31, 2021, with a two year extension at the option of LACERA

OR

2. Submit a memo to the LACERA Board of Retirement that refers two or more candidate firms for presentations to the Board for final consideration in selecting LACERA's external financial statement auditor for the five year period beginning January 1, 2017 and ending December 31, 2021, with a two year extension at the option of LACERA

EXECUTIVE SUMMARY

LACERA's agreement with its external financial statement auditor concludes with the completion of this year's audit of the financial statements for fiscal year ending June 30, 2016. In April 2016, LACERA issued a request for proposal (RFP) from qualified certified public accounting firms to perform the annual attest audits of LACERA's financial statements for a five year period beginning in January 2017, with the option of a two year extension at LACERA's discretion. Four accounting firms submitted proposals; Brown Armstrong Accountancy Corporation (Brown Armstrong), Eide Bailly LLP, Mayer Hoffman McCann P.C., and Plante & Moran PLLC.

The RFP responses were reviewed by a staff Evaluation Group comprised of two LACERA Division Managers and four senior staff members from several LACERA Divisions who evaluated and came to a consensus on the scoring for each firm's proposal. The Evaluation Group found three top scoring firms qualified to perform the annual attestation audits of LACERA's financial statements and removed the lowest scoring audit firm from further consideration in this search. The three finalist firms, Brown Armstrong, Eide Bailly, and Plante & Moran., have been invited to present to your Committee for your consideration in making a recommendation to the Board of Retirement.

Brown Armstrong has satisfactorily performed LACERA's external financial statement audits for the past fourteen years. Their two five-year Audit Services Agreements ("Agreements") with LACERA began with the audit of the 2003 fiscal year-end financial statement and both were extended at LACERA's option for the additional two years. Brown Armstrong's Agreement concludes with the completion of this year's financial audit for fiscal year ending June 30, 2016.

At the Audit Committee meeting held on April 15, 2016, your Committee authorized the issuance of a RFP for an external certified public accounting firm to perform the annual audit of LACERA's financial statements. The Statement of Work for this upcoming contract may be found in APPENDIX A. The proposed contract term is five years, for the fiscal years ending 2017-2021, with an optional two-year extension. The "Auditor Minimum Qualifications" for this RFP may be found in APPENDIX B.

SEARCH PROCESS

On April 20, 2016, LACERA issued a request for proposal (RFP) from qualified certified public accounting firms to perform annual attest audits of LACERA's financial statements. LACERA intends to award a five-year agreement beginning January 1, 2017, with the option of a two-year extension at LACERA's discretion.

In order to ensure a good response rate, Internal Audit sent copies of the RFP or notifications of the RFP issuance to 42 accounting firms, in addition to posting the RFP on LACERA's web site. The 42 accounting firms notified of the RFP publication consisted of top ranked national firms by revenue, top ranked western regional firms by revenue, eleven firms provided by Internal Audit's contacts through the Association of Public Pension Fund Auditors (APPFA), and ten additional firms known to staff or firms that had expressed a previous interest in proposing. All rankings were taken from Bloomberg's *Supplement to Accounting Today*.

Prior to submitting proposals, respondent firms were required to submit an *Intent to Bid* in addition to a *Minimum Qualification Certification* for the LACERA financial attestation audit services. Nine such *Intents to Bid* with the related *Minimum Certification Certifications* were received. However, only the following four accounting firms submitted proposals:

- Brown Armstrong Accountancy Corporation
- Eide Bailly LLLP
- Mayer Hoffman McCann P.C.
- Plante & Moran PLLC

EVALUATION PROCESS

RFP responses were evaluated by a staff Evaluation Group ("Group") comprised of the Division Managers from the Financial & Accounting and the Systems Divisions, and four senior staff members of the Financial & Accounting Services, Legal, and Internal Audit Divisions.

First, the Group individually determined if each firm met the Minimum Qualifications and the proposal provided all of the information requested in the RFP. Second, each Group Member separately evaluated and scored each proposal for firm qualifications and experience, staff qualifications and experience, audit planning and approach, and fees, based on the evaluation criteria specified in the RFP. The rating for each evaluation section contributes the below-stated percentage of each firm's overall score. (For more detail regarding the criteria considered in each evaluation section please see APPENDIX C.) Third, Internal Audit called each of the finalist's references for independent verification of their qualifications. The Group convened to review and discuss their evaluations and arrive at a combined final score for each firm's proposal.

<u>Evaluation Section</u>	<u>Weight</u>
Firm Qualifications and Experience	30%
Professional Staff Qualifications and Experience	35%
Audit Planning and Approach	25%
Fees	10%

FIRM SCORES

The highest score possible for each firm is 100. Each firm's overall score, ranked from high to low, are provided below. Based on the information provided in each proposal, the Group determined the level of relevant experience presented by each firm was clearly delineated between the top three firms and the bottom firm. The Group removed the lowest scoring firm – Mayer Hoffman McCann – from further consideration in this search. That firm's proposal exhibited a limited ability to perform services substantially similar to and/or conform to LACERA's needs, in addition to raising concerns in other areas.

A detailed breakdown of firm scores may be found in APPENDIX D. A brief summary of the Group's additional areas of concern relating to Mayer Hoffman McCann is located in APPENDIX E.

Total Firm Scores

	Brown Armstrong	Plante & Moran	Eide Bailly	Mayer Hoffman McCann
Total Firm Score	90.9	89.5	88.0	81.8

FEE COMPARISON

The staff Evaluation Group found all of the firms' fees to be reasonably competitive, although there are disparities in the (LACERA calculated) average fees per audit hour among the competing firms. Hourly fee disparity may be attributable to each firm's allocations of senior and junior staff assigned to LACERA's audit. For instance, a higher hourly fee may suggest more emphasis on LACERA's engagement by more experienced staff. Another disparity noted among proposals is the number of audit hours each firm proposes to expend on LACERA's financial statement audits. Proposed engagement hours from the top three candidate firms range from 981 to 1,197 hours. For reference, the Group noted the incumbent firm, Brown Armstrong, allocated 1,047 audit hours (*without* GASB 67/68 or 74/75 included) to LACERA's financial statement audit in fiscal year 2015.

It is important to note that each firm presented fees which would not be exceeded. This remains true regardless of the number of actual audit hours the firm expends to complete the engagement.

Average Annual Not to Exceed Fees

	Brown Armstrong	Plante & Moran	Eide Bailly	Mayer Hoffman McCann
Average Annual Fee	\$132,442	\$138,125	\$153,360	\$167,087
Total Proposed Audit Hours per Year	1,197	1,036	981	1,237
Average Fee / Audit Hour	\$111	\$133	\$156	\$133

FINALIST EVALUATIONS

The staff Evaluation Group found all three top scoring firms, Brown Armstrong, Plante & Moran, and Eide Bailly, qualified to perform the annual attestation audits of LACERA's financial statements. Each firm has been invited to present to your Committee for further consideration in making your recommendation to the Board of Retirement. A brief overview of each firm is located under each firm's respective tab at the end of this report.

ADDITIONAL EVALUATION CONSIDERATIONS

Incumbent Auditor

Actual experience conducting the audit assignment gives Brown Armstrong a competitive advantage. Higher incumbent scores may be attributable somewhat to the Group's tendency toward risk aversion and LACERA staff's general satisfaction with Brown Armstrong's past performance.

Auditor Rotation

California Gov't Code, Section 12410.6 (b): "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 Controller may waive this requirement if he or she finds that another eligible public accounting firm is not available to perform the audit."

Brown Armstrong has complied with this Code in the proposal it submitted. It indicates that it will replace its current Engagement Partner, Mr. Andrew Paulden, with Ms. Rosalva Flores, also a partner with the firm, who has 17 years of governmental accounting experience with Brown Armstrong. Additionally, Brown Armstrong indicates that its new Engagement Technical Reviewer is Ms. Lindsey McGuire, a "Shareholder-in-Training" who has 8 years of governmental accounting experience. So, Brown Armstrong is eligible to become LACERA's external, financial auditor for the full 5-year term of the contract to be awarded plus the possible 2-year extension; and it may do so without any application to the California State Controller.

A detailed breakdown of the arguments FOR and AGAINST Auditor Rotation can be found in APPENDIX F.

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CONCLUSION

The Audit Committee Charter indicates the Audit Committee is responsible for making a recommendation to the Board of Retirement regarding the appointment, compensation and work of the certified public accounting firm employed by LACERA to perform the annual financial statement audit. Staff's finding is that all three top scoring firms, Brown Armstrong, Eide Bailly, and Plante & Moran are qualified to perform the annual attestation audits of LACERA's financial statements. Each firm will be presenting to your Committee at your July 20, 2016 Meeting for your consideration in awarding the five (5) year agreement to provide annual attest audits beginning January 1, 2010, with a two (2) year extension at LACERA's option.

Appendices

Appendix A – Statement of Work
Appendix B – Auditor Minimum Qualifications
Appendix C – Evaluation Criteria
Appendix D – Final Score Breakdown
Appendix E – Firm Score and Selection
Appendix F – Arguments FOR & AGAINST Audit Firm Rotation

Finalist Firm Profiles

Brown Armstrong
Eide Bailly
Plante & Moran

STATEMENT OF WORK
ANNUAL ATTEST AUDITS OF LACERA'S FINANCIAL STATEMENTS
Fiscal Years Ending June 30, 2017 through June 30, 2021

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),
- 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**.

**STATEMENT OF WORK
ANNUAL ATTEST AUDITS OF LACERA'S FINANCIAL STATEMENTS
Fiscal Years Ending June 30, 2017 through June 30, 2021**

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
<ol style="list-style-type: none"> 1. Independent Auditor's Report re Financial Statements) – Draft (5 copies) 2. Independent Auditor's Report re GASB Pronouncements 68 and 75 – Draft (5 copies) 	<p>October 5</p>
<ol style="list-style-type: none"> 1. Independent Auditor's Report re GASB 68 & 75 – Final 	<p>TBD (but probably very much sooner than October 5)</p>
<ol style="list-style-type: none"> 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 Report. 	<p>October 15</p>

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:

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

STATEMENT OF WORK
ANNUAL ATTEST AUDITS OF LACERA'S FINANCIAL STATEMENTS
Fiscal Years Ending June 30, 2017 through June 30, 2021

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 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, 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.

STATEMENT OF WORK
ANNUAL ATTEST AUDITS OF LACERA'S FINANCIAL STATEMENTS
Fiscal Years Ending June 30, 2017 through June 30, 2021

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.

APPENDIX B

Selection of LACERA's External Financial Auditor

July 5, 2016

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)	<p>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.)</p> <p>a) 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.)</p>		
7)	<p>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:</p> <p>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</p> <p>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.</p>		

APPENDIX B

Selection of LACERA's External Financial Auditor

July 5, 2016

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) <u>or</u> 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 <u>disclose</u> 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> will be excluded from public information requests.)		

APPENDIX B

Selection of LACERA's External Financial Auditor

July 5, 2016

MINIMUM QUALIFICATIONS CERTIFICATION (MQC)

	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

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

EVALUATION AND SELECTION PROCEDURES

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.

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.

EVALUATION AND SELECTION PROCEDURES

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.

APPENDIX D

Selection of LACERA's External Financial Auditor

July 5, 2016

**FINAL SCORE BREAKDOWN
(AVERAGES)**

Evaluation Section <i>(total points possible)</i>	Brown Armstrong	Plante & Moran	Eide Bailly	Mayer Hoffman McCann
Firm Qualifications/Experience (30)	26.4	27.1	26.0	23.9
Professional Staff Qualifications & Experience (35)	32.2	30.7	31.6	28.9
Audit Planning & Approach (25)	22.7	22.7	22.7	21.1
Fees (10)	9.6	9.0	7.8	8.0
Total Score	90.9	89.5	88.0	81.8

FIRM SCORE AND SELECTION**Mayer Hoffman McCann**

Mayer Hoffman is a national accounting firm with 650 professional auditors in 31 locations across the United States. While the firm has experience conducting numerous audits of employee benefit plans, their proposal indicated limited experience conducting audits of government sponsored defined benefit pension plans. All of the defined benefit plans referenced were corporate or rather small city-type, pension plans.

Mayer Hoffman's proposal did not articulate how their audit skills pertaining to city financial statements and corporate employee benefit plans might particularly translate into the experience and skills necessary to conduct an audit of a large, government-entity defined benefit retirement plan. Additional concerns in the LACERA Proposal Evaluation Group arose when Mayer Hoffman failed to provide readily evident and satisfactory responses to all the elements sought by the RFP. Lastly, and although total fees represented only 10% of the final score, Mayer Hoffman's total fee was noticeably the highest (albeit so were their total, proposed audit hours).

ARGUMENTS FOR & AGAINST AUDIT FIRM ROTATION***Arguments FOR Audit Firm Rotation¹***

- Long term relationships between the auditee and auditor may create a level of closeness that might impair auditor independence and reduce audit quality. When a contentious issue arises a close relationship may create a conflict of interest for the auditor. The auditor may relate closely to management's perspective and not maintain sufficient professional skepticism.
- Auditors may become stale as the procedures become repetitious of earlier engagements, causing the auditor to anticipate results rather than being alert to subtle but important changes in circumstances.
- Mandatory audit firm rotation may force new auditors to review management's representation for compliance with accounting pronouncements, causing management to adopt more-conservative accounting practices.
- Without mandatory audit firm rotation, the possibility of future audit fees may result in an audit firm's "business decision" to please the audit client to ensure future business retention.
- Knowing another firm will take over in the future and possibly detect any oversight adds pressure for the auditor to take objective stands on any contentious issues.
- Financial statement users may perceive a higher level of auditor independence if mandatory audit firm rotation policies are in place.
- Audit firm rotation may lead to more-independent auditors performing better audits

Arguments AGAINST Audit Firm Rotation

- Long term relationships between the auditee and auditor may create a level of closeness that may allow the auditor to gauge when the client is not revealing available and pertinent information.
- If a long term relationship between the auditee and auditor exists, an auditor can remain objective if he/she possesses expertise and strong integrity and can still provide an objective and reliable opinion on the financial statements, as is required by auditing standards.
- An Audit Committee or Board, rather than Management, being responsible for the appointment, compensation, and oversight of the auditing firm reduces potential conflicts of interest for the auditor.
- Auditor familiarity with the client may increase audit effectiveness as the auditor may have a better understanding of issues and changes that take place from one year to the next.
- Returning to a prior engagement allows for added efficiency, as the auditor is familiar with the company's operations and the company is familiar with the auditor's needs, thus reducing interruptions to normal business operations.
- Even with mandatory audit firm rotation the temptation to keep clients, even for the pre-established rotation period, could result in an audit firm's "business decision" to please the audit client.
- AICPA is opposed to mandatory audit firm rotation, because it may increase the number of audit failures, as a higher than average number of audit-failures occur in the first years of an audit relationship.
- Constant rotation of audit firms may result in inferior audit performance

¹ Arel, B, Brody, RG, Pany, K.(2005). Audit firm rotation and audit quality, The CPA Journal, January 2005 Issue

FINALIST FIRM PROFILE

Selection of LACERA's External Financial Auditor

July 5, 2016

BROWN ARMSTRONG ACCOUNTANCY CORPORATION

Bakersfield, California

General: Brown Armstrong is a subchapter C corporation with 9 shareholders and is also one of the largest regional accounting firms in California. Brown Armstrong has performed financial statement audits for 42 years and specifically for defined benefit plans for more than 20 years. It has 4 offices, all in California. With the conclusion of LACERA's fiscal year-end audit of 2016, Brown Armstrong will have served as LACERA's external financial auditor for the last 14 years. It's compliance with California Gov't Code, Section 12410.6 (b) [Mandatory Auditor Rotation in California] permits it to become fully eligible to complete the proposed, 5-year contract with LACERA, plus the 2 additional, option years.

Professionals: 68 employees, of whom 37 are full-time professional auditors. All 37 professionals audit government entities, 19 of them hold CPA licenses and 16 have pension fund audit experience. The staff Brown Armstrong proposes for the LACERA engagement all have extensive experience with '37 Act county and other large, governmental defined benefit plan audits.

Services to Public Pension Fund Clients: Brown Armstrong has many resources that address the needs of public pension fund clients. The majority of their 1937 Act clients continue to receive the GFOA award. Brown Armstrong also took the lead in assisting clients with implementing GASB 67 & 68; and are already similarly active regarding GASB 72, 74, & 75.

References (Required: Two former clients / Three current clients):

Former: Los Angeles Fire & Police Pension

Pasadena Fire & Police Retirement System

Current: Los Angeles City Employees' Retirement System

Sonoma County Employees' Retirement Association

City of Fresno Retirement Systems

FINALIST FIRM PROFILE

Selection of LACERA's External Financial Auditor

July 5, 2016

EIDE BAILLY LLP

Boise, Idaho

General: Eide Bailly is a limited liability partnership with 237 partners and also is a top 20 CPA firm in the nation. Eide Bailly has performed financial statement audits for 60 years and specifically for defined benefit plans for more than 25 years. It has 29 offices in 13 states, none in California.

Professionals: 1,600 employees, of whom 456 are full-time professional auditors; and of these last, 259 hold CPA licenses. Of these professionals, 170 audit government entities or pension funds. The staff Eide Bailly proposes for the LACERA engagement all have significant experience with pension plan audits. Their team originates from the Boise and Denver Offices; however, of particular note is the Consulting Partner, previously with Brown Armstrong and, as a result, worked with and is very familiar with LACERA and `37 Act California Counties.

Services to Public Pension Fund Clients: Eide Bailly has extensive resources that address the needs of public pension fund clients, particularly with respect to GASB and investment considerations. It also has broad investment knowledge and experience.

References (Required: Two former clients / Three current clients):

Former: Endowment Fund for the State of Idaho
Boise Paper Holdings LLC (Retirement Plan)

Current: Washington State Investment Board
Public Employee Retirement System of Idaho (PERSI)
South Dakota Retirement System

FINALIST FIRM PROFILE

Selection of LACERA's External Financial Auditor

July 5, 2016

PLANTE & MORAN, PLLC

Southfield, Michigan

General: Plante Moran is a professional limited liability company with 277 partners and also is the 14th largest CPA and consulting firm in the nation (6th largest employee benefit plan auditor). Plante Moran has performed financial statement audits for 72 years and specifically for defined benefit plans for those entire 72 years, with 41 partners currently dedicated to benefit plans. It has 22 domestic and international offices, none in California but it has numerous California clients that include the Counties of Orange, Santa Barbara, and Marin.

Professionals: 750 full-time professional auditors, of which 497 hold CPA licenses. Of these professionals, 200 audit government entities or pension funds plus 300 audit ERISA benefit plans. The staff Plante Moran proposes for the LACERA engagement all have extensive experience with pension plan audits. Their team originates from Michigan.

Services to Public Pension Fund Clients: Plante Moran has extensive resources that address the needs of public pension fund clients (1,200 audited annually), particularly with respect to GASB considerations. It also has broad investment knowledge and experience (\$175 billion benefit plan assets audited annually).

References (Required: Two former clients / Three current clients):

Former: Charter County of Wayne (Michigan)
City of Burton (Michigan)


Current: Municipal Employees' Retirement System of Michigan
Operating Engineers' Local 324 Pension Fund
California Earthquake Authority (CEA)




June 30, 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: July 20, 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

The Institute of Internal Auditors (“IIA”) recommends having a formal written charter to establish the audit committee’s mandate, role, and responsibilities. The IIA recommends subsequent periodic reviews to ensure the charter aligns with industry standards. At the April 2016 Audit Committee meeting, staff presented your Committee with an updated Audit Committee Charter (“Charter”).

Internal Audit proposed the updates to better align the Charter with industry best practices and organizational changes. The proposed revisions placed additional responsibilities on the Committee with respect to oversight of the Chief Audit Executive (“CAE”) (*Section V. B. of the Charter, Attachment A*) and Monitoring Management’s System of Compliance (*Section V. F. of the Charter, Attachment A*). Legal staff has prepared two separate memos addressing the Committee’s CAE oversight responsibilities, which will be discussed during the July 2016 meeting. The proposed framework to address how your Committee will monitor Management’s System of Compliance is outlined in the following section.

FRAMEWORK FOR MONITORING MANAGEMENT'S SYSTEM OF COMPLIANCE

Staff revised the proposed language in the Charter to clarify your Committee's responsibilities. The revised proposed language is below:

Monitoring Management's System of Compliance

- 1. Annually, Internal Audit will report on the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.**
- 2. As needed, review the findings of any examinations by regulatory agencies, and any auditor observations.**
- 3. Annually, review Management's process for communicating LACERA's Code of Ethics to company personnel, and for monitoring compliance therewith.**
- 4. Annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.**

Staff proposed to add the above responsibilities and the related duties since it is one of the fiduciary oversight responsibilities assigned to the Committee by the Boards in the Charter's *Purpose*. It is also, an IIA and Association of Public Pension Fund Auditors ("APPFA") best practice (*Attachments D and E*). Subsequent to the April 2016 Committee meeting, staff met with the Chief Executive Officer ("CEO"), and Chief Counsel, to discuss management's system of compliance with laws, regulations, policies, and procedures that are business critical. Based on these discussions, Internal Audit revised the proposed wording to clarify the Committee's role and responsibilities. The revised wording is highlighted in yellow in the Charter (*Attachment A*). Please refer to *Attachment B* for a red-lined version of the proposed Charter and *Attachment C* for the most current Charter.

Currently, LACERA has a decentralized system for monitoring compliance; division managers are expected to comply with all applicable guidelines and report any issues to the Executive and Legal Office as they occur. Internal Audit monitors management's current system of compliance through its annual risk assessment, audits, and consulting engagements. Internal Audit also attends Board and Committee meetings to keep abreast of current issues that may have an impact on LACERA's compliance.

The CEO plans to formalize the compliance process to include an organization-wide checklist of laws, regulations, policies, and procedures that are business critical to LACERA, and will have division managers affirm compliance on a periodic basis. Once formalized and implemented, Internal Audit will audit LACERA's process for monitoring compliance. The Committee will be able to monitor management's system of compliance through the audit process.

CONCLUSION

Staff recommends the Committee provide Internal Audit with further direction and/or approval for the Charter. 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.

RB: CL/LC
AC Charter Memo.doc

Attachments:

- A: Revised Proposed 2016 Audit Committee Charter
- B. Redline Copy of Proposed 2016 Audit Committee Charter
- C: 2009 Audit Committee Charter
- D: 2013 IIA Template
- E: 2013 APFFA Template

Audit Committee Charter

July 2016



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 appointment, discipline, 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.
4. Approve all non-compliance work.

D. Monitoring the 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*.

E. Monitoring Management's System of Internal Controls



AUDIT COMMITTEE CHARTER

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 Management's System of Compliance

1. Annually, review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.
2. As needed, review the findings of any examinations by regulatory agencies, and any auditor observations.
3. Annually, review the process for communicating LACERA's Code of Ethics to company personnel, and for monitoring compliance therewith.
4. Annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.

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

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 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.

AUTHORITY

~~AUDIT COMMITTEE ROLES AND RESPONSIBILITIES~~

~~Audit Committee Reporting, Management, and Communication Responsibilities~~

~~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:~~

- 1) Meet with ~~LACERA's the organization's~~ officers, ~~employees,~~ ~~internal~~ ~~A~~auditors, ~~E~~external ~~A~~auditors, ~~or consultants outside counsel and/or specialists~~ as necessary.

- 2) ~~Seek any information it requires from employees, all of whom are directed to cooperate with the Committee's requests, or consultants, as necessary.~~

- 2)3) ~~Resolve where such coordination is required, or in the case of any disagreements or coordinate~~ between Management, Internal Audit, and/or External Audit.

- 4) ~~Oversee the work of Internal and External Audit, and any other consultants hired to assist the Audit Committee in fulfilling its fiduciary duties.~~

- 3)5) Make recommendations to the Boards regarding:
 1. ~~regarding~~ ~~The~~ appointment, compensation and work of the ~~certified public accounting firm~~ External Auditors employed to audit LACERA's financial statements,

 - 1.2. ~~regarding~~ The appointment, compensation, and work of accountants or other ~~external~~ consultants ~~in completing to perform~~



Audit Committee Charter

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).

3. Such other matters as the Committee encounters in its work.

- ~~4) Communicates public disclosures related to the purpose, authority, function, and responsibility of the Audit Committee.~~
- ~~5) Reports to the Boards, as necessary, on the activities, decisions, findings, and recommendations of the Audit Committee.~~



Audit Committee Charter

- ~~A. Oversees and supports the work of the Internal Audit Division~~
- ~~B.~~
- ~~C. Monitors the performance of the Internal Audit Division's scope of work~~
- ~~D. Ensures the independence of the Internal Audit Division~~
- ~~E. Approves the Internal Audit Division Charter and scope of work~~
- ~~F. Reviews and approves the Chief of Internal Audit (CIA) annual performance evaluation.~~
- ~~G.~~
- ~~H. 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.~~
- ~~I.A.~~

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 ~~Audit Committee members~~ 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 ~~appropriate~~ 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

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

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, 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 mMeeting 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 Government Code Section 54956(a). ~~of the Government Code.~~ 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.



Audit Committee Charter

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.
- ~~1.2.~~ 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.

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 appointment, discipline, 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.



Audit Committee Charter

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.
4. Approve all non-compliance work.

D. Monitoring the 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*.

E. Monitoring the Management's System 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 Management's System of Compliance

1. Annually, Internal Audit will report on the effectiveness of Management's system of compliance with laws regulations, policies, and procedures that are business critical.
2. As needed, review the findings of any examinations by regulatory agencies, and any auditor observations.
3. Annually review Management's process for communicating LACERA's Code of Ethics to company personnel, and for monitoring compliance therewith.



Audit Committee Charter

4. Annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.

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

I. APPROVAL

This ~~revised~~ Audit Committee Charter ("AC Charter") was reviewed by the Audit Committee on July 20, 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



QUALITY
Ensuring Excellence

Model Audit Committee Charter

Current charter is in line with purpose

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.

Current charter does not give AC this much authority. Per discussion with George, not a requirement.

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.

Per SOX audit committee financial expert is one who understands GAAP, financial stat prep, significant issues, etc. obtained thru experience as CPA, CFO etc

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:

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.

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	State Board of Administration of Florida
Ryan Babin	Louisiana State 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. 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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July 1, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Steven P. Rice *SPR*
Chief Counsel

Johanna M. Fontenot *JMF*
Senior Staff Counsel

FOR: July 20, 2016 | Audit Committee Meeting

SUBJECT: AUDIT COMMITTEE CHARTER

- (1) Legal Review of Proposed Changes to the Charter Relating to Personnel Oversight of the Chief Audit Executive; and**
- (2) Recommendation, if the Charter Changes are Approved, for Amendments to County Code, Section 6.127.040, on LACERA MAPP Program**

BACKGROUND

The Internal Audit Division proposes changes to the Audit Committee Charter. When the proposed changes were first presented at the Committee's April 15, 2016 meeting, the Committee requested that the Legal Office provide an opinion on provisions that expand the role of the Audit Committee over personnel matters relating to the Chief Audit Executive (CAE). In this memo, the Legal Office states and explains its opinion that the proposed changes are lawful, subject to the Recommendation below.

RECOMMENDATION

The Legal Office recommends that, if the proposed Charter is approved:

1. The portion of the County Code on the LACERA MAPP Program (Section 6.127.040) be amended to clarify that the Audit Committee is an appointing authority for the CAE and to address certain related clean-up issues. The language of the amendments is set forth verbatim in Section III of this memo and in Attachment A, which contains a redlined and highlighted version of Section 6.127.040 in its entirety.
2. The Audit Committee recommend approval of the proposed amendments to the Board of Retirement and Board of Investments, and that the Boards direct staff to submit the proposed amendments to the Board of Supervisors.

QUESTIONS PRESENTED AND SUMMARY

The proposed Charter revisions place additional responsibilities on the Audit Committee with respect to supervision of the CAE, including approval of the appointment, discipline, dismissal, and/or removal of the CAE, evaluation of the CAE's performance, and administration of salary changes for the CAE. Prior to voting on the proposed changes, the Audit Committee requested a legal opinion on three questions:

Is it legally permissible for the Audit Committee to:

- A. Approve the appointment, discipline, dismissal, and/or removal of the CAE?
- B. Perform the CAE's annual performance evaluation with qualitative input from the CEO?
- C. Administer the CAE's annual salary adjustment using the Board-approved compensation structure?

It is the opinion of the Legal Division that, as a matter of law, the answer to all three questions is yes. LACERA's Board of Retirement and Board of Investments have broad authority under CERL and the California Constitution to make personnel decisions, including the authority to delegate to the Audit Committee the responsibilities set forth in the proposed Audit Committee Charter. To implement this authority, certain amendments to the LACERA MAPP portion of the County Code (Section 6.127.040) should be made to clarify roles, responsibilities, and terminology.

As has been the case in the past, the revised Audit Committee Charter and proposed salary ordinance amendments, if approved by the Committee, should be advanced to both Boards for approval before being submitted to the Board of Supervisors for final approval.

DISCUSSION

I. Appointment, Discipline, Dismissal, and/or Removal of the CAE

A. CERL and the Constitution

The power of the Board of Retirement and the Board of Investments with respect to LACERA staff is governed in the first instance by the County Employees Retirement Law of 1937 (CERL) and the California Constitution.

Under CERL, the Boards have independent authority over LACERA's employees. Government Code section 31522.1 provides:

"The board of retirement and both the board of retirement and board of investment may appoint such administrative, technical, and clerical staff personnel as are required to accomplish the necessary work of

the boards. The appointments shall be made from eligible lists created in accordance with the civil service or merit system rules of the county in which the retirement system governed by the boards is situated. The personnel shall be county employees and shall be subject to the county civil service or merit system rules and shall be included in the salary ordinance or resolution adopted by the board of supervisors for the compensation of county officers and employees."

Accordingly, the Boards are the statutory appointing authority for all LACERA employees. The Boards may delegate this authority. In fact, the Boards have delegated appointing authority for employees to the Chief Executive Officer pursuant to Section 31522.2 of CERL, which provides that the retirement administrator, or CEO, is "directed by" the Boards. It is inherent in the Boards' power that they may in their discretion modify the delegation to the CEO and assume appointing authority, either separately or jointly with the CEO, as to any particular positions or positions, including the CAE. The Boards may also, by affirmative action of both bodies, delegate appointing authority to a committee, such as the Audit Committee.

For these reasons, the proposed Audit Committee Charter provision giving the Committee responsibility to approve the appointment, discipline, dismissal, and/or removal of the CAE is lawful under CERL.

The Boards power over LACERA's employees is also found in the California Constitution. The Constitution provides that the Boards have "plenary authority and fiduciary responsibility for . . . administration of the system." (Cal. Const., Art. XVI, Section 17.) The Constitution further provides that the Boards "shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." (Cal. Const., Art. XVI, Section 17(a).) The Boards' "plenary authority" and "sole and exclusive responsibility to administer the system" necessarily covers personnel, including appointment, discipline, dismissal, and/or removal.

The proposed Audit Committee Charter provision with respect to appointment, discipline, dismissal, and/or removal of the CAE, if adopted by the Boards, is consistent with the Boards' expansive constitutional power.

B. Civil Service Rules

The retirement administrator (i.e., the CEO) and certain other LACERA management positions listed in CERL are non-civil service, and therefore, the individuals occupying

these positions serve at the pleasure of the Boards. (See Government Code Sections 31522.2 and 31522.4.) The CAE is not one of the designated positions, and therefore employment actions with respect to that position are governed by the County civil service system under Section 31522.1.

As a result, if the Committee determines to approve the proposed Charter revisions, actions approved or taken by the Committee to approve appointment, discipline, dismissal, and/or removal of the CAE will be subject to the County's Civil Service Rules, which are Appendix 1 to Title 5 (Personnel) of the Los Angeles County Code. The Civil Service Rules provide detailed provisions relating to appointment, discipline, dismissal, and/or removal. The Rules include provisions relating to;

- Competitive and noncompetitive examinations (Rules 7 and 8);
- Appointment (Rule 11);
- Probation (Rule 12);
- Discipline (up to and including dismissal) (Rule 18);
- Merit system standards (Rule 25); and
- Grievance, notice and hearing, review, and appeal procedures for certain employment actions (various rules, such as Rules 4, 7.20, 8.06, 12.05, 18, and 25.01, among others).

The Rules provide that appointment powers are to be exercised by the "Appointing Power" as defined in Rule 2.03.

The CAE is a MAPP employee. The MAPP ordinance (Section 6.127.040(B)(1)) provides that the retirement administrator is the appointing authority. Accordingly, under the Civil Service Rules, the retirement administrator is the "Appointing Power" as that term is used in the Rules. Therefore, the Legal Office recommends that the MAPP ordinance be revised to clarify the responsibilities of the CEO and Audit Committee as appointing authority of the CAE. The recommended language is discussed in Section III below.

Setting aside this definitional issue, the processes described in the Civil Service Rules are not inconsistent with the proposed Charter revisions with respect to the Audit Committee's role in the appointment, discipline, dismissal, and/or removal of the CAE. If the revisions are approved, the CEO, LACERA's Human Resources Division, and the Legal Office will provide the Audit Committee with such guidance as may be

required to ensure compliance with the Civil Services Rules, and will implement the Committee's actions in accordance with the Civil Service Rules.

II. Performance Evaluation of the CAE and Administration of Compensation

A. CERL and the Constitution

The authority of LACERA's Boards to appoint personnel under Section 31522.1 and its "plenary authority" under the California Constitution over administration of the retirement system necessarily include the authority to evaluate personnel and determine compensation. Performance evaluations and compensation determinations, which are separate but related functions, are key factors in management of personnel and administration of the system. Without those powers, the ability of the Boards to perform their fiduciary duties would be impaired because the Boards would be deprived of necessary tools to attract, retain, incentivize, and otherwise manage the staff that makes the retirement system run. As noted above, the Boards' authority in these areas may be delegated, including to a committee, upon action of both Boards.

For these reasons, the proposed Audit Committee Charter provisions relating to the Committee's role in the CAE's performance evaluations and compensation determinations are lawful under CERL and the Constitution.

B. Civil Service Rules

The County's Civil Services Rules, which apply to the CAE under Section 31522.1 in CERL, address performance evaluations. (Rule 20.) Rule 20 provides that performance evaluations shall be conducted by the appointing power (Rule 20.01) and that they be conducted annually (Rule 20.02). Rule 20 also provides rating standards and a process for review of ratings. (See Rule 20.11 with respect to MAPP employees such as the CAE.)

For the same reason as discussed in Section I.B above, the Legal Office recommends that the MAPP ordinance be amended to provide for the Audit Committee's role as appointing authority for the CAE.

In terms of evaluation process, the Civil Service Rules, including Rule 20, are not otherwise inconsistent with the proposed Audit Committee Charter. If the proposed Charter is adopted, LACERA staff will ensure that the Committee's role in performance evaluations is performed in compliance with the Civil Service Rules, including use of the required rating standards. The CAE will have all rights and remedies provided in the Rules with respect to the ratings he or she receives.

///

C. Salary Ordinance

Section 31522.1 in CERL provides that retirement association personnel shall be included in the County's salary ordinance. This is a ministerial responsibility on the part of the County and its Board of Supervisors.

In compliance with Section 31522.1, the CAE is listed in LACERA's portion (Chapter 6.127) of the Salary section (Title 6) of the Los Angeles County Code. (Section 6.127.010, Item 0774A.) The Boards have determined, at the CEO's recommendation, that the CAE is a participant in the Management Appraisal and Performance Plan (MAPP), Tier II, as described in Section 6.127.040 of the County Code. (Board of Retirement Minutes, August 13, 2015, Item VII.B, page 5; Board of Investments Minutes, August 12, 2015, Item VIII.A, page 5.) Under Section 31522.1 and the California Constitution, LACERA's Boards maintain independent management of its MAPP Program and its participants.

Section 6.127.040 addresses evaluation of MAPP employees, including that evaluations shall be conducted annually and the rating categories to be used (which are the same as provided in Civil Service Rule 20.11) (Section 6.127.040(E)(1)) and the evaluation procedures and appeal process (Section 6.127.040(F)). The MAPP ordinance provides that the evaluation shall be conducted by "the retirement administrator or his/her designee." (Section 6.127.040(E)(2)(a).)

In the event that the Audit Charter is revised to provide that the Audit Committee shall perform the annual performance evaluation of the CAE, the Legal Office recommends that the salary ordinance be revised to include the Audit Committee as the CAE's appointing authority jointly with the retirement administrator, using the language proposed in Section III.

The salary ordinance addresses the MAPP salary structures and adjustments that are applicable to MAPP, Tier II participants such as the CAE. (See Sections 6.127.040(G), (H), (R).) No changes to these portions of the ordinance are necessary to implement the proposed Charter's CAE salary provisions because the proposal is simply to have the Audit Committee administer the existing Board-approved structure. The proposed Charter does not change the Board-approved salary structure.

III. Proposed Salary Ordinance Amendments

To address the appointing issue discussed in Sections I.B, II.B, and II.C and clarify the Audit Committee's role under the proposed Charter, the Legal Office recommends that the following three amendments be made to the salary ordinance. Additions to existing language are underlined. A redlined and highlighted copy of the entire LACERA MAPP

Program portion (Section 6.127.040) of the salary ordinance showing the proposed changes is included as Attachment A.

Amendment No. 1

Section 6.127.040(B)(1) of the salary ordinance shall be amended to read:

"1. 'Appointing Authority' means the retirement administrator as to Participants serving on the staff of the Los Angeles County Employees Retirement Association, except that the Appointing Authority of the Chief, Internal Audit, LACERA means the Audit Committee of the board of retirement and the board of investments with respect to the matters described in Section 6.127.040 S of this Code. The board of retirement and the board of investments jointly shall be the Appointing Authority for any person designated to act as retirement administrator pursuant to Section 6.127.020 of this Code."

Explanation: This amendment eliminates uncertainty as to the Audit Committee's ability under the Civil Service Rules and the salary ordinance to perform the functions described in the proposed Charter with respect to personnel oversight of the CAE by including the Audit Committee within the definition of "Appointing Authority."

Amendment No. 2

Section 6.127.040(F)(1) of the salary ordinance shall be amended to read:

"1. Initial Review. In the case of a disputed individual performance evaluation and rating, the affected Participant shall be afforded full opportunity to present, in writing, his/her request for review and modification of the rating to the Participant's immediate supervisor. Such request shall be made within 10 business days of receipt of a performance rating. The decision of the supervisor shall be final subject to review and reconsideration as outlined in subsection 2 of this section. In the case of an assistant executive officer, such presentation shall be made to the retirement administrator, whose decision shall be final. In the case of the Chief, Internal Audit, LACERA, such presentation shall be made to the Audit Committee, whose decision shall be final."

Explanation: Given the role of the Audit Committee in the CAE's performance evaluation under the proposed Charter, this amendment provides that review of the CAE's evaluation and rating shall be performed by the Audit Committee, rather than by the Director of Human Resources as would otherwise be the case. This is consistent

with the approach taken with assistant executive officers, whose review is performed and reviewed by the retirement administrator.

Amendment No. 3

A new Section 6.12.7040(S) shall be added to the salary ordinance, to read:

"S. Chief, Internal Audit, LACERA. As to the Chief, Internal Audit, LACERA, the actions specified in Sections 6.127.040 B(10), E, H(2) and (3), P, and R(1) of this Code shall be performed by the Audit Committee of the board of retirement and the board of investments."

Explanation: Because the MAPP ordinance does not consistently use the defined term "Appointing Authority" but rather often refers to the "retirement administrator," this amendment clarifies specific responsibilities that the Audit Committee will perform as to the CAE consistent with the proposed Charter. Those responsibilities relate to:

- Performance management (Section 6.127.040(E));
- Tier II step advancement (Section 6.127.040(B)(10) and (R)(1));
- Placement or movement in the salary range (Section 6.127.040(H)(3)) ; and
- Tier II establishment of step placement upon appointment (Section 6.127.040(P)); and
- Salary rate below the minimum of the salary range (Section 6.127.040(H)(2)).

CONCLUSION

For the reasons explained above, it is the opinion of that Legal Office that the Audit Committee has legal authority to recommend to the full Boards, and that the full Boards have the legal authority to adopt, the proposed Audit Committee Charter provisions that the Committee shall:

1. Approve the appointment, discipline, dismissal, and/or removal of the CAE;
2. Perform the CAE's annual performance evaluation with qualitative input from the CEO; and
3. Administer the CAE's annual salary adjustment using the Board-approved compensation structure.

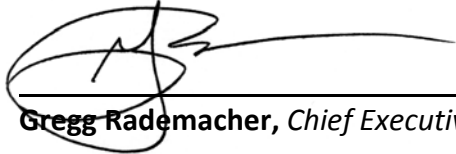
RECOMMENDATION

If the Committee and the Boards proceed with the proposed Charter, the Legal Office further recommends that the Committee and Boards concurrently approve, and direct staff to submit to the Board of Supervisors, the amendments to the portion of the County Code, Section

Legal Review of Charter Changes Relating to Audit Committee Oversight of the CAE

6.127.040, on the LACERA MAPP Program to clarify that the Audit Committee is an appointing authority for the CAE and address certain clean-up issues, as set forth in Section III of this memo and in Attachment A, which contains a redlined and highlighted copy of Section 6.127.040 in its entirety showing the proposed changes in context.

NOTED AND CONCUR:



Gregg Rademacher, *Chief Executive Officer*

July 1, 2016
Date

MEMO DISTRIBUTION

2016 Audit Committee	Gregg Rademacher	John Nogales
Audit Committee Consultant	Robert Hill	
Internal Audit Staff	John Popowich	

ATTACHMENT A

**LACERA MAPP PROGRAM ORDINANCE
COUNTY CODE, SECTION 6.127.040**

1 **Note: Section 6.126.040 is provided in its entirety.**

2 **6.127.040 LACERA Tier I and Tier II Management Appraisal and Performance Plan.**

3 A. Purpose. The purpose of the Management Appraisal and Performance Plan is to
4 improve LACERA's ability to employ executive, senior management, and
5 management employees, to evaluate and compensate those employees for the
6 contributions they make toward achieving LACERA priorities, and to motivate
7 them to excel and achieve high efficiency, reduce costs, realize expected
8 revenues, and deliver quality services to LACERA's members and beneficiaries.

9 B. Definitions. The following terms when used in this Section 6.127.040 with initial
10 capital letters, unless the context clearly indicates otherwise, shall have the
11 following respective meanings:

12 1. "Appointing Authority" means the retirement administrator as to
13 Participants serving on the staff of the Los Angeles County Employees
14 Retirement Association. The board of retirement and the board of
15 investments jointly shall be the Appointing Authority for any person
16 designated to act as retirement administrator pursuant to Section
17 6.127.020 of this code, **except that the Appointing Authority of the Chief,**
18 **Internal Audit, LACERA means the Audit Committee of the board of**
19 **retirement and the board of investments with respect to the matters**
20 **described in Section 6.127.040 S of this Code.**

21 2. "Control Point" means the midpoint of each Salary range as indicated in the
22 Tier I Salary Structure. The Control Point for each Tier II Salary range shall
23 be the same as the similarly numbered Tier I Salary range.

24 3. "General Salary Adjustment" means an across-the-board adjustment in the
25 actual base salaries of Tier I and/or Tier II Participants. A General Salary
26 Adjustment may be implemented only by specific action of the board of
27 supervisors as requested by the board of retirement and board of
28 investments jointly and may or may not be accompanied by a concurrent
29 adjustment in the Salary Structure.

30 4. "Participant" means a person employed in a position in a class which has
31 been approved by the board of supervisors as requested by the board of

1 retirement and board of investments jointly for inclusion in the Management
2 Appraisal and Performance Plan.

- 3 5. "Plan" means the Management Appraisal and Performance Plan set forth
4 in this Section 6.127.040.
- 5 6. "Salary Structure" means the Tier I and Tier II Salary ranges specified in
6 Section 6.26.020 A.
- 7 7. "Tier I" means that part of the Plan that is applicable to positions
8 specifically designated as eligible for Tier I by the board of supervisors as
9 requested by the board of retirement and board of investments jointly.
10 Salary ranges applicable to Tier I Participants are designated by the letters
11 "LR" in Sections 6.28.050 and 6.26.020 A of this code. Tier I Salary ranges
12 are defined in terms of a minimum rate, a maximum rate, and a Control
13 Point and are divided into quartiles for salary administration purposes in
14 accordance with the provisions of Section 6.08.370.
- 15 8. "Tier II" means that part of the Plan that is applicable to all Participants
16 other than Tier I Participants. Salary ranges applicable to Tier II
17 Participants are designated by the letters "LS" in Sections 6.28.050 and
18 6.26.020 A of this code. Tier II Salary ranges consist of 18 salary steps,
19 with the first 12 being 3 percent apart and the last six steps being 1 ½
20 percent apart.
- 21 9. "Tier I Merit Adjustment" means movement through the applicable LR
22 range based on an evaluation of performance as provided for in the Plan
23 and any pertinent instructions issued by the retirement administrator. A Tier
24 I Merit Adjustment may range from zero to 5 percent with respect to any
25 given rating period.
- 26 10. "Tier II Step Advancement" means advancement to the next salary step in
27 the applicable LS range based on an evaluation of performance as
28 provided for in the Plan and any pertinent instructions issued by the
29 retirement administrator.
- 30 11. "Y-Rate" means, for purposes of this Part 3, a special salary rate which
31 entitles a person to receive a salary at a rate higher than the maximum of
32 the Salary range for the position which the person holds.

1 C. Applicability of Section 6.127.040 provisions. Notwithstanding any other
2 provision of this Title 6, the salary of a person employed in a position assigned
3 to a Salary range in Tier I or Tier II of the Plan shall be determined pursuant to
4 the provisions of this Section 6.127.040; provided, however, that the retirement
5 administrator's salary and benefits may be determined by written agreement
6 between the board of retirement and board of investments jointly and the
7 retirement administrator. In the event of any inconsistency between provisions
8 of this Section 6.127.040 and such written agreement, the provisions of the
9 written agreement shall control.

10 D. Position assignment to the Management Appraisal and Performance Plan. Upon
11 the recommendation of the board of retirement and board of investments jointly,
12 the board of supervisors may by ordinance, assign classes or positions to the
13 Plan. The board of retirement and board of investments jointly shall recommend
14 to the board of supervisors a Salary range for each class or position.

15 Participants who would otherwise be eligible to receive benefits under Chapter
16 5.26, 5.27, and 5.28 of this code shall be eligible to receive benefits under Chapter
17 5.26 and the appropriate benefits of either Chapter 5.27 or Chapter 5.28 of this
18 code. In addition, Participants designated eligible to receive benefits under
19 Subdivision 1 of Chapter 5.27 or Subdivision 1 of Chapter 5.28 of this code shall
20 be eligible to receive up to eight days sick leave.

21 E. Performance management.

22 1. Performance rating categories and process.

23 The retirement administrator, or his/her designee, shall annually evaluate the
24 performance of each Participant, in accordance with guidelines and in a format
25 established by the LACERA director of human resources, which shall provide for an
26 overall performance rating based on the following five category rating scale:

—	"Far Exceeded Expectations"
—	"Exceeded Expectations"
—	"Met Expectations"
—	"Needs Improvement Meeting Expectations"
—	"Failed to Meet Expectations"

27

28 The performance management process includes annually setting goals and defining
29 performance expectations developed jointly by the retirement administrator or his/her

1 designee and each Participant. The retirement administrator defines department values for
2 the performance management process. At the discretion of the retirement administrator,
3 Participants on a leave of absence during the rating period are not required to have a
4 performance plan while on an approved leave of absence.

5 2. Rating period.

6 a. The rating period will be as designated by the retirement
7 administrator. However, the performance of each Participant will be
8 reviewed periodically by the retirement administrator or his/her
9 designee during the performance period. At the conclusion of the
10 rating period, the retirement administrator or his/her designee will
11 review the performance of each Participant and complete an
12 evaluation form in the manner established by the LACERA director
13 of human resources. At the discretion of the retirement
14 administrator, an evaluation form may be completed for those
15 Participants with less than six months service in the Plan. The
16 retirement administrator or his/her designee shall have the option of
17 rating Participants on leave for more than six months of the rating
18 period. Participants on leave for less than six months shall be given
19 an overall performance rating except in the case where the
20 LACERA director of human resources has determined that unusual
21 circumstances exist. Where Participants on a leave of absence are
22 rated, any Tier I Merit Salary Adjustment or Tier II Step
23 Advancement may, at the discretion of the retirement administrator,
24 be granted upon the Participant's return to work. Participants who
25 are not rated shall not be granted a Tier I Merit Salary Adjustment or
26 a Tier II Step Advancement.

27 b. In the case of the retirement administrator, the evaluation shall be in
28 accordance with the procedures established by the board of
29 retirement and board of investments jointly.

30 3. Performance evaluation timeliness. Tier I Merit Salary Adjustments and/or
31 Tier II Step Advancements will be withheld for both the rater and employee
32 being rated if the performance evaluation has not been submitted on a
33 timely basis in accordance with timeframes established by the LACERA

1 director of human resources or by the retirement administrator or his or her
2 designee. Upon submission of the performance evaluation, the employee
3 being rated will be eligible for a retroactive Tier I Merit Salary Adjustment or
4 Tier II Step Advancement based on his/her performance rating. However,
5 in no case where a performance evaluation was not submitted on a timely
6 basis shall the rater receive a retroactive Tier I Merit Salary Adjustment or
7 Tier II Step Advancement.

8 4. Performance rating transition. For Participants previously evaluated under
9 Civil Service Rule 20.04, the last performance evaluation rating under Civil
10 Service Rule 20.04 shall be used for all purposes on or after October 1,
11 2008 and continuing only until a new performance rating is given under Tier
12 I or Tier II of the Plan. Performance evaluation ratings under Civil Service
13 Rule 20.04 shall be treated as they are the same as Tier I and Tier II Plan
14 ratings as follows:

15 a. Permanent Employees.

"Outstanding"	= "Far Exceeded Expectations"
"Very Good"	= "Exceeded Expectations"
"Competent"	= "Met Expectations"
"Improvement Needed"	= "Needs Improvement Meeting Expectations"
"Unsatisfactory"	= "Failed to Meet Expectations"

16
17 b. Probationary Employees.

"Competent"	= "Met Expectations"
"Unsatisfactory"	= "Failed to Meet Expectations"

18
19 F. Appeal process.

20 1. Initial Review. In the case of a disputed individual performance evaluation
21 and rating, the affected Participant shall be afforded full opportunity to
22 present, in writing, his/her request for review and modification of the rating
23 to the Participant's immediate supervisor. Such requests shall be made
24 within 10 business days of receipt of a performance rating. The decision of
25 the supervisor shall be final subject to review and reconsideration as
26 outlined in subsection 2 of this section. In the case of an assistant
27 executive officer, such presentation shall be made to the retirement

1 administrator, whose decision shall be final. In the case of the Chief,
2 Internal Audit, LACERA, such presentation shall be made to the Audit
3 Committee, whose decision shall be final.

- 4 2. LACERA Director of Human Resources Review. Within 10 business days
5 of receipt of the decision of the supervisor under subsection 1 of this
6 section, any affected Participant, except an assistant executive officer, may
7 request review by the director of human resources and reconsideration by
8 the supervisor for a performance rating of "Needs Improvement Meeting
9 Expectations" or "Failed to Meet Expectations." The director of human
10 resources shall review the process and submit recommendations to the
11 retirement administrator, who will then render a final decision on the
12 evaluation and rating. The decision of the retirement administrator shall be
13 conclusive.

14 G. Tier I and Tier II Management Appraisal and Performance Plan General Salary
15 Adjustment provisions. The retirement administrator shall recommend, as
16 appropriate, and the board of retirement and board of investments jointly may
17 approve General Salary Adjustments for Participants. General Salary Adjustments
18 are adjustments that are across-the-board in nature and that affect the Salary
19 Structure for Tier I and Tier II. General Salary Adjustments, where implemented, are
20 intended to keep pace with external salary inflation and preserve internal pay
21 relationships with other LACERA employees who are not Participants. In
22 recommending a General Salary Adjustment, the retirement administrator shall
23 consider both LACERA's operational needs, including the need to recruit and retain
24 quality personnel under the Plan, and LACERA's ability to pay for the adjustments.

25 H. Tier I and Tier II Management Appraisal and Performance Plan basic salary
26 structures.

- 27 1. Reassignment of Positions. The retirement administrator shall recommend
28 to the board of retirement and board of investments reassignment of
29 positions to higher or lower Tier I or Tier II Salary ranges when appropriate
30 as necessitated by external market conditions or changes in the duties and
31 responsibilities of affected positions.

- 32 2. Salary Rate Below the Minimum of the Salary Range. A Participant's salary
33 may fall below the minimum of the Salary range as a result of a Salary

1 Structure adjustment. In such case, there shall be no adjustment in the
2 Participant's salary absent specific authorization and instruction from the
3 board of retirement and board of investments jointly or the retirement
4 administrator. When an employee's salary rate falls below the minimum of
5 the Salary range, it shall not constitute a demotion.

6 3. Placement or movement in Salary Range. By specific action, the board of
7 retirement and board of investments jointly or the retirement administrator
8 may provide for salary placement or subsequent movement of an
9 employee at any rate within the established Salary range for the position
10 he/she holds. Movement in the Salary range may result in either an
11 increase or decrease to a Participant's current salary.

12 4. Equivalency of Compensation. An employee who is receiving additional
13 compensation pursuant to Section 6.10.070, Section 6.10.073 A and B,
14 Section 6.44.015, Section 6.50.020, or Section 6.64.020 A of this code
15 shall, at the time his or her position is assigned to the Plan, be designated
16 a salary rate on the appropriate Salary range that is not less than his/her
17 then current salary, including such additional compensation.

18 5. Change of Status. When a person receives a change of classification, is
19 transferred, or is appointed from an eligible list to a position, such change
20 of status shall not be deemed a promotion or demotion when there is a
21 difference of less than 2.75 percent between the Control Point of the old
22 Salary range and the Control Point of the new Salary range or between the
23 Control Point of the new Salary range and the highest step of a position not
24 designated for the Plan. Said person will be placed within the Salary range
25 at his/her then current salary, or for Tier II, placed on the nearest step that
26 does not result in a decrease in salary for the participant. Where the new
27 position is outside the Plan, the employee's salary step placement shall be
28 determined as otherwise provided by this code.

29 6. Reduction of Salary Range. When a person continues to hold a position
30 whose Salary range is reduced or which is reclassified to a lower level, said
31 person will be placed within the new Salary range at his/her current salary,
32 or for Tier II, placed on the nearest step that does not result in a decrease
33 in salary for the participant. If the current salary is higher than the new

1 salary range maximum, said person's rate of pay shall be identified as a Y-
2 Rate, which shall remain until such time as the Y-Rate is within the Salary
3 range for the position.

4 7. Appointment to Lower-Level Position. When a person on a higher position
5 is appointed from an eligible list to a lower-level position, or is voluntarily
6 reduced, he/she shall be placed at any salary within the Salary range for
7 the lower-level position or his/her current salary, whichever is less.
8 Notwithstanding any other provision of this subsection 7, a person
9 appointed prior to completion of his/her probationary period on the higher
10 position shall be placed at a salary within the Salary range of the lower
11 position, in accordance with the provisions of Section 6.08.345.

12 8. Equivalency of Grade. A class in Tier I is deemed to be equal in grade to a
13 class in Tier II if the two Salary Ranges are equal in terms of the minimum
14 and maximum rates as indicated by the numeric designation assigned to
15 the Salary ranges. (A class compensated at LR10 in Tier I is, for example,
16 equal in grade to a class compensated at LS10 in Tier II). A class in Tier I
17 or Tier II is deemed equal in grade to a class paid in accordance with
18 Chapter 6.08, Part 1 of this title if the top step of the class compensated
19 under Part 1 is less than 2.75 percent above or below the Control Point of
20 the Salary range for the Tier I or Tier II class as the case may be.

21 9. Exception for Certain Participants. The compensation of any Participant
22 employed in a class or position designated by an item sub other than "A" or
23 "L" pursuant to the provisions of Section 6.28.020 A shall be limited to that
24 provided by this subsection. Such Participant shall be compensated at a
25 salary rate not to exceed the Control Point of the Salary range or at any
26 salary within the Salary range, with the concurrence of the retirement
27 administrator. The salary rate for such Participants shall be adjusted in
28 accordance with the approved General Salary Adjustments provided the
29 retirement administrator certifies such Participant's performance is
30 equivalent to "Met Expectations" or better.

31 I. Demotion. Upon demotion of a Participant from a higher-level position to a lower-
32 level position the Participant's Salary shall be determined as follows:

- 1 1. Permanent Status. Any person who has completed the probationary period
2 for the higher-level position and voluntarily demotes to another position on
3 a lower Salary range shall be placed at any salary within the lower Salary
4 range, provided said salary does not exceed the maximum of the new
5 Salary range for the lower-level position or his/her current salary,
6 whichever is less. When a person is involuntarily demoted for discipline or
7 performance reasons, the Appointing Authority may place said person at
8 any place within the Salary range of the lower-level position at a rate not to
9 exceed his/her current salary.
- 10 2. Probationary Status. Any person demoted to another class prior to
11 completion of the probationary period for the higher-level position shall be
12 returned to the salary held prior to the promotion as though the person had
13 never occupied the higher-level position.
- 14 3. Demotion to Position Outside the Plan. Any person demoted to a class not
15 compensated pursuant to the provisions of this Section 6.127.040 shall be
16 placed at an appropriate salary in accordance with the provisions of
17 Section 6.08.110 of Part 1 of this code.

18 J. Reinstatement, reemployment, and restoration.

- 19 1. Reinstatement. The Salary of a person reinstated to a Tier I position
20 following separation from County service will be determined in accordance
21 with the provisions of Section 6.127.040 M.1 and the salary of a person
22 reinstated to a Tier II position following separation from County service will
23 be determined in accordance with the provisions of Section 6.127.040 P.1,
24 as if the person was entering County service as a new hire. However,
25 persons reinstated pursuant to Government Code Section 31680.7 may be
26 placed at any salary rate not to exceed the salary paid to said person prior
27 to retirement unless a higher rate is specifically authorized by the
28 retirement administrator.
- 29 2. Reemployment. A person reemployed under Civil Service Rule 19.08 to the
30 position held immediately prior to separation will be reemployed at the
31 same salary rate within the Salary range for the position held prior to
32 separation or the minimum of the Salary range, whichever is greater. A
33 person reemployed on a different position than that previously held prior to

1 separation will be reemployed at the maximum of the Salary range for the
2 new position or at the same salary paid to said person prior to separation,
3 whichever is the lesser. An employees whose last performance rating was
4 "Needs Improvement Meeting Expectations" or "Failed to meet
5 Expectations" shall not be reemployed.

6 3. Restoration. When a person is restored to a higher-level position in either
7 Tier I or Tier II, the person may be placed within the Salary range at his/her
8 current salary or his/her previous salary. If the salary falls below the
9 minimum of the Salary range for the restored position, the employee shall
10 be placed at the minimum of the Salary range for the restored position.

11 K. Special provisions. The provisions of Chapter 6.10 shall apply to Participants
12 except as modified, deleted, or supplemented below. Special rates shall not be
13 included in base salary for the purpose of calculating pay increases.

14 1. Temporary Assignments—Special Rate. Any Participant assigned to
15 perform all of the significant duties of a higher-level position in an acting or
16 temporary capacity during the absence from work of an incumbent of an
17 included position or when such position is vacant for 30 calendar days or
18 longer, shall be provided, during the term of the assignment, additional
19 compensation of 5.5 percent. The retirement administrator may approve a
20 higher amount that does not exceed the maximum of the Salary range for
21 the higher level position and may waive the 30 day requirement based on
22 the needs of the service.

23 2. Out-of-Class Assignments. The provisions of Section 6.10.040 shall not
24 apply to Participants.

25 3. Manpower Shortage Recruitment Rates. The provisions of Section
26 6.10.050 shall not apply to Participants.

27 4. Manpower Shortage Ranges. The provisions of Section 6.10.060 shall not
28 apply to Participants; provided, however, that in addition to all other
29 compensation provided by this code, the retirement administrator may
30 adjust the salary of one or more Participants up to 11 percent pursuant to
31 provisions in Section 6.10.060 when such adjustment is necessary to
32 preserve supervisory pay differentials or to maintain internal pay equity
33 following adjustments in pay for non-participants pursuant to Section

1 6.10.050 or Section 6.10.060. Such additional compensation may be
2 discontinued by the retirement administrator in the same manner and
3 subject to the same terms and conditions as such pay under Section
4 6.10.050 may be discontinued for non-participants.

5 5. Additional Compensation for Supervisors. The provisions of Section
6 6.10.070 shall not apply to Participants; provided, however, that in addition
7 to all other compensation provided by this code, the retirement
8 administrator may adjust the salary of a Participant when such adjustment
9 is appropriate to maintain a supervisory differential of up to 5.5 percent
10 between the Participant and his/her highest paid subordinate providing
11 such organization is permanent and has been approved by the retirement
12 administrator. Such additional compensation may be discontinued by the
13 retirement administrator in the same manner and subject to the terms and
14 conditions as such pay under Section 6.10.070 may be discontinued.

15 6. Assignment of Additional Responsibility. The provisions of Section
16 6.10.073 shall apply to Participants except that such additional
17 compensation authorized in accordance with the provisions of Section
18 6.10.073 shall be up to 11 percent of a Participant's current salary.

19 7. Merit Bonuses for Managers. The provisions of Section 6.10.075 shall not
20 apply to Participants.

21 8. Acting Department Head—Additional Compensation. Participants may be
22 provided additional compensation of 5.5 percent, unless a higher amount is
23 approved by the retirement administrator.

24 9. Standby Pay. The provisions of Section 6.10.120 shall not apply to
25 Participants.

26 L. Transition to Management Appraisal and Performance Plan - Tier I and Tier II.

27 1. Notwithstanding any other provision of this code, any employee who, on
28 September 1, 2008, was a Participant in the Plan and who, on October 1,
29 2008 is a Participant in Tier I of the Plan, as amended, shall receive no
30 change in salary on October 1, 2008 as a consequence of any
31 amendments to the Plan which became operative on that date. The
32 Participant's actual salary in such case may or may not fall within the
33 established Tier I Range.

1 2. Notwithstanding any other provisions of this code, any employee who, on
2 September 1, 2008, was a Participant in the Plan and who, on October 1,
3 2008, is a Participant in Tier II of the Plan, as amended, shall, effective
4 October 1, 2008, be placed on the Tier II salary step closest to the
5 Participant's September 1, 2008 salary that does not result in a decrease in
6 salary.

7 M. Tier I establishment of salary upon appointment. A person appointed to a class or
8 position designated as participating in Tier I of the Plan shall be paid as follows:

9 1. Appointment of Persons Not Currently Employed by LACERA. The
10 retirement administrator may designate a salary at any rate within the first
11 three quartiles of the Salary range established for the position to which the
12 person is being appointed. Appointment at a salary rate within the fourth
13 quartile of the Salary range shall require prior approval by the board of
14 retirement and board of investments jointly.

15 2. Promotional Appointments. A person being promoted from another position
16 in county or LACERA service shall be compensated at a salary within the
17 Salary range of the higher position, except that such person shall receive
18 an increase of at least 5.5 percent, rounded to the nearest dollar, above
19 his/her previous base salary but not less than the minimum of the Salary
20 range. Persons compensated at a Y-Rate shall receive an increase of 5.5
21 percent, rounded to the nearest dollar, over the maximum of the Salary
22 range for the person's present position. If the person would thereby suffer a
23 reduction in salary, said person will be placed at his/her current salary or at
24 such higher salary as may be specifically authorized by the retirement
25 administrator.

26 N. Tier I General salary adjustment provision. General Salary Adjustments for Tier I
27 Participants will take the form of a percentage change in the LR-Range Salary
28 structure on specific dates approved by the board of retirement and board of
29 investments jointly with concurrent changes in the actual salaries of Participants.
30 Only Tier I Participants who have received a current performance evaluation of "Met
31 Expectations" or better shall receive a General Salary Adjustment.

32 O. Tier I merit salary adjustment provisions. Annually, the retirement administrator shall
33 grant to the board of retirement and board of investments jointly a Merit Salary

1 Adjustment, ranging from a minimum of zero percent to a maximum of 5 percent.
2 Such Merit Salary Adjustments shall be limited to Participants whose current
3 performance rating is "Met Expectations" or higher and shall take effect on October
4 1st of each year except as otherwise provided by this Plan and provided further that
5 such adjustment shall be limited to Participants who have worked at least six months
6 in the Tier I position. Such adjustments may apply to and/or result in a salary that
7 falls outside the established Tier I Salary range.

8 P. Tier II establishment of step placement upon appointment. A person appointed to a
9 class or position designated as participating in the Tier II Management Appraisal and
10 Performance Plan shall be paid as follows:

11 1. Appointment of Persons Not Employed by the county or LACERA. For
12 persons not employed by the county or LACERA and who are appointed to
13 positions participating in the Tier II Management Appraisal and
14 Performance Plan, the retirement administrator may designate any step up
15 to and including step 12 of the Salary range established for the position to
16 which the person is being appointed, provided the retirement administrator
17 makes a written finding based on an analysis of factors to justify hiring
18 above the minimum of the Salary range. Appointment to a salary rate
19 greater than step 12 shall require prior approval of the board of retirement
20 and board of investments jointly.

21 2. Promotional Appointments. A person being promoted from another position
22 in county or LACERA service shall be compensated at a salary within the
23 Salary range of the higher position, except that such persons shall receive
24 an increase of at least 5.5 percent, plus step placement, above his/her
25 previous base salary, but not less than the minimum of the Salary range.
26 Promotional increases greater than 5.5 percent, plus step placement, shall
27 require the approval of the retirement administrator. Persons compensated
28 at Y-Rate shall receive the salary within the Salary range of the higher-level
29 Position which provides an increase of 5.5 percent over the maximum of
30 the Salary range for the person's present position. If the person would
31 thereby suffer a reduction in salary, said person will be placed at his/her
32 current salary or as such higher salary as may be specifically authorized by
33 the retirement administrator.

1 Q. Tier II General salary adjustment provision. General Salary Adjustments for Tier II
2 Participants will take the form of a percentage change in the LS-Range Salary
3 structure on specific dates approved by the board of retirement and board of
4 investments jointly with concurrent changes in the actual salaries of Participants.

5 R. Tier II Step advancement provisions.

6 1. Subject to retirement administrator approval, each Tier II Participant may
7 be eligible on October 1st of each year for advancement to the next salary
8 step on the applicable Tier II LS Range. Such step advancement shall be
9 limited to Participants who have been MAPP participants prior to April 1st
10 of the current fiscal year and who otherwise meet the conditions for salary
11 step advancement set forth in the Plan.

12 2. Step Advancement up to and including step 12 requires, in addition to the
13 provisions of subsection A above, that a Participant have a current
14 performance rating of at least "Met Expectations."

15 3. Step Advancement beginning with Step 13 and above requires, in addition
16 to the provisions of subsection A above, that a Participant have a current
17 performance rating of at least "Exceeded Expectations" or better.

18 S. Chief, Internal Audit, LACERA. As to the Chief, Internal Audit, LACERA, the actions
19 specified in Sections 6.127.040 B(10), E, H(2) and (3), P, and R(1) of this Code shall
20 be performed by the Audit Committee of the board of retirement and the board of
21 investments


22




June 30, 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: July 20, 2016 | Audit Committee Meeting

SUBJECT: **REVISIONS TO INTERNAL AUDIT CHARTER**

RECOMMENDATION

Review the proposed revisions to the Internal Audit Charter and provide staff with further directions and/or approval.

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 Internal Audit Charter (IA Charter) was established in 1996, and was subsequently updated in 2004 and 2010.

Internal Audit updated the IA Charter again in March 2016 to align the charter with the IIA model template, industry best practices, and organizational changes. At the April 2016 Audit Committee Meeting, staff recommended that your Committee review and approve the revisions to the IA Charter as well as the Audit Committee Charter (AC Charter). After reviewing and discussing staff's proposed revisions, your Committee elected to postpone approval until additional information is provided at the July 20, 2016 meeting.

CONCLUSION

Based on additional analysis and comparison of the proposed changes to the charters, staff has determined that no additional revisions are necessary for the IA Charter. Provided with this memo is an updated IA Charter with our proposed revisions (*Attachment A*). Also attached to this memo is a red-lined version of the revisions (*Attachment B*) and the 2010 Audit Committee Charter (*Attachment C*) for your reference.

Staff recommends the Committee review the proposed changes to the IA Charter and provide staff with further direction and/or approval.

RB:LC\CL
IA Charter Memo

Attachments:

- A: Proposed 2016 IA Charter
- B: Red-lined Revised IA Charter
- C: 2010 IA Charter

Internal Audit Charter

INTERNAL AUDIT SERVICES

Version 2: July 2016



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 Audit consult at the beginning of a project, aids management in identifying and managing risks effectively, and designing adequate internal controls. Examples of advisory services include participating in various committees in 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, 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:

_____	, 2016	_____	, 2016
Chair, Audit Committee	Date	Gregg Rademacher	Date
		<i>Chief Executive Officer</i>	
_____	, 2016		
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 ~~and~~, objective assurance and consulting services designed to add value and improve the ~~LACERA's organization's~~ operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of ~~LACERA's~~ risk management, control, and governance processes.

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.~~

OBJECTIVES ~~AND SCOPE OF WORK~~

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.

Consulting ~~and Advisory~~ 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, throughout the project's life cycle.~~ ~~In addition,~~ opportunities for improving management controls, ~~profitability,~~ and LACERA's image may be identified during audits; and these will be communicated to the appropriate level of Management.

Advisory Objectives

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

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

PROFESSIONALISM STANDARDS OF AUDIT PRACTICE

~~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 of 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.~~

AUTHORITY

~~Internal Audit, with strict accountability for confidentiality, and safeguarding of records and information, is authorized full, free, and The Chief Audit Executive and staff of Internal Audit are authorized to:~~

~~Have unrestricted access to any and all of LACERA's functions, 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~~

~~Have full and 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.).~~

- ~~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.~~

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.

INDEPENDENCE AND OBJECTIVITY

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

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

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

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

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

The 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 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, 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.
- 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.

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.
- A.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.
- B.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.
- C.—Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- D.—Provide annually an assessment on the adequacy and effectiveness of LACERA's process for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.—
- E.—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.—
- F.—Periodically provide information on the status and results of the annual 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 standard

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.

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:

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



June 30, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

FOR: July 20, 2016 | Audit Committee Meeting

SUBJECT INTERNAL AUDIT PLAN - FISCAL YEAR END 2017

RECOMMENDATION

Approve the proposed Internal Audit Plan for Fiscal Year End 2017.

BACKGROUND

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional practice of Internal Auditing (Standards)*, the Chief Audit Executive (CAE) must establish risk based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. To remain in compliance with the *Standards*, as well as the Audit Committee Charter, Internal Audit has developed the attached Internal Audit Plan (*Audit Plan*) for Fiscal Year End (FYE) 2017.

The Audit Plan is designed to ensure audit resources are appropriately allocated to address identified top priorities and key risk areas. The Audit Plan is color coded with a reference key to indicate projects currently in progress as well as those projects that are ongoing. The Audit Plan is also broken out by category as follows: Management Governance, Information Systems, Benefits Administration, or Financial & Investment Operations.

In considering the Audit Plan for FYE 2017, we remind your Committee that the Audit Plan is intended as a living document to allow changes to its content and schedule as a result of ongoing changes to risk factors, organizational needs, or resource limitations. Changes to the Audit Plan will be approved by the CAE for expediency. Information regarding changes to the Audit Plan will be provided to your Committee at each Committee Meeting during the fiscal year.

PURPOSE

The purpose of the Audit Plan is to justify support for audit resources and a means to engage Management in establishing priorities and identifying areas of risk and control for review. The Audit Plan provides a basis for measuring Internal Audit's accomplishments and supplies a guide

to external auditors and others of the planned internal audit coverage. Most importantly, the Audit Plan helps to ensure audit resources are allocated to address identified top priorities.

RISK ASSESSMENT AND AUDIT PLANNING

The projects included in our Audit Plan are primarily identified through our on-going risk assessment process which includes keeping abreast of the concerns of the Audit Committee and Boards throughout the year, discussions with Executive Management, reviewing of LACERA's Strategic Plan, and having risk meetings with division managers and staff. This year, we enhanced a component of our risk assessment process. Specifically, we included a higher level of Management participation with respect to assessing the risks in their respective areas by having division managers fill out a survey with questions that challenged their existing controls. We also had division managers fill out risk rating worksheets that allowed them to rate the risks in their respective areas. This enhancement allowed us to have a better idea of Management's perception of their existing risks and controls. We then reconciled and combined Management's risk assessment results with our independent risk assessment to determine which audit projects to add to the Audit Plan.

We also allocated resources towards external consulting in those areas determined to be a higher risk and focus area of the organization such as compliance and privacy. We believe consulting in these areas will add value and assist with our audit efforts at a later point. For instance, once Management develops a more standardized compliance monitoring process and comprehensive privacy policy/procedures are in place, Internal Audit can more feasibly perform audits in these areas.

We also evaluated projects on our FYE 2016 Audit Plan that were either in-progress or not started as of June 30, 2016. While many of the incomplete projects were delayed due to other unplanned projects that took priority, we also wanted to have more realistic expectations as we developed the FYE 2017 Audit Plan. Notably for this year, we trimmed down the number of audit projects added to the Audit Plan and allocated more resources towards internal administration projects such as our Quality Assurance Improvement Program (*QAIP*) and updating our Audit Guide Book. We believe that this will help streamline our audit processes and ultimately result in higher quality audits and the completion of more projects.

AUDIT PARTICIPATION AREAS

As our proposed FYE 2017 Audit Plan below indicates, we included 39 total projects:

- 19 projects were rolled over from the FYE 2016 Audit Plan
- 15 are new audits added based on our annual risk assessment
- 5 are internal administrative projects designed to improve our audit operation's efficiency and effectiveness.

As a whole, the projects in our proposed Audit Plan are those we believe best support LACERA's mission *to produce, protect, and provide the promised benefit*, and promote LACERA's strategic initiatives to improve service quality, information technology, and data accuracy.

As organizational needs, conditions, resources, and priorities change, Internal Audit Management will use its professional judgment as to the order in which audit projects are addressed. Staff will focus on efficiency and effectiveness in performing work to make every effort to complete the 39 projects included in this aggressive Audit Plan. Actual hours for each project will be determined at the start of each project based on the final scope and audit approach.

Internal Audit will be available at the July 20, 2016 Audit Committee meeting to discuss any questions you may have about the attached Audit Plan.

RECOMMENDATION

Should your Committee agree with staff's recommendation, appropriate action would be to:

1. Approve the proposed Internal Audit Plan for Fiscal Year End 2017


Attachments
RB/dv

INTERNAL AUDIT PLAN FYE 2017

The following table provides a list of the planned Internal Audit projects for the **Fiscal Year End 2017**.

MANAGEMENT, GOVERNANCE & COMPLIANCE		TOTAL HOURS: 13,000	
PROJECT	TYPE	FREQUENCY	EST. HOURS
1. Actuarial Experience Study – RFP	RFP	Periodic	300
2. Actuarial Audit – RFP	RFP	Periodic	300
3. Audit Guidebook Update	Admin	Planned	600
4. Compliance Monitoring (<i>Administration</i>)	Consulting	Planned	400
5. Continuous Auditing Program	Audit	Ongoing	600
6. Fraud Testing – Duplicate Member Payments*	Audit	Periodic	150
7. New Payees Testing	Audit	Ongoing	300
8. County Medical Reimbursements*	Audit	Planned	400
9. Felony Convictions Plan Sponsor Reporting*	Audit	Periodic	300
10. Internal Audit Contractor Pool – RFP*	RFP	Planned	200
11. Internal Audit Websites Update	Admin	Planned	200
12. PEPR Employer Compliance Testing*	Audit	Periodic	600
13. Privacy Audit Recommendation Coordination	Consulting	Planned	500
14. Quality Assurance Improvement Program (<i>QAIP</i>)	Admin	Planned	550
15. Risk Assessment – FYE 2018	Admin	Annual	550
16. Travel & Education Policy Compliance Review*	Audit	Planned	200
BENEFITS ADMINISTRATION			
17. Active Death Process*	Audit	Planned	500
18. Certificates Processing Audit*	Audit	Planned	500
19. Member Death Verification Process	Audit	Planned	450
20. Member High Risk Verification	Audit	Planned	450
21. New Benefits Tier Plan*	Audit	Planned	400
22. Member Accounts Settlement Process*	Audit	Planned	500
23. Physician Selection and Compensation	Audit	Planned	400
INFORMATION SYSTEMS			
24. Business Continuity/Disaster Recovery	External Audit	Planned	300
25. Data Backup/Retention Testing*	Audit	Planned	200
26. Member Applications Change Control Review*	Audit	Planned	600
27. Systems Penetration Testing*	External Audit	Periodic	200
28. IT Risk Assessment	External Audit	Planned	300
FINANCIAL & INVESTMENT OPERATIONS			
29. External Financial Audit	External Audit	Annual	300
30. Audit of Actuarial Consulting Services	External Audit	Periodic	200
31. Compliance Monitoring (Investments)	Consulting	Planned	400
32. Investment Fee Reporting & Validation*	Audit	Planned	200
33. Princeville THC Audit & Tax Service – RFP	RFP	Periodic	300
34. Real Estate Financial Audit & Tax Service	External Audit	Annual	250
35. Real Estate Investment Operations*	External Audit	Planned	100
36. Real Estate Advisor Review (<i>EMMES</i>)*	External Audit	Periodic	100
37. Real Estate Advisor Review (<i>Cornerstone</i>)*	External Audit	Periodic	100
38. Real Estate Debt Program Review*	External Audit	Planned	50
39. Securities Lending*	External Audit	Planned	50

 In Process

 Ongoing

*FYE 2016 Project Rolled Over to Current Year

Internal Audit Plan

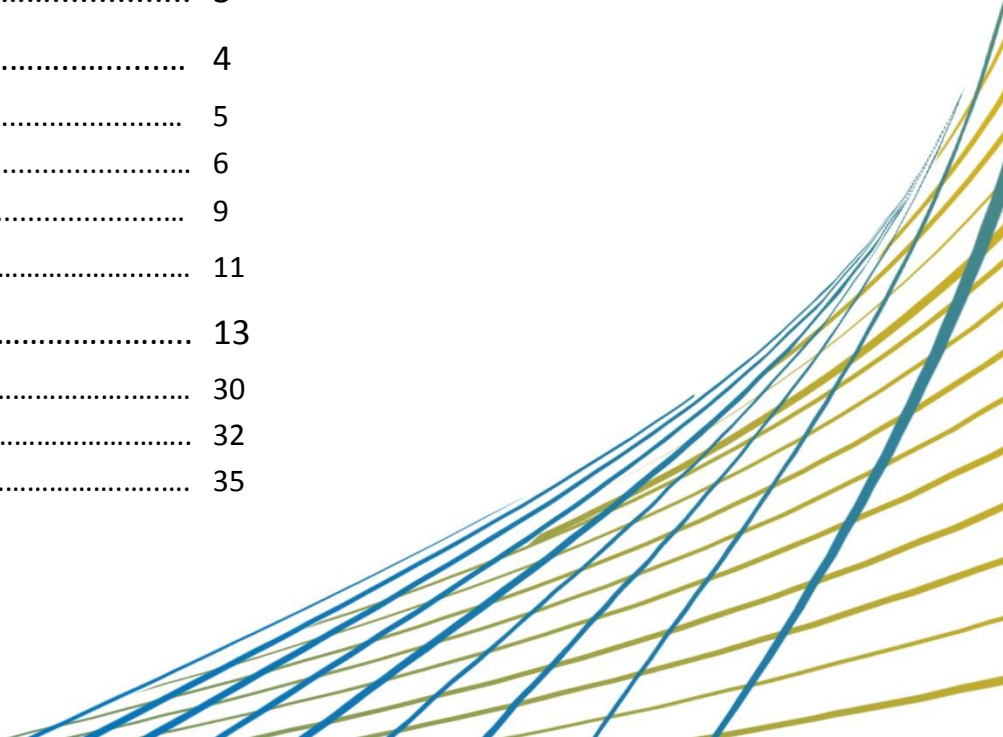
FYE 2017

Submission to the Audit Committee

July 20, 2016

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Executive Summary

Purpose

This document provides LACERA's proposed Internal Audit Plan ("Audit Plan") for the Fiscal Year Ending 2017 for the Audit Committee's review and approval as required by professional auditing standards and our Internal Audit Charter.

The purpose of the Audit Plan is to ensure audit resources are allocated to address identified top priorities.

Audit Plan Development & Scope

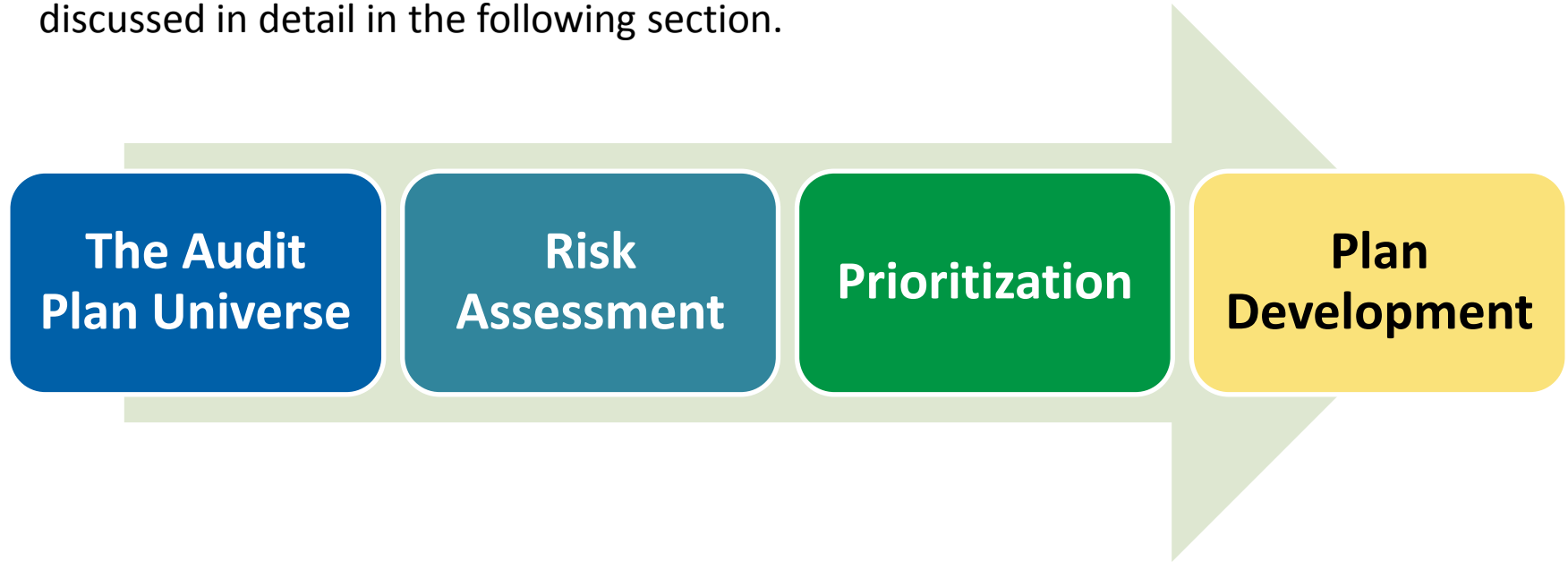
Our Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. See the Appendices for information regarding the Internal Audit Budget, Performance Measures, and LACERA Audit Universe.

Changes Subsequent to Approval

Interim adjustments to the Audit Plan will occur periodically due to changes in business risks, timing of LACERA initiatives, and staff availability. We will report any Audit Plan adjustments to Management and the Audit Committee as appropriate.

Audit Plan Process

The diagram here represents our Audit Plan Process to be discussed in detail in the following section.



The Audit Plan Universe

What is the Audit Plan Universe?

The Audit Universe is a list of all possible audits that could be performed. They may be identified by division or by process.

Internal Audit applies a host of resources and knowledge including, but not limited to: LACERA's Strategic Plan, CAFR, budgets, organization charts, job descriptions, policies, the Internal Audit Risk Assessment, as well as general knowledge of LACERA and business processes in defining the Audit Universe. (See Appendix C) The Audit Plan Universe is **dynamic** as it is subject to change as additional auditable units are identified or circumstances change.



Risk Assessment

Understanding Risk

Risk assessment is the **systematic process for identifying and evaluating events including possible risks and opportunities that could affect the achievement of objectives, positively or negatively.**

Such events can be identified in the external environment (*e.g., new laws or regulations such as PEPPRA*) and within an organization's internal environment (*e.g., personnel, infrastructure, or process changes*). When these events intersect with an organization's objectives, (*or can be predicted to do so*), they become risks. ***Risk*** is therefore defined as, **"the possibility that an event will occur and adversely affect the achievement of objectives."**

Risk Assessment

Risk Assessment Process

In accordance with Internal Audit's Charter and the Institute of Internal Auditors (IIA), our Audit Plan is developed using an appropriate risk-based methodology, including the consideration of any risks or control concerns identified by management.

Planning for LACERA's overall audit needs requires a macro view of the organizations objective and related risks. Internal Audit continually assess all information relating to risk, potential or existing, along with special requests for audits and identified areas of concern.

Internal Audit gathers information regarding current and potential risks to the organization through the following:

- Discussions with LACERA Executive Management and review of LACERA's Strategic Plan,
- Risk meetings with Division Managers and Staff
- Risk Assessment Surveys and Risk Tables received from each Division Manager.
- Attendance at LACERA Board and Committee meetings
- Meetings with the LACERA Plan Sponsors and business partners
- Past participation in audits, reviews, and specific management concerns.

Risk Assessment

Risk Assessment Survey

Our risk assessment process is evolving as we find new and innovative ways to identify and assess risk throughout the organization. Specifically, we included a higher level of Management participation with respect to assessing the risks in their divisions by having managers fill out the survey shown here. In this survey, managers were asked to answer questions that challenged their existing controls.

The four key areas included in the survey are:

1. Operational Objectives
2. Significant Changes
3. Privacy
4. Compliance

Internal Audit
Risk Assessment Survey | FYE 2016
LACERA
Los Angeles County Employees Retirement Association

Division: _____ Survey Completed By: _____ Date: _____

Instructions: Please answer the following questions to the best of your ability. When answering the questions, you should consider risks associated with work processed within your division and controls implemented to address those risks. Feel free to add additional pages or documents as needed. Thank you!

OPERATIONAL OBJECTIVES	
1. What are the key objectives/goals of your division?	
2. What are the most significant operational limitations that will prevent your division from accomplishing your divisional objectives? <i>Describe at a high level.</i>	
3. Are there any delays or backlogs in processes performed in your division? Why have they occurred?	
4. Are there any 2016-2017 strategic goals tied to work processes within your division?	
5. List significant processes or procedures in your division that are not documented with written procedures.	
6. Are there any specific control weaknesses or areas where controls could be further enhanced through additional segregation of duties or levels of approval, etc? If so please describe at a high level.	
SIGNIFICANT CHANGES	
7. Have there been any significant staffing changes in the past year? How did these staffing changes impact your division?	
8. List new legislative mandates that have or will impact your division.	
9. List new (or significant changes to) processes or work functions established in your division within the past year. How has this impacted your division? Do you anticipate any significant changes in fiscal year 2016-2017?	
PRIVACY	
10. Do you have divisional privacy policies or procedures?	
11. Describe processes in your division where member data is sent outside of the organization.	
12. Describe processes in your division where member data is sent to other divisions within the organization, include the method (e.g., via email, hard copy, etc.) the information is sent.	

Risk Assessment

Risk Assessment Worksheet

We also had division managers fill out a Risk Rating Worksheet shown here that allowed them to rate the risks in their respective areas.

This enhancement allowed us to have a better idea of Management's perception of their existing risks and controls. We then reconciled and combined Management's risk assessment results with our independent risk assessment to determine which audit projects to add to the Audit Plan.

Risk Assessment Table - Division A

Auditable Area/Function	Base Score	Materiality	Privacy	Change	Focus	Headline	Total	Explanation
		(-2 to +2)	(-2 to +2)	(-2 to +2)	(-2 to +2)	(-2 to +2)	(-7 to +13)	Justification for (+ or -) in this category
	3	1	1	0	2	-1	6	
1 Audit Area 1	3	1	0	2	-2	1	5	
2 Audit Area 2	3	-1	1	-2	1	1	3	
3 Audit Area 3	3	0	0	-2	1	0	2	
4 Audit Area 4	3	0	0	-1	-1	-2	-1	
5 Audit Area 5	3	1	1	0	0	1	6	
6 Audit Area 6	3	2	1	2	1	0	9	
7 Audit Area 7	3	1	1	0	1	1	7	
8 Audit Area 8	3	-1	-2	0	-2	0	-2	
9 Audit Area 9	3	1	1	0	0	0	5	
10 Audit Area 10	3	0	0	1	-1	1	4	

Steps to completing the Risk Assessment Table:

- Review the list of Auditable Areas, also referred to as functions. These are independent functions or processes performed within your division. You can add, change or delete functions so that the list clearly reflects key areas of work done within your division.
- For each function listed on the table rate the associated risks based on the 5 risk factors: materiality, privacy, change, focus, and headline (top row of table). Refer to Risk Criteria Definitions on Worksheet #2
- Assign points based on the risk methodology parameters defined on page 2. For each risk criteria, you can increase the score up to a maximum 2 points, or decrease the score down by a maximum of 2 points.
- Calculate the total (if working on file, the total will automatically calculate). The total score will consist of the base score of 3 plus or minus the points assigned to each of the 5 criteria. The minimum total is -7 and the maximum total is +13. See Example Area 1 and 2 included in the risk table above.
- The explanation column can be used to further explain any high risk scores or provide information or details significant to that function. relating to the function.
- Email completed table back to Internal Audit - address to Richard Bendall, cc to Leisha Collins and Quoc Nguyen

Prioritization

Overview

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. The primary responsibility of Internal Audit is assess if control processes as designed and represented by Management, is adequate and functioning in a manner to ensure the following:

- Risks are appropriately identified and managed.
- 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 protected adequately.
- 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.

Prioritization

A Balancing Act

It is important for Internal Audit to strike a balance in all aspects of our operations especially with regard to how we focus our attention on key risks and allocate our resources to address those risks.

If we are able to strike the right balance, we can effectively provide assurance to stakeholders on the effectiveness of LACERA's internal controls without compromising the efficiency of business unit operations.



Plan Development

Oversight

Our Audit Plan reflects the results of our continuous Risk Assessment Process as of the end of the LACERA fiscal year. Each year's updated Audit Plan is presented for your approval at the regularly scheduled July meeting and is implemented immediately upon approval.

Key Areas of Focus

Our Assessment focuses on exposures relating to LACERA's governance, operations, and information systems regarding the:

- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations
- safeguarding of assets
- compliance with LACERA policy
- compliance with legal, privacy, regulatory, and contractual obligations
- detection and prevention of fraud

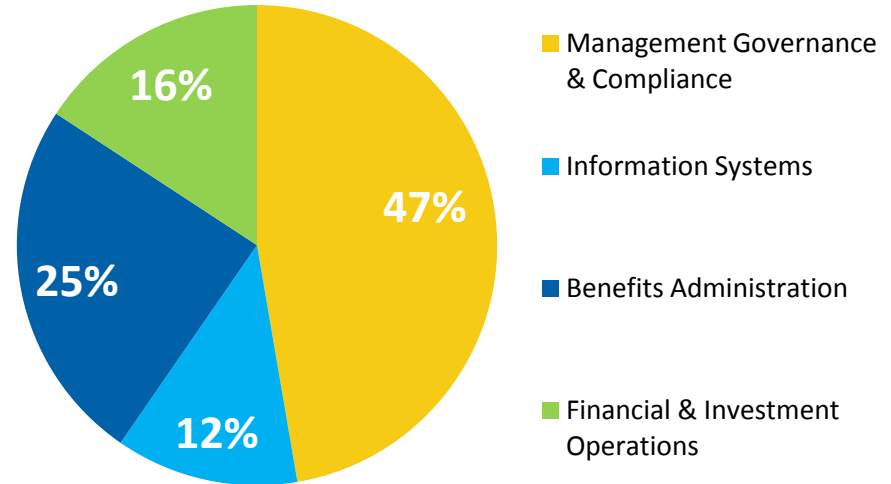
Plan Development

Resource Allocation FYE 2017

Our Audit Plan is based on 13,000 hours of available work hours.

The chart shown here indicates the distribution of our resources by **Project Type**.

Projects by Type



Internal Audit Plan

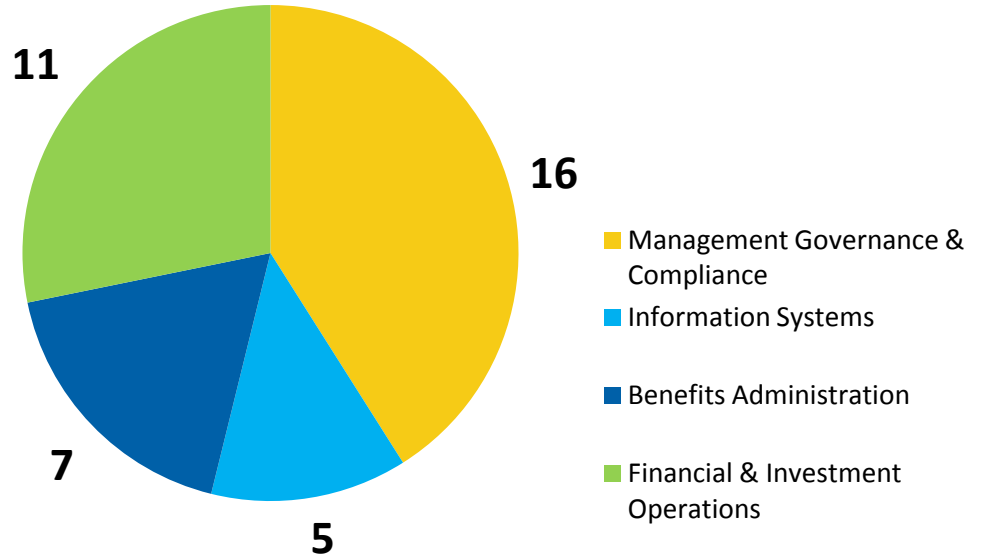
FYE 2017



Big Picture Snapshot | FYE 2017

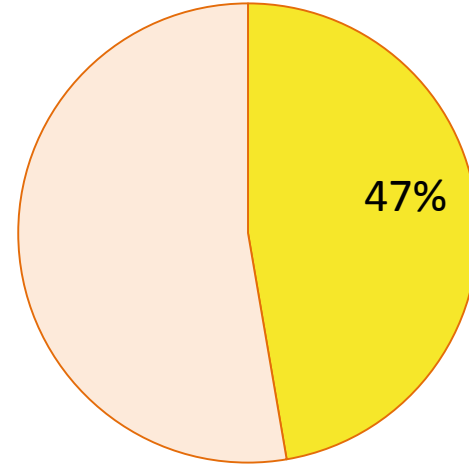
39 Projects

Projects by Type



Management, Governance & Compliance

16 Projects



Management, Governance & Compliance

No.	Project	Preliminary Scope
1	Actuarial Experience Study – RFP	Internal Audit will issue an RFP for LACERA’s Actuarial Experience Study to be performed in accordance with established policy.
2	Actuarial Audit – RFP	Internal Audit will issue an RFP for LACERA’s Actual Audit to be performed in accordance with established policy.
3	Audit Guidebook Update	Internal Audit is in the process of updating its Audit Guidebook. The Guidebook is a resource for Internal Audit to ensure that audit activities are conducted in conformance with The IIA’s <i>Standards</i> , the Definition, and the Code of Ethics.
4	Compliance Monitoring (<i>Administration</i>)	The Executive Office plans to formalize the compliance process to include an organization-wide checklist of laws, regulations, policies, and procedures that are business critical to LACERA, and will have division managers affirm compliance on a periodic basis. Once formalized and implemented, Internal Audit will audit LACERA's process for monitoring compliance.



In Process



Ongoing

Management, Governance & Compliance

No.	Project	Preliminary Scope
5	Continuous Auditing Program	In general, Internal Audit performs continuous, automated testing of LACERA transactions and information systems. This testing is performed to provide assurance that LACERA is in compliance with applicable laws and regulations as well as internal policies and procedures.
6	Fraud Testing –Duplicate Member Payments*	This is a component of our Continuous Auditing Program which leverages data analytics using auditing software using ACL. The purpose of this audit is to test for duplicate checks.
7	New Payees (Retirees) Testing	Internal Audit tests 100% of new retirees and beneficiaries added to the monthly payroll to ensure that all new payees are valid recipients.
8	County Medical Reimbursements*	Review of medical reimbursement process from the County and reconciliation for accuracy, timeliness and appropriateness.

*FYE 2016 Project Rolled Over to Current Year

 In Process

 Ongoing

Management, Governance & Compliance

No.	Project	Preliminary Scope
9	Felony Convictions Plan Sponsor Reporting*	This is a compliance review of the LACERA Plan Sponsor's requirements for reporting certain felony convictions as required by PEPRRA.
10	Internal Audit Contractor Pool – RFP*	Internal Audit will prepare an RFP, conduct a search, and complete contracts to establish a pool of qualified internal audit service providers that may be sourced for future audit projects as appropriate and necessary.
11	Internal Audit Websites Update	Internal Audit will work with LACERA's Communications and Systems Divisions to establish more robust online resources and educational tools.
12	PEPRA Employer Compliance Testing*	Internal Audit will oversee and perform testing of Plan Sponsor Payroll Data in compliance with PEPRRA.

*FYE 2016 Project Rolled Over to Current Year



In Process



Ongoing

Management, Governance & Compliance

No.	Project	Preliminary Scope
13	Privacy Audit Recommendation Coordination	Internal Audit will oversee and actively coordinate the implementation of the recommendations as stated in the external Privacy Audit final report.
14	Quality Assurance Improvement Program	Internal Audit is in the process of documenting its Quality Assurance and Improvement Program (QAIP). The Program is designed to help Internal Audit add value for its clients, improve the organization's operations, and ensure that audit activities are conducted in conformance with The IIA's <i>Standards</i> , the Definition, and the Code of Ethics.
15	Risk Assessment – FYE 2018	In compliance with the Internal Audit Charter and Institute of Internal Auditors Professional Practices Framework, Internal Audit will assess risks and controls throughout the organization to plan for LACERA's overall audit needs and to develop the Audit Plan.



In Process



Ongoing

Management, Governance & Compliance

No.	Project	Preliminary Scope
16	Travel & Education Policy Compliance Review*	Review of Board and staff travel to ensure that expenses are in compliance with the LACERA Travel Policy.

*FYE 2016 Project Rolled Over to Current Year



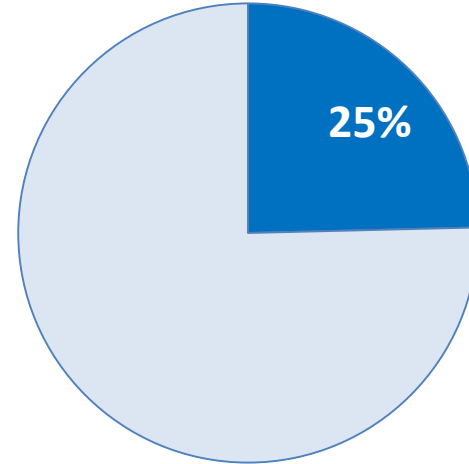
In Process



Ongoing

Benefits Administration

7 Projects



Benefits Administration

No.	Project	Preliminary Scope
17	Active Death Process*	Review of Active Death case management in Benefits and Member Services. Also, follow-up of previous recommendations relating to this Process.
18	Certificate Processing Audit*	Review the process for inputting member information related to certificates (<i>eg. birth, marriage and death</i>) to ensure accuracy.
19	Member Death Verification Process	Review LACERA's processes for verifying member death's not previously reported to LACERA through the standard Death Verification process.
20	Member High Risk Verification	Review the cross-divisional processes for performing high-risk verification of member identity. This Audit will specifically focus on how member callers are verified and transferred between the Retiree Health Care and Member Services Call Centers.

*FYE 2016 Project Rolled Over to Current Year

 In Process

 Ongoing

Benefits Administration

No.	Project	Preliminary Scope
21	New Benefits Tier Plan*	Verify that Benefits and Retiree Health Care are placing members in the correct Retiree Health Care plan tier based on PEPR.
22	Member Accounts Settlement Process*	Consulting review of the newly established Member Account Settlements Process administered by Benefits and Financial & Accounting Services Division to provide assurance that controls are functioning as intended.
23	Physician Selection and Monitoring	Review Disability Retirement Services' process for selecting physicians and monitoring their eligibility.

*FYE 2016 Project Rolled Over to Current Year



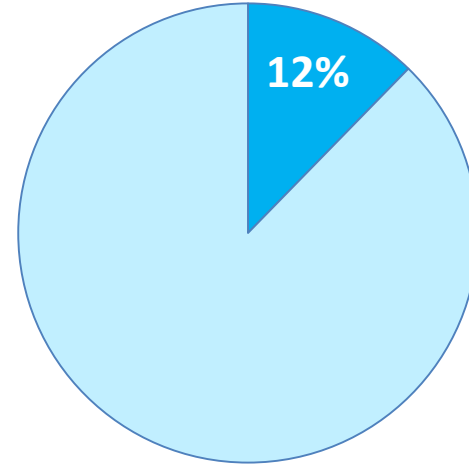
In Process



Ongoing

Information Systems

5 Projects



Information Systems

No.	Project	Preliminary Scope
24	Business Continuity/Disaster Recovery	Internal Audit will engage an external auditor to perform a review of LACERA's Business Continuity/Disaster Recovery Program.
25	Data Backup/Retention Testing*	Internal Audit will test current operating procedures and processes for data back-up and retention.
26	Member Applications Change Control Review*	Internal Audit will test current operating procedures and processes for changing or creating new membership application programs.
27	Systems Penetration Testing*	External Network Penetration testing is performed annually to assess the security of the internet accessible Member Portal.
28	IT Risk Assessment	Internal Audit will engage an external auditor to perform a risk and control assessment of LACERA's Information Technology.

*FYE 2016 Project Rolled Over to Current Year



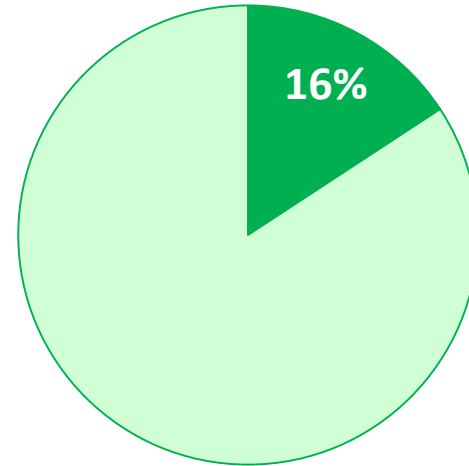
In Process



Ongoing

Financial & Investment Operations

11 Projects



Financial & Investment Operations

No.	Project	Preliminary Scope
29	Annual External Financial Audit	Internal Audit manages the relationship with the LACERA Annual Financial Auditors to facilitate the annual financial statement audit.
30	Audit of Actuarial Consulting Services	Internal Audit manages the relationship with the Actuarial Auditor (<i>Segal Company</i>) for any services relating to work performed by LACERA's Actuarial Consultant (<i>Milliman</i>).
31	Compliance Monitoring (<i>Investments</i>)	The Executive Office plans to formalize the compliance process to include an organization-wide checklist of laws, regulations, policies, and procedures that are business critical to LACERA, and will have division managers affirm compliance on a periodic basis. Once formalized and implemented, Internal Audit will audit LACERA's process for monitoring compliance in Investments.

*FYE 2016 Project Rolled Over to Current Year



In Process



Ongoing

Financial & Investment Operations

No.	Project	Preliminary Scope
32	Investment Fee Reporting & Validation*	Review of investment fee calculation and reporting for all asset classes.
33	Princeville THC Audit & Tax Services – RFP	Internal Audit will issue a Request for Proposals to hire an external auditor to perform audit and tax services of the THC associated with the Princeville Hotel and Makai Golf Course.
34	Real Estate Financial Audit & Tax Services	Internal Audit oversees the work performed by the External Real Estate Auditors of the LACERA wholly owned Title Holding Companies (THCs).
35	Real Estate Investment Operations*	Review the Real Estate Investment Program to provide assurance that controls exist and are functioning as intended.

*FYE 2016 Project Rolled Over to Current Year

 In Process

 Ongoing

Financial & Investment Operations

No.	Project	Preliminary Scope
36	Real Estate Advisor Review (EMMES)*	Contract compliance and operational review of LACERA's Real Estate Advisor, <i>Emmes</i> .
37	Real Estate Advisor Review (Cornerstone)*	Contract compliance and operational review of LACERA's Real Estate Advisor, <i>Cornerstone</i> .
38	Real Estate Debt Program Review*	Contract compliance and operational review of LACERA's Real Estate Debt Program.
39	Securities Lending	Audit of LACERA's Securities Lending Program(s) at Goldman Sachs and State Street.

*FYE 2016 Project Rolled Over to Current Year

 In Process

 Ongoing

Appendix A

Operating Budget | FYE 2017



Operating Budget

Categories	Budget FYE 2016	Budget FYE 2017
Salaries & Employee Benefits	\$1,656,758	\$1,667,779
Professional & Specialized Services	\$269,000	\$525,000
Educational Expenses	\$35,500	\$49,200
Transportation & Travel	\$20,400	\$23,800
Office Supplies & Equipment	\$2,000	\$1,000
Miscellaneous	\$1,000	\$1,000
Total Operating Budget <i>(excluding indirect costs such as computers, office space, and utilities)</i>	\$1,984,658	\$2,267,779
Full Time Equivalent (FTE) Positions	10.0	10.0

Appendix B

Performance Measures | FYE 2017



The following are Internal Audit's Goals and Performance Measures for the **CYE 2016**:

Goal 1: Fraud & Compliance Reporting Process

Performance Measure:

Provide the Audit Committee with a structured reporting process for fraud, compliance, and member validation testing to be presented at the December 2016 Audit Committee Meeting.

Status:

In Progress. 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.

Goal 2: Develop & Implement a Formal Quality Assurance and Improvement Program (QAIP)

Performance Measure:

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:

In Progress. Staff began developing the framework for the QAIP in June 2016.

Goal 3: Develop and Audit Work Program Template

Performance Measure:

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.

Goal 4: Audit Committee and Internal Audit Charter Update

Performance Measures:

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 July 2016 meeting.

Goal 5: Develop & Implement an Internal Audit Operations Guide

Performance Measure:

Internal Audit will complete a comprehensive update of the Internal Audit Operations Guide by the December 2016 meeting.

Status:

In Progress. Staff began work on the IA Operation Guide in May 2016. We plan to complete the guide by December 2016.

Goal 6: Update Internal Audit Websites

Performance Measure:

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.

Goal 7: Revise the Audit Plan Format

Performance Measures:

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:

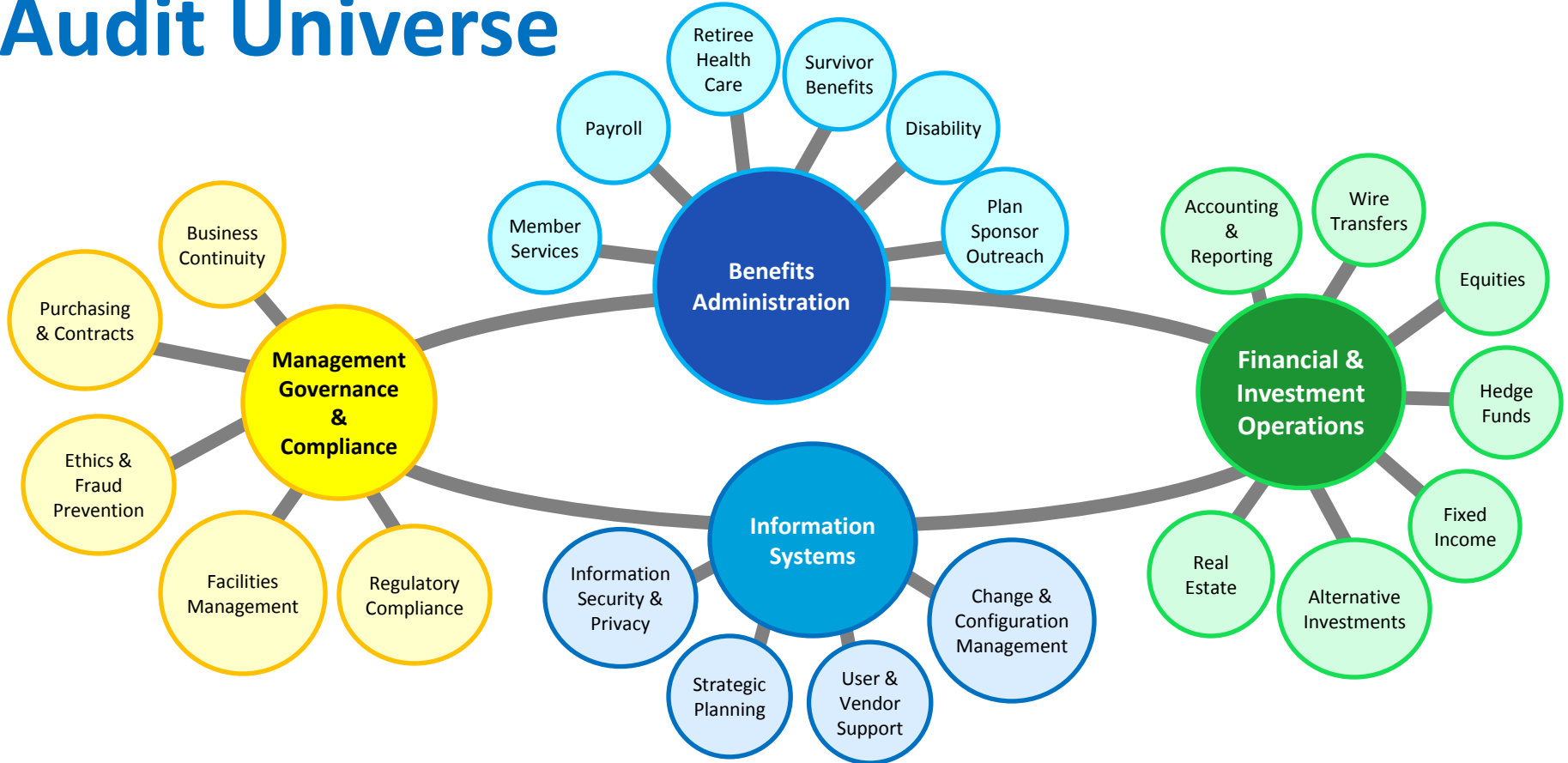
In Progress. Staff is reviewing different formats for the Audit Plan.

Appendix C

Audit Universe



Audit Universe



2016

LACERA

Los Angeles County Employees Retirement Association

Audit Plan Annual Report

FYE 2016 Plan Status as of June 30, 2016

Submitted to the Audit Committee
July 20, 2016

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Los Angeles County Employees Retirement Association

AUDIT COMMITTEE

of the Board of Retirement & Board of Investments

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

INTERNAL AUDIT DIVISION

Richard Bendall, CPA, CISA Chief Audit Executive
Leisha Collins, CPA Principal Internal Auditor
Quoc Nguyen, CPA Principal Internal Auditor
Christina Logan, CPA, CFE Senior Internal Auditor
George Lunde, CIA, CISA Senior Internal Auditor
David Redman, MBA, CIA, CFE, HIA Senior Internal Auditor
Gabriel Tafoya, CISA, ACDA Senior Internal Auditor
Nathan Amick Internal Auditor
Darla Vidger, MPA Internal Auditor
Elvia Gonzalez Secretary

AUDIT COMMITTEE CONSULTANT

Rick Wentzel, CPA

EXECUTIVE SUMMARY

On behalf of the Internal Audit team, I am pleased to submit the **Internal Audit Annual Report** (*Report*) of the Los Angeles County Employees Retirement Association (*LACERA*) for the Fiscal Year Ended June 30, 2016. This Report provides information on the FYE 2016 Audit Plan, the assurance, consulting, and advisory projects completed as well as other Internal Audit activities.

The work performed by LACERA Internal Audit contributes toward accountability, integrity, and good management practices throughout LACERA's business units.

As of July 1, 2015; the FYE 2016 Audit Plan consisted of forty-three (43) projects. As the year progressed two (2) sub-projects and eight (8) unplanned projects were added to the audit plan, for a total of fifty-three (53) audit projects for the FYE 2016 Audit Plan. Of the fifty-three (53) total projects on the current Audit Plan, forty-one (41) projects have been tackled during the year with twenty-six (26) completed and fifteen (15) in progress.

During the period from July 1, 2015 to June 30, 2016; there were 12,822 staff hours available. A total of 10,666 staff hours (83%) were applied to audit projects, while 2,156 staff hours (17%) were applied to administrative projects.

This Report contains the status on all projects undertaken this fiscal year. Also provided in this report are details 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. Recently completed projects with corresponding audit reports are provided in the Audit Reports section of your July Audit Committee Meeting Book.

I would like to thank the Audit Committee and Executive Office for their continuing support. Your ongoing perspective and guidance continues to be invaluable. I would also like to acknowledge my Internal Audit staff for all their hard work and dedication to our practice throughout the year. Their resilience and unwavering professionalism has made me proud.

Sincerely,




Richard Bendall, CPA, CISA
Chief Audit Executive

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	STATUS	REPORT/COMPLETION DATE
1. Audit Committee Charter – Revision	Unplanned	Complete	June 30, 2016
2. Audit Committee Consultant – RFP	RFP	Complete	November 16, 2015*
3. Compliance Testing	Ongoing		
▪ Minor Survivor Testing	Audit	Complete	June 29, 2016
▪ PEPRA 960 Hours Testing	Audit	Complete	November 20, 2015*
4. County Medical Reimbursements	Audit	Pending	Forwarded to FYE 2017 Plan
5. Felony Convictions Plan Sponsor Reporting	Audit	Pending	Forwarded to FYE 2017 Plan
6. Fraud Testing	Ongoing		
▪ Duplicate Member Payments	Audit	In Process	See WIP Report Below
▪ Duplicate Vendor Payments	Audit	Complete	March 29, 2016*
7. Internal Audit Charter – Revision	Unplanned	Complete	June 30, 2016
8. Internal Audit Contractor Pool	RFP	In Process	See WIP Report Below
9. Human Resources Compliance Review	Oversight	Complete	November 16, 2015*
10. LACERA Office Building Renovation	Audit	Complete	April 16, 2016
11. New Payees (Retirees) Testing	Audit	Complete	June 30, 2016
12. PEPRA Employer Audit & Monitoring	Audit	In Process	See WIP Report Below
13. PEPRA Pay Codes Compliance Testing	Audit	In Process	See WIP Report Below
14. PEPRA Pensionable & IRS 401(a) Cap Compliance	Audit	Pending	Forwarded to FYE 2017 Plan
15. Privacy Audit	Oversight	In Process	See WIP Report Below
16. Privacy Audit Coordination	Unplanned	In Process	See WIP Report Below
17. Quality Assurance Review	Oversight	Complete	January 15, 2016*
18. Risk Assessment (FYE 2017)	Admin	Complete	June 30, 2016
19. Tenant Improvements	Unplanned	Complete	November 24, 2015*
20. Travel & Education Policy Compliance Review	Audit	In Process	See WIP Report Below
BENEFITS ADMINISTRATION			
PROJECT	TYPE	STATUS	REPORT/COMPLETION DATE
21. 415b Adjustments	Audit	Complete	January 8, 2016*
22. Active Death Process	Audit	Pending	Forwarded to FYE 2017 Plan
23. Certificates Processing Audit	Audit	In Process	See WIP Report Below
24. Member Validation	Audit	Complete	<i>Transitioned Out of IA*</i>
25. New Benefits Tier Plan	Audit	Pending	Forwarded to FYE 2017 Plan
26. Member Account Settlements Process	Audit	Pending	Forwarded to FYE 2017 Plan
27. RDS Program Oversight	Oversight	In Process	See WIP Report Below
28. Returned Automatic Deposit Receipts (ADRs)	Audit	Complete	November 24, 2015*


 In Process

 Ongoing

INFORMATION SYSTEMS			
PROJECT	TYPE	STATUS	REPORT/COMPLETION DATE
29. Calculation Engine Consulting	Consulting	Complete	December 31, 2015
30. Data Backup & Retention	Audit	In Process	See WIP Report Below
31. Member Applications Change Control Review	Audit	Pending	Forwarded to FYE 2017 Plan
32. Member Data File Exception Processing	Audit	Complete	March 24, 2016
33. Software License Compliance Review	Audit	Complete	November 24, 2015*
34. Internal Audit Technology Consultant Pool - RFI	RFI	In Process	See WIP Report Below
35. Systems Penetration Testing	Oversight	In Process	See WIP Report Below
FINANCIAL & INVESTMENT OPERATIONS			
PROJECT	TYPE		REPORT/COMPLETION DATE
36. FYE 2015 Annual Financial Audit	Oversight	Complete	December 31, 2015*
37. FYE 2016 Annual Financial Audit	Oversight	In Process	See WIP Report Below
38. Audit of Actuarial Consulting Services	Oversight	Complete	June 30, 2016
39. GASB 67/68 Task Force	Consulting	Complete	December 21, 2015 *
40. External Financial Auditor - RFP	RFP	Complete	March 24, 2016*
41. GASB 74/75 Task Force	Consulting	In Process	See WIP Report Below
42. Hedge Fund Investments Accounting Practice	Consulting	Cancelled	Removed from Audit Plan
43. Investments Best Practices Oversight	Consulting	Complete	December 9, 2015*
44. Investment Fee Reporting & Validation	Audit	In Process	See WIP Report Below
45. Private Equity Fee Verification RFP	Unplanned	Complete	March 17, 2016*
46. Real Estate Investment Operations	Audit	Pending	Forwarded to FYE 2017 Plan
47. Real Estate Advisor Review (<i>Emmes</i>)	Audit	Pending	Forwarded to FYE 2017 Plan
48. Real Estate Advisor Review (<i>Cornerstone</i>)	Audit	Pending	Forwarded to FYE 2017 Plan
49. Real Estate Debt Program Review	Audit	Pending	Forwarded to FYE 2017 Plan
50. Securities Lending	Audit	Pending	Forwarded to FYE 2017 Plan
51. Real Estate Financial Audit & Tax Service	Oversight	In Process	See WIP Report Below

*NOTE: Completed project reported in prior reporting period.

 In Process

 Ongoing

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 June 30, 2016.

ADMINISTRATIVE SERVICES

Tenant Improvements

DIVISION(S)	ADMINISTRATIVE SERVICES & CBRE	REPORT DATE	NOV 24, 2015
OBJECTIVE	To determine if the amount of LACERA’s Tenant Improvement (“TI”) Allowance is appropriate per industry standards. Additionally, to determine if CBRE, Property Manager for LACERA Gateway, is properly planning, executing, and tracking LACERA’s TI projects, and to determine if Administrative Services (“Admin Services”) is properly managing and tracking its TI projects and TI Allowance.		
RATIONALE	The Executive Office requested this audit to determine if procedures and internal controls relating to LACERA’s TI allowance are appropriate and functioning as intended. In addition, the audit was conducted to determine if LACERA’s TI allowance is adequately managed and tracked by the property manager and LACERA Administrative Services. Since LACERA’s lease will expire in December 2015, findings and recommendations from the audit are applicable to managing LACERA’s future TI Allowance.		
CONCLUSION	Staff has completed audit work and anticipates issuing the report by November 20, 2015. Based on the audit, the TI Allowance LACERA received for its past leases is appropriate, and CBRE has been prudently and accurately managing LACERA’s TI Allowance and related TI projects. Although Admin Services is actively participating in the planning phases and overseeing the TI projects, we noted Management is not tracking the TI Allowance or TI project expenses. Management acknowledges it needs to track the TI Allowance and TI projects to ensure LACERA’s TI allowance is properly managed, and will implement recommendations for the new lease.		

Office Renovations

DIVISION(S)	ADMINISTRATIVE SERVICES	REPORT DATE	APR 16, 2016
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	The Final Report was issued on April 14, 2016. Based on our audit work, we found Admin Services controls and procedures relating to the Office Renovation process are generally effective. We identified the following areas to be strengthened: documenting vendor selection, formalizing procedures for change orders, and defining Renovation Team.		

BENEFITS

Returned ADR Audit

DIVISION(S)	BENEFITS	REPORT DATE	NOV 24, 2015
OBJECTIVE	Internal Audit will conduct a review of the Returned Automated Deposit Receipt (ADR) Process to determine its effectiveness and provide recommendations for improvement where applicable.		
RATIONALE	An issue with the Returned ADR process was reported to Internal Audit which may have caused a member's benefit to be adversely affected. As a result, Internal Audit decided to perform a root cause analysis of the issue and also review the process to determine its overall effectiveness.		
CONCLUSION	<p>Overall, in our testwork performed for this review, the Returned ADR Process is functioning as intended by LACERA obtaining updated addresses for the large majority of living members with whom LACERA had lost contact. In addition, our testwork indicated that the Returned ADR process prevented overpayments of approximately \$29,000 to five deceased members.</p> <p>However, in meeting its objectives, the Returned ADR Process has resulted in some adverse impact to members. We noted that in some cases, the Returned ADR hold process resulted in some members losing their monthly payments and/or health benefits for extended periods. Moreover, some members lost their benefits while in healthcare facilities or just prior to their death.</p> <p>Based on our analysis of the process and related testwork, we have identified several areas where the Returned ADR process may be improved. Specifically, proactively tracking accounts with Returned ADR payment holds, improving member communication and verification, documenting procedures, and reviewing current requirements to remove Returned ADR Holds such that living members may receive the benefits to which they are entitled.</p> <p>LACERA Management has agreed with all of our recommendations and has either implemented or developed management action plans for implementing the recommendations. Details of these findings and observations, as well as our recommendations, are included in the Returned ADR Audit report provided in this book.</p>		

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	JUN 29, 2016
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.		
CONCLUSION	Based on testwork, controls appear to be functioning as intended. Internal Audit did make two recommendations to further strengthen controls. See the attached report, dated June 29, 2016, for full details.		

Certificates Processing Audit

DIVISION(S)	BENEFITS, MEMBER SERVICES, RHC, & ADMIN SERVICES	REPORT DATE	TBD
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	Internal Audit has completed preliminary and currently in the process of completing fieldwork and testing. We plan to complete this project and issue a report by September 30, 2016		

BENEFITS

Duplicate Member Payments

DIVISION(S)	BENEFITS	REPORT DATE	TBD
OBJECTIVE	To determine whether the Benefits Division was paying duplicate special payments and to assess the effectiveness of its internal controls to detect duplicate member payments and avoid unnecessary member 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 member payments.		
PROGRESS	Internal Audit is currently performing field work and will be undergoing testing and analysis to identify potential duplicate member payments. IA anticipates completing the audit by August 30, 2016.		

EXECUTIVE OFFICE

PEPRA 960 Hours Testing

DIVISION(S)	EXECUTIVE OFFICE	REPORT DATE	NOV 17, 2015
OBJECTIVE	To determine whether all retirees were temporarily rehired in compliance with legal requirements and County policies and procedures.		
RATIONALE	The State of California’s County Employees Retirement Law provides that Los Angeles County has the option to re-employ retirees for up to 120 days (960 hours) per fiscal year, on a strictly temporary basis, without affecting their retirement status or benefits. Compliance with this law significantly helps to ensure that LACERA retains its tax deferred “qualified” status as per State and Federal tax law.		
CONCLUSION	Internal Audit did identify minor issues of non-compliance with legal requirements and County policies and procedures. These infractions were reported to the Chief Executive Office - Benefits, Compensation Policy, and Employee Relations Division and they are in the process of implementing workable solutions to mitigate these infractions in the future.		

EXECUTIVE OFFICE

Calculation Engine Project

DIVISION(S)	EXECUTIVE	COMPLETION DATE	DEC 31, 2015
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.		
CONCLUSION	Internal Audit has completed its first round of testing Management's process for testing changes to the Calculation Engine, which included changes to Retirement Estimates and Final Payroll Calculations. We noted that Management performed adequate testing procedures. Once Management performs its second round of changes, primarily affecting SCD and NSCD benefits, Management will engage Internal Audit for additional consulting.		

PEPRA Employer Audit Analysis

DIVISION(S)	EXECUTIVE OFFICE	REPORT DATE	TBD
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	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.		

	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. We anticipate completing the audit and issuing a report by September 30, 2016
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EXECUTIVE OFFICE

PEPRA Paycode Compliance Testing

DIVISION(S)	EXECUTIVE OFFICE	REPORT DATE	TBD
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. We anticipate completing the testing and issuing a report by September 30, 2016		

FINANCIAL AND ACCOUNTING SERVICES

LACERA Annual Financial Audit Facilitation – FYE 2015

DIVISION(S)	FASD	MEMO DATE	DEC 3, 2015
OBJECTIVE	Facilitate LACERA's annual, external, financial statement audit for FYE 2015.		
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.		
CONCLUSION	The external auditors, Brown Armstrong, completed all their work and issued a “clean” opinion letter. Refer to LACERA's <i>Report on Audited Financial Statements for the Years Ended June 30, 2015 and 2014</i> , as well as the three required “Management Letters.”		

FINANCIAL AND ACCOUNTING SERVICES

GASB 67 and 68 Task Force

DIVISION(S)	FASD	MEMO 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.		

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		

FINANCIAL AND ACCOUNTING SERVICES

Education & Travel Policy Compliance Review

DIVISION(S)	FASD & Board Travel Committee	REPORT DATE	TBD
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 has completed fieldwork, which included working with FASD to understand, review, and test the process for reviewing and reimbursing and/or reconciling expenses related to Education & Travel. The audit report is drafted and in review. Internal Audit anticipates issuing the report July 30, 2016		

LACERA Annual Financial Audit Facilitation – FYE 2016

DIVISION(S)	FASD	MEMO DATE	TBD
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 completed their 2-week, on-site interim fieldwork, which primarily concerns itself with membership, benefits, and preparations for their final fieldwork. They will return to commence their 4-week, on-site final fieldwork on September 6. The audit will be completed with accompanying Financial Statements by January 15, 2017.		

GASB 74 and 75 Task Force

DIVISION(S)	FASD	MEMO DATE	TBD
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. The task will be concluded after the implementation of GASB 75 no later than June 30, 2017.		

INVESTMENTS

Investment Risk Best Practice Study Oversight

DIVISION(S)	INVESTMENTS DIVISION	REPORT DATE	DEC 19, 2015
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.		

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.		

INVESTMENTS

Investment Fee Reporting and Validation

DIVISION(S)	INVESTMENTS DIVISION	REPORT DATE	TBD
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 is nearing the end of fieldwork and is anticipating finalizing the report by July 31, 2016.		

INTERNAL AUDIT

Audit Committee Consultant RFP

DIVISION(S)	INTERNAL AUDIT	REPORT DATE	NOV 16, 2015
OBJECTIVE	Internal Audit issued a Request for Proposal (RFP) for an Audit Committee Consultant (Consultant) in September 2015.		
RATIONALE	The Audit Committee Consultant serves as the Audit Committee's designated technical expert and provides advice on audit and financial matters. The current Audit Committee Consultant will resign from this position in December 2015.		
CONCLUSION	Candidates were interviewed at the December 3, 2015 Audit Committee Meeting. As a result of the interviews the Audit Committee chose Rick Wentzel as there consultant.		

INTERNAL AUDIT

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	JUN 30, 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.		
CONCLUSION	The Audit Committee approved the issuance of the RFP at its Meeting of April 15, 2016. The RFP was posted to LACERA's website and sent directly to 43 firms on April 22. <i>Intents to Bid with Minimum Qualifications Certifications</i> were received from 9 firms. The deadline for submission of proposals was June 17. Finalists proposed by staff will make presentations to the Committee at its July 20 Meeting.		

INTERNAL AUDIT

Audit Committee Charter & Internal Audit Charter Updates

DIVISION(S)	INTERNAL AUDIT	MEMO DATE	JUN 30, 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>		
PROGRESS	Internal Audit proposed updates to the Audit Committee Charter and Internal Audit Charter and discussed revisions at the April 2016 Audit Committee meeting. Based on the Audit Committee’s instruction, additional revisions were made and will be discussed at the July 2016 meeting.		

Internal Audit Consultant Pool RFP

DIVISION(S)	INTERNAL AUDIT	MEMO DATE	TBD
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 July 31, 2016.		

INTERNAL AUDIT

Internal Audit Technology Consultant Pool RFI

DIVISION(S)	INTERNAL AUDIT	MEMO DATE	TBD
OBJECTIVE	Internal Audit will issue a Request-For-Information (RFI) to assemble a pool of information technology audit consultants to perform audit services on an as-needed basis.		
RATIONALE	Internal Audit will use the consultants to ensure appropriate resources are available to complete audits and projects included in the Audit Plan.		
PROGRESS	The RFI was issued on May 31, 2016. The draft RFI was vetted through the Legal and Systems Divisions. Master Service Agreements will be established with each pool consultant, Statement-Of-Work agreements will be tailored to each project as appropriate. RFI responses and pool consultant evaluations are anticipated to be completed by August 31, 2016.		

HUMAN RESOURCES

HR Compliance Review

DIVISION(S)	HUMAN RESOURCES	REPORT DATE	NOV 16, 2015
OBJECTIVE	The purpose of the audit is to verify the sufficiency and completeness of LACERA’s human resources related policies and practices according to state and federal laws, the Los Angeles County Code (“County Code”), and best practices in human resources management; and to verify LACERA’s compliance with the aforementioned laws, County Code and best practices.		
RATIONALE	This external assurance review is being conducted in accordance with LACERA’s 2014-15 Audit Plan by verifying that LACERA’s personnel policies and operations are in compliance with applicable state and federal regulations as well as Los Angeles County Civil Service Code. -		
CONCLUSION	LACERA engaged the law firm of Liebert Cassidy Whitmore (LCW) to perform this review. LCW conducted meetings with staff from LACERA’s Executive Office, Internal Audit Division, Human Resources Division (“HR”) and Legal Division to discuss existing HR related policies, procedures and practices and identify human resources related areas to address through the audit. LCW found that LACERA generally conforms to the applicable laws, regulations, County Code and best practices regarding the human resources related areas they reviewed. LCW made recommendations to LACERA for improvement on its policies, practices and procedures in regards to these areas which are included in the Human Resources Audit Report included in this book.		

SYSTEMS

Data Backup & Retention

DIVISION(S)	SYSTEMS	REPORT DATE	TBD
OBJECTIVE	To determine whether the retention period for audit records and logs complies with applicable good practice guidance and to assess written policies and procedures for backing up and transporting files. Review the contingency plan including the priority of service provisions		
RATIONALE	In order to minimize the probability and impact on key business functions and processes, of a major Systems service interruption there is a need to ensure Systems management of backup arrangements and availability of business-critical information are adequately in effect. Systems, applications, data, and documentation all need to be backed up according to a defined schedule, considering Data types (e.g., voice, optical), Critical end-user computing data (e.g., spreadsheets), Physical and logical location of data sources, Security and access rights, and Encryption.		
PROGRESS	Internal Audit is currently performing fieldwork and testing and anticipates completing the audit by August 30, 2016.		

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 time of a member's retirement.)		

SYSTEMS

Software Licensing Review

DIVISION(S)	SYSTEMS	REPORT DATE	NOV 24, 2015
OBJECTIVE	<p>The primary purpose of our audit was to provide assurance that software licensing compliance procedures are functioning as intended, and comply with existing policies. Objectives are to determine that:</p> <ul style="list-style-type: none"> • Policies and procedures are established, properly approved, and include controls over the software licensing process. • Software used at LACERA is properly accounted for and complies with licensing agreements. • Software used at LACERA is being monitored to ensure compliance and that only licensed copies of software are being used. • Software license purchases processes ensure LACERA only purchases software as needed. 		
RATIONALE	<p>The audit was added as part of our fiscal year 2014-2015 audit plan as a result of Internal Audit's, Systems Division risk assessments and Audit Committee's concerns that LACERA's Software Licensing Compliance processes had not been reviewed in recent years. In each of the past 5 fiscal years, LACERA has budgeted over a \$1.5 million per year for software purchases and related maintenance. Software license compliance must be considered as contracts are renegotiated and renewed throughout the year.</p>		
CONCLUSION	<p>Overall, we found that LACERA's software licensing compliance is satisfactory with no indicators of non-compliance with any software. It was concluded that Systems properly controls the use of computer software by maintaining records of purchases, license agreements, and the number of software packages in use. Contract license compliance is monitored and accounted for in several ways ensuring installations do not exceed license purchases, license usage rights or restrictions.</p>		

Systems Penetration Testing

DIVISION(S)	SYSTEMS	REPORT DATE	TBD
OBJECTIVE	<p>To evaluate the controls preventing vulnerabilities on the internet accessible Web Portal which could be used to gain access to the LACERA internal network, view sensitive LACERA data, or potentially corrupt data that legitimate users may access. To determine if good practice standards and program code conventions are in effect for portal access authentication and authorization code.</p>		
RATIONALE	<p>Prior reviews have found that network and application environments exhibit many strong security practices that provided a very robust framework. However, gaps were noted that could impact the security of the systems and member data maintained by LACERA. Systems Division Management acknowledged the validity and significance of the issues and immediately remediated critical vulnerabilities.</p>		
CONCLUSION	<p>Internal Audit is currently performing fieldwork and testing and anticipates completing the audit by August 30, 2016.</p>		

ONGOING TESTING, MONITORING & CONSULTING

The following provides a brief narrative of ongoing Internal Audit projects for the **Fiscal Year Ended 2016**. 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. All Projects have been concluded, as of June 30, 2016, for Fiscal Year End 2016. All projects will resume July 1, 2016 for Fiscal Year End 2017.

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 July 2015 through June 2016. Based on our testing performed, Internal Audit found no exceptions to the scheduled new benefit payees. As of June 30, 2016, this project has concluded for Fiscal Year end 2016. Work will resume July 1, 2016 for Fiscal Year End 2017.

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. As of June 30, 2016, this project has concluded for Fiscal Year end 2016.

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. As of June 30, 2016, this project has concluded for Fiscal Year end 2016. Work will resume July 1, 2016 for Fiscal Year End 2017.

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.
CONCLUSION	As of June 30, 2016, this project has concluded for Fiscal Year end 2016. Work will resume July 1, 2016 for Fiscal Year End 2017.

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.
	As of June 30, 2016, this project has concluded for Fiscal Year end 2016. Work will resume July 1, 2016 for Fiscal Year End 2017.

INVESTMENTS

Real Estate External Financial Audit and Tax Services – FYE 2016

DIVISION(S)	INVESTMENTS COLLINS
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>
PROGRESS	<p>External Auditors will begin field work in July 2016. Final Audited financial reports are due by September 15, 2016.</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 June 30, 2016.

LACERA WIDE

Privacy Audit Oversight

DIVISION(S)	ALL DIVISIONS	REPORT DATE	TBD
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 completed. Stroz Friedberg Data Maps were completed and provided to Alston & Bird for inclusion in their legal analysis of LACERA’s privacy compliance. A draft report has been provided to LACERA with a final report anticipated in the current period. We anticipate completing this project November 30, 2016.</p>		

LACERA WIDE

Privacy Audit Coordination

DIVISION(S)	ALL DIVISIONS	REPORT DATE	TBD
OBJECTIVE	To ensure that the external auditors have the resources and information required to perform the Information Privacy Audit of LACERA, LACERA Internal Audit provided coordination and consulting services to the external audit teams engaged to perform this review.		
RATIONALE	Although initially planned as a limited scope consulting review, the Information Privacy Audit was conducted as a comprehensive, “no stone left unturned,” compliance audit by two external teams of auditors and required the assistance of Internal Audit resources to coordinate communication between the auditors and LACERA staff.		
PROGRESS	Fieldwork for this audit is completed. Stroz Friedberg Data Maps were completed and provided to Alston & Bird for inclusion in their legal analysis of LACERA’s privacy compliance. A draft report has been provided to LACERA with a final report anticipated in the current period. We anticipate completing this project November 30, 2016.		

RETIREE HEALTH CARE

RDS Program Oversight

DIVISION(S)	RETIREE HEALTHCARE	MEMO DATE	TBD
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 will conduct audits to provide the County with an independent, third-party assessment of CMS subsidies. The Retiree Health Care Division coordinates the audits and the potential reopening & resubmission of RDS applications submitted through Plan Year 2013-14. It also coordinates with the IBL Committee and Milliman. The RFP will solicit bids for such services for future years.		
PROGRESS	Milliman has completed the audits for Plan Years through 2013-14. To date, in excess of \$108mm in additional CMS subsidies have been received. All funds recovered belong to the County. The RFP was issued May 6, 2016 and staff is currently evaluating responses. The contract to be awarded (subsequent to final selection by the Board of Retirement) will have an effective date of October 1, 2016.		

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.



June 30, 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: July 20, 2016 | Audit Committee Meeting

SUBJECT: **AUDIT RECOMMENDATIONS FOLLOW-UP REPORTING**
March 1, 2016 – June 30, 2016

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. In the most recent reporting period, March 1, 2016 through June 30, 2016, the following audit recommendation activity occurred:

- Three (3) new recommendations were made. These recommendations resulted from an Administration Services audit.
- Ten (10) recommendations were implemented:
 - Three (3) were implemented by the Administration Services Division.
 - One (1) was implemented by the Benefits Division.
 - Five (5) were implemented by FASD.
 - One (1) was implemented by the Human Resources 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

March 1, 2016 – June 30, 2016

Division	New Recommendations	Implemented/ Closed	Management Accepts Risk	Pending
Administrative Services:	3	3		7
Benefits Division:		1		12
Communications:				
Disability Litigation:				
Disability Retirement:				
Executive-Org. level:				3
FASD:		5		
Human Resources:		1		9
Internal Audit:				1
Investments:				5
Legal:				
Member Services:				
Quality Assurance:				
Retiree Health Care:				3
Systems:				1
Actuary:				
Total:	3	10	0	41

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.

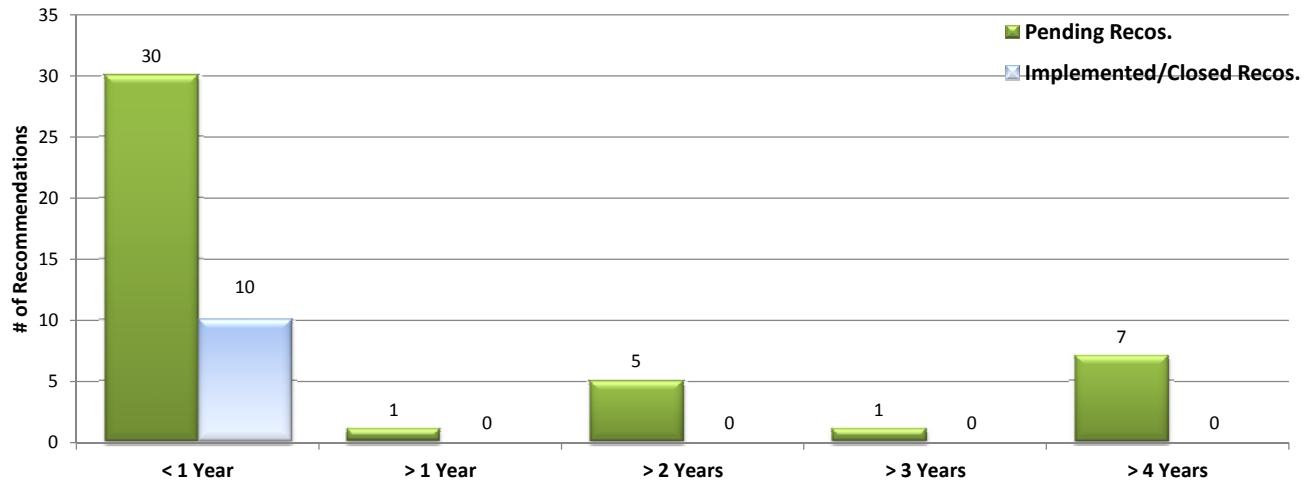
It is Internal Audit's responsibility to ensure that Management's action plans have been effectively implemented, or in the case of action plans that have yet to be implemented, to ensure that Management remains aware of the risks it has accepted by not taking action. In certain situations, if reported 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

March 1, 2016 through June 30, 2016



Pending Recos.	< 1 Year	> 1 Year	> 2 Years	> 3 Years	> 4 Years
Administrative Services	3		1		6
Benefits Division	6	1	4	1	
Communications					
Executive Office	3				
FASD					
Human Resources	9				
Internal Audit					1
Investments	5				
Legal					
Retiree Health Care	3				
Systems Division	1				
Pending Total:	30	1	5	1	7

Implemented/Closed Recos.	< 1 Year	> 1 Year	> 2 Years	> 3 Years	> 4 Years
Administrative Services	3				
Benefits Division	1				
FASD	5				
Human Resources	1				
Internal Audit					
Investments					
Legal					
Quality Assurance					
Retiree Health Care					
Systems Division					
Implemented/Closed Total:	10	0	0	0	0

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	Greater clarity & expansion needed in Purchasing Policy & the related Admin Manual	Admin Services Division should modify & expand both the Purchasing Policy and the related	4	8/31/2016	The Policy draft is complete and has been presented to the Executive Office for review. This finalized draft will be presented to the Operations Oversight Committee for final approval in August 2016.
	Daily operating procedures ("desk procedures") need enhancement re control	Procurement Unit should update & expand its written, daily operating procedures	4	8/31/2016	The Policy draft is complete and has been presented to the Executive Office for review. This finalized draft will be presented to the Operations Oversight Committee for final approval in August 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	4	8/31/2016	The Policy draft is complete and has been presented to the Executive Office for review. This finalized draft will be presented to the Operations Oversight Committee for final approval in August 2016.
	All LACERA staff have access to the DPC	#5 - DPC should be physically separated.	4	6/30/2017	Admin Services is the design phase for the office renovation. In the design we are creating a wall and a separate entrance between the DPC and the rest of the division and no one other than DPC staff and division management will have access to the area. We are doing this also in response to some privacy concerns regarding PI and PHI type of
	Reception area in Administrative Services is not keycard	# 8 - Install barrier to entry.	4	6/30/2017	Admin Services is in the design phase for the office renovation. In the design, there will be a more secure reception area.
	Employees must pass through the mail room to gain access to the copy center	#7 Secure Mail Room	4	6/30/2017	Admin Services is the design phase for the office renovation. In the design, the mail room will be located behind the copy room so that staff would not need to walk through the mail room to get to the copy center.
	Record Retention Training - Division Manager Education	Management Education	2	8/31/2016	The Policy draft is complete and has been presented to the Executive Office for review. This finalized draft will be presented to the Operations Oversight Committee for final approval in July or August 2016.
Internal Audit	Quality assurance and improvement programs are required	#4 - Improve quality assurance program	5	9/30/2016	Internal Audit has included in its calendar year 2016 goals to develop a formal quality assurance and improvement program (QAIP) as required by Institute of Internal Auditing (IIA) Standards. Currently, Internal Audit has developed a completed draft on the QAIP Policy. Internal Audit is continuing its efforts in refining the procedures on how the QAIP
Benefits	1st Payment - Separation of Duties	Implement secondary review	3	12/31/2016	The action plan for this recommendation is still in progress. In the meantime, independent audits of Agenda cases by QA and close monitoring of cases by Supervisors throughout the first payment process
	Potential for input errors	Develop field for logging first payment and monthly payment data	2	12/31/2016	The action plan for this recommendation is still in progress. In the meantime, independent audits of Agenda cases by QA and close monitoring of cases by Supervisors throughout the first payment process
	Need to review non-CIB transactions	Forward non-CIB cases to QA for review	2	12/31/2016	Until a Systems solution is available, Benefits Staff continue to work with QA to manually review selected non-CIB transactions.
	Recreating Timelines	Certify Member Timelines	2	6/30/2017	The ACE training program is currently being developed by a team made up of QA, Benefits, and the former QA Division Manager.
	Two Different Disability Databases	Eliminate Double Entry and Continue Reconciling Disability Status	2	6/30/2017	The action plan for this recommendation is still in progress. In the meantime, independent audits of Agenda cases by QA and close monitoring of cases by Supervisors throughout the first payment process

Audit Recommendation Follow Up

Admin Services

Status: **Pending**

Audit Project: **Purchasing/Procurement (May 8, 2011)**

Issue:	Recommendation	Actual	Estimated	Revised
"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	8/31/2016
Daily operating procedures ("desk procedures") need enhancement re control procedures	Procurement Unit should update & expand its written, daily operating procedures		12/31/2011	8/31/2016
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		12/31/2011	8/31/2016

Audit Project: **Records Retention Guidelines (Jul. 26, 2013)**

Issue:	Recommendation	Actual	Estimated	Revised
Record Retention Training - Division Manager Education	Management Education		6/30/2014	8/31/2016

Audit Recommendation Follow Up

Admin Services Division

Status: **Implemented**

Audit Project: **Tenant Improvements (Nov. 24, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
Admin Services develop a process to independently reconcile TI projects' approved budget vs actual	Independently Reconcile Projects	3/21/2016	3/31/2016	
Admin Services and CBRE meet at the conclusion of each TI project to recap project	Conduct End-of-Project Recap Meeting	3/21/2016	3/31/2016	
Develop a formal policy to determine when Steering Committee's approval is required for TI projects and change orders	Policy Development	3/31/2016	3/31/2016	

Status: **New**

Audit Project: **Office Renovation Projects (Apr. 24, 2016)**

Issue:	Recommendation	Actual	Estimated	Revised
Vendor Justification Not Included in Master Project File or Addressed in Written Procedures	Update written procedures and process to include documenting vendor selection		12/31/2016	
Inconsistent levels of participation from key stakeholders	Improve Planning and communication of Office Renovation projects		12/31/2016	
Change Orders are not adequately documented or addressed in written procedures	Develop and codify process for managing Change Orders		12/31/2016	

Audit Recommendation Follow Up

Administrative Services

Status: **Pending**

Audit Project: **Privacy Review (Jul. 7, 2011)**

Issue:	Recommendation	Actual	Estimated	Revised
Employees must pass through the mail room to gain access to the copy center	#7 Secure Mail Room		12/31/2011	6/30/2017
All LACERA staff have access to the DPC	#5 - DPC should be physically separated.		12/31/2011	6/3/2017
Reception area in Administrative Services is not keycard controlled	# 8 - Install barrier to entry.		12/31/2011	6/30/2017

Audit Recommendation Follow Up

Claims Processing

Status: **Pending**

Audit Project: **Claims - Process Objectives, Risks, Controls, Process Flows, and Procedural Gaps (April 12, 2012)**

Issue:	Recommendation	Actual	Estimated	Revised
1st Payment - Separation of Duties	Implement secondary review		12/31/2012	12/31/2016

Audit Recommendation Follow Up

Claims Processing Division

Status: **Implemented**

Audit Project: **Returned ADR Process Review (Nov 24, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
Returned ADR Hold Tracking & Follow-Up	Develop Tracking Process	6/22/2016	6/30/2016	

Status: **Pending**

Audit Project: **Claims Payroll Supervisor Policies/Procedures (Jul. 2, 2013)**

Issue:	Recommendation	Actual	Estimated	Revised
Potential for input errors	Develop field for logging first payment and monthly payment data		6/30/2014	12/31/2016
Need to review non-CIB transactions	Forward non-CIB cases to QA for review		12/31/2013	12/31/2016

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	12/31/2016

Audit Project: **Returned ADR Process Review (Nov 24, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
ADR Hold Tracking Code	Implement ADR Hold Tracking Code		6/30/2016	12/31/2016
Documented Procedures	Need for Documented Procedures		6/30/2016	12/31/2016

Audit Recommendation Follow Up

Claims Processing Division

Status: **Pending**

Audit Project: **Returned ADR Process Review (Nov 24, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
ADR Open Holds	ADR Open Holds - Health Care Benefits Reinstatement		6/30/2016	12/31/2016
ADR Open Holds	ADR Open Holds - Member Verification		6/30/2016	12/31/2016
Member Notification of Possible Benefit Hold	Implement Member Disclosure		6/30/2016	12/31/2016
Criteria for Placing & Removing ADR Holds	Review Criteria for Placing & Removing ADR Holds		6/30/2016	12/31/2016

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	6/30/2017

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	SOC-2 Review by Data Security Officer		12/31/2015	8/31/2016	
Due Diligence	Promulgate Due Diligence Policy		12/31/2015	8/31/2016	
Due Diligence	Conduct On-going Due Diligence		12/31/2015	8/31/2016	

Audit Recommendation Follow Up

Financial and Accounting Services Division

Status: **Implemented**

Audit Project: **Investment Private Equity Operations (Jun. 25, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
No verification of the GPs auditors, financial statement opinions, or pro-rata valuation of investment	Verify results of GP's audit report	6/21/2016	6/30/2016	
Compliance with GASB 72 Requirements	Ensure compliance with new GASB 72 requirements	6/15/2016	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	6/15/2016	6/30/2016	
No Process for Validating Private Equity Fees	Validate Private Equity fees	6/15/2016	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	6/15/2016	6/30/2016	

Audit Recommendation Follow Up

Human Resources

Status: **Implemented**

Audit Project: **HR Compliance Review (Nov. 16, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
Issue #4	Recommendation #4	4/30/2016	4/30/2016	

Status: **Pending**

Audit Project: **HR Compliance Review (Nov. 16, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
Issue #2	Recommendation #2		12/31/2016	
Issue #1	Recommendation #1		12/31/2016	
Issue #12	Recommendation #12		12/31/2016	
Issue #11	Recommendation #11		12/31/2016	
Issue #10	Recommendation #10		12/31/2016	
Issue #6	Recommendation #6		12/31/2016	
Issue #13	Recommendation #13		7/30/2016	
Issue #3	Recommendation #3		12/31/2016	
Issue #8	Recommendation #8		7/30/2016	

Audit Recommendation Follow Up

Internal Audit

Status: **Pending**

Audit Project: **External QAR of Internal Audit (Nov. 10, 2010)**

Issue:	Recommendation	Actual	Estimated	Revised
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Quality assurance and improvement programs are required

#4 - Improve quality assurance program

6/30/2011

9/30/2016

Audit Recommendation Follow Up

Investments Division

Status: **Pending**

Audit Project: **Investment Private Equity Operations (Jun. 25, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
Contract Compliance	Consider developing contract compliance function		3/31/2016	7/31/2016
Limited back office due diligence performed	Include manager back-office review as part of due diligence		12/31/2015	12/31/2016
Due Diligence Checklists	Include guidelines for checklists and sign-off on checklists		12/31/2015	9/30/2016
Private Equity Staffing and Consulting Services Levels	Evaluate Private Equity Staffing and Consultant Service Levels		3/31/2016	12/31/2016
No formal Information Management System or CRM System to manage information	Consider implementing CRM System		6/30/2016	9/30/2016

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's Use of 3rd Party Vendor	Due Diligence at Aon		12/31/2015	7/31/2016
Aon / RGS Printing - Contract Admin	Contract with RGS or New RFP		10/31/2015	7/31/2016
Aon / RGS Printing - Contract Admin	Contract with RGS or New RFP		10/31/2015	7/31/2016

Audit Recommendation Follow Up

Systems Division

Status: **Pending**

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	12/31/2016



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.

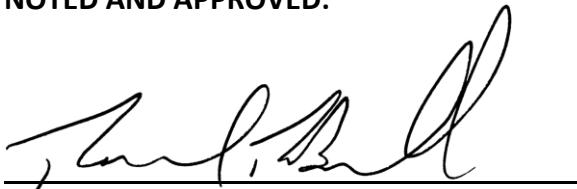
AUDIT RESULTS

- 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

2016 Audit Committee	Gregg Rademacher	Beulah Auten
Audit Committee Consultant	Robert Hill	James Pu
Internal Audit Staff	JJ Popowich	Steven Rice



OFFICE RENOVATIONS AUDIT

April 12, 2016

AUDIT PERFORMED BY:

Christina Logan, CPA
Senior Internal Auditor

EXECUTIVE SUMMARY

As part of our Fiscal Year 2015 – 2016 Audit Plan, Internal Audit completed an audit of LACERA's Office Renovation process. Office renovations relate to the non-permanent fixtures within LACERA's office spaces such as cubicles, furniture, filing cabinets, technology related items, etc. Although a single project can consist of both office renovations and tenant improvements, they are managed separately. Internal Audit conducted a separate audit for Tenant Improvements and issued a report on November 24, 2015. Administrative Services ("Admin Services") handles the planning, budgeting, and tracking of LACERA's office renovations. The budget for renovations was \$445,000 for Fiscal Year 2013 – 2014 and \$350,000 for Fiscal Year 2014 – 2015.

The primary risks associated with the office renovation process include both the financial risk of cost overruns and the operational risk of not developing the space effectively and efficiently. The primary objectives of this audit were to assess if Admin Services has established control processes, policies, and procedures to address the above risks.

Our audit concluded that Admin Services' controls related to the Office Renovation process are generally effective. However, we identified the following specific areas where Admin Services could further strengthen controls through:

1. Improving communication and coordination with the Systems Division and the Executive Office in the planning phase,
2. Documenting the use and approval of change orders in the master project file, and
3. Documenting the justification for vendors selected in the master project file in accordance with LACERA's Procurement Policy.

Internal Audit would like to thank Admin Services and Systems Division management and staff for their cooperation and assistance in facilitating this audit.

OFFICE RENOVATIONS

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BACKGROUND

Office renovations are non-permanent changes, made to address staffing needs, technology upgrades, and other organizational changes; typically, these include furniture or technology upgrades. Tenant improvements are permanent changes to the office space; these could include moving walls, carpeting, etc. Although a single project can consist of both office renovations and tenant improvements, they are managed separately. Admin Services manages the office renovations work, while CBRE, the building's property manager, manages tenant improvement work. Internal Audit conducted a separate audit for tenant improvements and issued a report on November 24, 2015.

Significant or complex office renovations usually involve tenant improvements and often affect more than one division. These projects are discussed at the Executive Office level and are part of the organization's strategic planning for space needs. Furthermore, the Steering Committee consists of management from the Executive Office, the Systems Division, and Admin Services, and was created to ensure renovation projects meet division needs while remaining consistent with LACERA's overall space plan and design.

Admin Services plans and budgets for most substantial office renovations on a fiscal year basis; the budget for renovations was \$445,000 for fiscal year 2013-2014 and \$350,000 for fiscal year 2014-2015. The process begins with Admin Services inquiring about divisions' upcoming renovation needs. If work is needed within the next fiscal year, Admin Services develops a general project scope and a budget, which the affected division manager approves. The renovation project becomes a component of Admin Services' proposed budget. The Executive Office and then the Boards review and approve the Admin Services' budget. Admin Services charges the costs associated with planned office renovations to its Renovations account.

The Renovation Team (Admin Services, affected division manager, Systems Division, property manager, architect, and vendors) meets to refine the project scope, and develop project timelines and floor plans. After Admin Services and the affected division manager approve the project plans, work begins. Once construction begins, the Renovation Team meets weekly to discuss the project's status, change orders, and to walk the job site. To manage the Office Renovation process, Admin Services maintains master project folders, which include project timelines and floor plans, relevant project communications, approved vendor proposals, sales invoices, and a reconciliation of budget versus actual costs.

Admin Services does not plan or budget for unplanned office renovation work; these are generally small-scale projects like adding a cubicle for additional staff or changing the office furniture for ergonomic needs. Most unplanned projects do not require developing a project scope, timeline, or floor plan.

AUDIT OBJECTIVE(S)

The engagement-level risk assessment identified financial and operational risks as the primary risks. If Admin Services is not properly managing the process, Admin Services, Systems Division, the requesting division manager, or vendors could misuse or imprudently spend LACERA's funds, a financial risk. If Admin Services is not properly monitoring and tracking progress on renovation projects delays in completing renovations will occur which could negatively affect LACERA's operations, an operational risk.

The objective of this audit was to assess if Admin Services has mitigated the risks identified above by establishing effective controls, policies, and procedures designed to ensure Admin Services:

- Adequately plans, budgets, and tracks office renovations.
- Appropriately documents and reviews change orders associated with office renovations.
- Properly selects and manages qualified vendors associated with office renovations, including the vendor payment process.

AUDIT SCOPE

The scope of this audit included office renovation projects, both planned and unplanned, from FY 2013 – 2014 and 2014-2015.

For FY 2013-2014, Admin Services' budget for office renovations was \$455,000 for renovations to Human Resources and Communications divisions. The total amount charged to the renovations account was approximately \$350,000 - approximately \$250,000 for the planned projects and \$100,000 for unplanned projects.

For FY 2014-2015, Admin Services' budget for office renovations was \$350,000 for renovations to Admin Services division; however, the project was delayed until FY 2015-2016. The total amount charged to the Renovations account was approximately \$220,000 - approximately \$200,000 for the planned project from FY2013-2014 and \$20,000 for unplanned projects.

AUDIT METHODOLOGY

Audit work included, but was not limited to:

1. Reviewing Admin Services' policy and/or procedures related to office renovations.
2. Interviewing relevant Admin Services and Systems Division staff to determine their roles and responsibilities relating to office renovation projects.
3. Performing detailed test work of three office renovation projects from FY 2013-2014, to determine if Admin Services properly managed the office renovation projects. Test work included the following projects:
 - a) **Human Resource (HR) Project:** This renovation was planned and started in FY 2013-2014 but was completed in FY 2014-2015. The project was for the renovation of the entire HR division and Training Room. The budgeted costs for the project were \$260,000. The actual costs for the project were approximately \$280,000, spread over both fiscal years.
 - b) **Communications Project:** This renovation was planned and completed in FY 2013-2014. The project was for the renovation of the entire Communications department. The budgeted costs for the project were \$185,000. The actual costs for the project were approximately \$160,000.
 - c) **Legal Office Unplanned Project:** This was an unplanned renovation that for FY 2013-2014. The project grew from adding an additional cubicle in the Legal Office to remodeling the majority of the Legal Office. The estimated costs for the project were \$31,000. The actual costs for the project were approximately \$45,000.

AUDIT RESULTS

Internal Audit found Admin Services' controls related to the Office Renovation process are generally effective, provide reasonable assurance risks are being managed, and objectives are being met. However, we identified several areas to further strengthen the system of internal controls and procedures. Our findings and recommendations by objective are as follows:

Objective: To assess whether Admin Services adequately plans, budgets, and tracks office renovation projects

Properly managing the Office Renovation process means Admin Services is adequately planning, budgeting, and tracking office renovation projects. Internal Audit evaluated Admin Services' procedures and process, and interviewed Admin Services and Systems Division staff. Internal Audit concluded Admin Services has been managing the overall process adequately but noted the planning phase could be strengthened.

Systems Division provides input into the planning phase to ensure technology needs and constraints are considered, and the technology portion of the budget is accurate. Additionally, the Steering Committee's ("Committee"), which is made up of representatives from Admin Services, Systems Division, and the Executive Office, participation in the planning phase ensures renovation projects meet division needs while remaining consistent with LACERA's overall space plan and design.

We noted that improved communication and coordination of planning activities and meetings between Admin Services, Systems Division, and the Steering Committee would address the potential risks of project planning inefficiencies, cost overruns, and/or scheduling delays. This would improve participation, buy-in from all parties, and enhance the effectiveness of the planning process.

RECOMMENDATION 1:

Admin Services Management should work with the Systems Division and Executive Management to define and coordinate participation expectations and logistics for the planning phase to ensure each project receives a consistent level of discussion, review, and approval.

Management Response:

Administrative Services will facilitate project entrance meetings with all stakeholders including the Steering Committee, Systems, and the division requesting renovation. The process will be documented in the detailed renovation procedures.

Implementation Date: December 31, 2016

Objective: To assess whether Admin Services appropriately, review and document change orders

Office renovation projects include creating a project scope and related budget, which Admin Services and the affected division manager(s) approve before work begins. During the course of the project, changes to project scope or cost may occur due to requests at the divisional level or related to overall project needs. For example, division managers may request different types of computers or furniture than originally planned, or request changes to the cubicle layout. Admin Services, Systems Division or the Executive Office may also initiate changes to elements of the project.

Managing these project changes is an important part of the Office Renovation process. Change requests can cause significant project scope “creep” thereby affecting total renovation costs and completion deadlines. Internal Audit evaluated Admin Services’ procedures and processes for documenting and approving project changes. To evaluate this area, we reviewed Admin Services’ written Office Renovation procedures, interviewed Admin Services’ staff, and tested the selected master project folders.

We found that Office Renovation written procedures do not address how Admin Services should manage change requests. Currently, Admin Services verbally approves change requests in the renovation meetings and the changes are reflected in the purchase order amounts but staff does not document the reasons for the change or the approval in the master project file. As a result, Admin Services may not readily have support for the approved changes. In addition, the Office Renovation written procedures do not address the use of change requests.

RECOMMENDATION 2:

Management should update the Office Renovation written procedures to include the use and approval of change requests.

Management Response:

Comprehensive written procedures are currently under development

Implementation Date: December 31, 2016

Objective: To assess whether Admin Services properly selects and manage qualified vendors

Properly selecting and managing vendors is a key aspect of the Office Renovation process. Vendors can affect the quality, costs, and timelines of the project. Internal Audit assessed Admin Services’ procedures and processes for properly selecting and managing qualified vendors in compliance with LACERA’s procurement policy. As part of Internal Audit’s test work, we reviewed Admin Services’ Office Renovation procedures, interviewed Admin Services and Systems Divisions’ staff, and reviewed selected master project folders.

Overall, we found Admin Services properly managed the vendors associated with office renovations. Staff reviewed the product and/or service received, and reviewed and authorized invoices for payment in accordance with the Procurement Policy. The master project folders

included communications showing Admin Services' proactively works with division managers and vendors to address issues as they arise and adequately reviews invoices to ensure products and/or services were received before authorizing a payment.

Although Admin Services and Systems Division verbally provided valid business reasons for its vendor selections, we found that the business justification for the selection was not documented in the master project folders, nor addressed in the written Office Renovation procedures. If the business reason is not included in the master project folder, an objective reviewer will not be able to determine why or how the vendor was selected. Additionally, documenting the vendor justification provides accountability and visibility to ensure prudent project management.

RECOMMENDATION 3:

Management should update the Office Renovation process and procedures to include documenting the vendor selection (in accordance with LACERA's Procurement Policy) in the master project file.

Management Response:

Vendor selection process in compliance with the Procurement Policy will be documented in the renovation procedures.

Implementation Date: December 31, 2016

NOTED AND APPROVED



Richard Bendall
Chief Audit Executive

Date: April 12, 2016

REPORT DISTRIBUTION

2016 Audit Committee
Rick Wentzel
Internal Audit Staff

Gregg Rademacher
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Steve Rice
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James Pu



MINOR SURVIVOR ELIGIBILITY AUDIT

June 29, 2016

AUDIT PERFORMED BY:

Nathan Amick
Internal Auditor

EXECUTIVE SUMMARY

Our Fiscal Year End 2016 Audit Plan included a minor survivor continuance audit. Minor survivor continuances are monthly payments to minor children of deceased members when there is no surviving spouse or domestic partner eligible to receive the continuance. Per County Employees Retirement Law, a minor child is a natural or adopted child under the age of 18.

The decision to add this project to the Audit Plan was based on the risk of potential benefit overpayments due to ineligible minors or payments to eligible minors not being terminated on time by LACERA. Eligible minors may receive payments until 18 years of age, and may continue to receive payments upon providing LACERA proof of full time enrollment at an accredited college or university through and including the month of their 22nd birthday.

Our audit objectives were to verify that all 64 current minor survivors on LACERA's payroll as of January 15, 2016, were initially determined eligible to receive a minor survivor continuance, with eligibility being supported by the required documents. In addition we verified all 64 current minor survivors were currently eligible, as of January 15, 2016, to receive their benefit (that is, under age 18 or determined to be currently enrolled as a full time student in an accredited college or university and under the age of 22 and supported by the required document.) Lastly we interviewed Benefit's Division Management and staff to obtain an understanding of the process and system of controls for determining minor survivor eligibility and preventing minor survivor continuance overpayments.

Based on our test work of initial eligibility for the 64 current minor survivor payees, we determined that in three cases (5%), the member document file was missing documents required to support eligibility and eligibility was not otherwise documented in Workspace. During the audit fieldwork period, Benefits Division staff was able to obtain the missing documents and we verified that in all three cases, the minors were actually eligible to receive the benefits. Notably, we identified the need for staff to obtain additional training on determining and obtaining the required documents to support eligibility prior to paying the minor.

We then tested all 64 payees for eligibility for the current payment (January 2016) and determined that 45 were under the age of 18 and therefore eligible, the rest were over 18 but not yet 22 and we verified that all had current documentation on file supporting their enrollment full-time in an accredited college or university and were therefore eligible.

During our discussions with staff and our review of the process, we also identified an opportunity to improve member service by following-up on those minors who although potentially eligible to receive a continuance were unable to at the time of the related member's death. For example, if the minor did not have a legal guardian to represent them and receive the benefits on their behalf, at a later stage when the minor either did have a legal guardian or turned age 18, they would be able to receive the benefits but may not be aware of that opportunity. Details of these observations and recommendations are included in the attached report.

MINOR SURVIVOR ELIGIBILITY AUDIT

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Details of Findings, Observations, Recommendations & Management Responses

INTRODUCTION

Our Fiscal Year End 2016 Audit Plan included a minor survivor continuance audit. Minor survivor continuances are paid to minor children of deceased members when there is no surviving eligible spouse or domestic partner to receive the continuance. Per County Employees Retirement Law, a minor child is a natural or adopted child or children under the age of 18 years.

The decision to add this project to the Audit Plan was based on the risk of potential benefit overpayments due to ineligible minors or payments to eligible minors not being terminated on time by LACERA. Eligible minors may receive payments until 18 years of age, and may continue to receive payments upon providing LACERA proof of full time enrollment at an accredited college or university through and including the month of their 22nd birthday.

BACKGROUND

Currently, LACERA provides a minor survivor continuance to minor survivors of all contributory members whether actively working ("active") or retired. LACERA also extends benefits to minor survivors of retired non-contributory members. However, benefits are not extended to minor survivors of deceased active non-contributory members. At the time of our testing, January 15, 2016, there were 64 minor survivors currently receiving a continuance.

Eligibility Requirements

Under California Employees Retirement Law, minor survivors must meet the following requirements in order to receive their minor survivor continuance.

- It must be determined that the deceased member did not have a spouse or domestic partner eligible for a continuance.
- It must be determined that the minor survivor is a natural born or adopted child of the member.
- It must be determined that the minor is under age 18 at the time of their parent's (the member's) death.
- Benefits are to be terminated at age 18. Final payments are paid through and including the month of their birthday 18th birthday, with one exception (noted below).
- Benefits may be extended past age 18, through and including the month of their 22nd birthday, if the minor is enrolled as a full-time student in an accredited school.

In addition to California Employees Retirement Law, LACERA requires the following be submitted prior to any continuance payment being issued.

- All eligible minor survivors requesting a minor survivor continuance must submit a LACERA Claim Form.
- Eligible minor survivors, under age 18, requesting a minor survivor continuance must first obtain a legal guardian and submit legal guardianship documents.

AUDIT OBJECTIVES

- Verify that all 64 current minor survivors on LACERA's payroll as of January 15, 2016, were initially determined to be eligible to receive a minor survivor continuance, with eligibility being supported by the required documents.
- Verify that all 64 minor survivors were currently eligible, as of January 15, 2016, to receive their benefit (that is, under 18 or determined to be currently enrolled as a full time student in an accredited college or university and under the age of 22 and supported by the required document)
- Review Management's internal controls over determining minor survivor eligibility and preventing minor survivor continuance overpayments.

AUDIT SCOPE

Our testwork included verifying all 64 minor survivors receiving a benefit, as of January 2016, were eligible to have initially begun receiving minor survivor benefits and if so, were also eligible to receive the current month's benefit. In addition, we interviewed Benefit's staff, reviewed LACERA's controls, policies, and procedures for paying and monitoring minor survivor payments.

AUDIT METHODOLOGY

To perform our test work, Internal Audit requested and obtained, from the Systems Division, a file of all minor survivors (64) currently receiving a minor survivor benefit as of January 15, 2016. We verified that all 64 minor survivors currently being paid had the required documents on file. We also assessed the information on the documents to confirm eligibility. The required documents listed below were used to confirm the eligibility for minor survivors.

- **Original Death Certificate** – Used to confirm the member as deceased and marital status at time of death.
- **Original Birth Certificate or Adoption Documents** – Used to confirm the minor survivor as the child of the deceased member, and to identify the minor survivor's date of birth and age.
- **Legal Guardian Documents** – Only applicable to payees under age 18.
- **Minor Survivor Affidavit** – to confirm enrollment as a full-time student in an accredited school for those receiving a continued benefit past age 18.
- **Claim Form** – A form completed by the minor survivor's court appointed guardian or by the minor survivor if they have reached age 18, requesting payment.

To understand the process, procedures, and control environment of the minor survivor process, we interviewed Benefits Management and staff.

AUDIT RESULTS

Based on test work performed, all 64 (100%) minor survivor payees were confirmed as eligible. However, we identified areas where Management can strengthen internal controls. Notably, we identified the need for staff to obtain additional training on determining and obtaining the required documents to support eligibility prior to paying the minor. Additionally, we identified opportunities to improve the process for following up on potentially unclaimed minor survivor benefits. Specifically, we noted the following:

Incomplete Documentation

As mentioned previously, to confirm eligibility for a minor survivor continuance, staff must obtain the following documents and assess the pertinent information on the documents: (1) birth certificate (2) death certificate (3) LACERA claim form (4) legal guardianship documents, for payees under age 18 (5) minor survivor affidavit, for payees over the age of 18.

Of the 64 minor survivor payees tested, we identified three instances where LACERA staff did not obtain one of the required documents prior to paying the minor survivor. Specifically, we noted:

- Two instances where the minor's account did not have a birth certificate on file.
- One instance where the minor's account did not have a claim form on file.

We also noted that staff did not have desk procedures to determine which documents were required to determine the minor's eligibility. We worked with staff to determine these minor survivors were indeed eligible and the required documents were obtained prior to the completion of our test work. However, this type of oversight could potentially result in ongoing monthly overpayments to individuals ineligible to receive a minor survivor benefit.

RECOMMENDATION

1. **We recommend that the Benefits Division develop a procedural manual, provide staff additional training, and improve the review and approval process to ensure all required documents for minor survivor payees are valid and on file prior to payments being initiated.**

Management Response

The Benefits Division Process Management Group and the Special Benefits Services Section is currently developing the documented procedures and training material to address the recommendation to provide staff additional training, and improve the review and approval process to ensure all required documents for minor survivor payees are valid and on file . Procedures and training materials will be created and implemented by June 30, 2017, approximately.

Potential Unclaimed Minor Survivor Benefits

Per LACERA's policy, if a minor survivor is age 17 or younger at the time of their request for a minor survivor continuance, LACERA cannot pay the minor unless the minor has a legal guardian. If the minor does not have a legal guardian, LACERA cannot pay the minor survivor until one is appointed by a court. Otherwise, when the minor survivor turns age 18, he or she can contact LACERA to the claim retroactive benefits and continue to receive benefits if he/she is enrolled full-time in an accredited school.

During our interviews of Benefit's Staff, we noted that there is no existing process to follow-up on those minor survivors who were potentially eligible for a minor survivor benefits, but never came forward to claim their benefits. For example, if a minor survivor was unable to obtain a legal guardian at the time of their parent's death, and thus unable to receive their continuance, the survivor would have an unclaimed benefit if they never claimed the benefit after turning 18.

Due to the requirement that minors must have a legal guardian to receive payment and the fact that LACERA does not have a process to follow-up on potential minor survivor unclaimed benefits, there is the potential for minor survivors that are now age 18 or older who may not be aware of their unclaimed benefit.

RECOMMENDATION

- 2. We recommend that the Benefits Division create a policy and procedures to follow-up with minor survivor beneficiaries who may have unclaimed benefits at or near the minor's 18th birthday. Additionally, Benefits Division should work with the Systems Division to identify and follow-up with any individual with unclaimed minor survivor benefits.**

Management Response

The Benefits Division Process Management Group and the Special Benefits Services Section is currently developing the documented procedures and training material to follow-up with minor survivor beneficiaries who may have unclaimed benefits at or near the minor's 18th birthday. Procedures and training materials will be created and implemented by June 30, 2017, approximately.

Beginning June 30, 2016, Benefits will create a procedure or automated mechanism that will alert Benefits staff about minor survivors who are approaching their 18th birthday, and the case will be handled accordingly.

Lastly, Beginning in July of 2016 the Death Legal Unit will work with the Systems Division to identify and follow-up with any individual with possible unclaimed minor survivor benefits. This project will be completed by June 30, 2017. Any cases that cannot be resolved at this time will be referred to the Benefit Protection Unit for monitoring and follow up per their standard procedures.

Minor Survivor Eligibility Audit

Issued: June 29, 2016

We would like to thank both the Benefits Division and the Systems Division for their assistance in completing this audit.

NOTED AND CONCUR:



RICHARD BENDALL
Chief Audit Executive

Date: June 29, 2016

REPORT DISTRIBUTION

2016 LACERA Audit Committee
Gregg Rademacher
Robert Hill
J.J. Popowich
Steven Rice
Fern Billingy
Bernie Buenaflor

**FOR INFORMATION ONLY**

July 1, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Steven P. Rice *SPR*
Chief Counsel

FOR: July 20, 2016 | Audit Committee Meeting

SUBJECT: AUDIT COMMITTEE CHARTER

Legal Office Opinion on Audit Committee's Authority Under the Brown Act to Meet in Closed Session with Respect to CAE Personnel Issues

BACKGROUND AND SUMMARY

At its April 15, 2016 meeting, the Audit Committee requested a legal opinion as to the ability of the Committee to meet in closed session under the Brown Act to conduct the performance evaluation of the Chief Audit Executive (CAE). As explained below, the Brown Act permits the Committee to meet in closed session for this purpose. This rule covers the Committee's role in the CAE's performance evaluation under either the existing Charter for the Committee or the proposed revised Charter because the Committee has a substantive, nondelegated role in the evaluation process under both documents.

This memo also considers whether the Committee can meet in closed session to discuss (1) appointment, discipline, dismissal, and/or removal of the CAE or (2) the CAE's salary adjustment. These powers are not vested in the Committee under the current Charter, but they are included in the proposed Charter.

As to the appointment, discipline, dismissal, and/or removal of the CAE, under the existing Audit Committee Charter, these functions currently belong to the Chief Executive Officer, without any involvement by the Committee. Therefore, the Committee cannot discuss these matters in closed session under the current Charter because the Committee is not now the CAE's appointing authority for these purposes. However, under the proposed Charter, the Committee will have authority to appoint, discipline, dismiss, and/or remove the CAE, and therefore the Committee will be able to meet in closed session on such issues under the Brown Act if the proposed Charter is adopted.

The CAE's salary adjustment must be discussed in open session under the Brown Act regardless of which Charter applies, except to the extent an adjustment results from discipline. The Committee currently has no role in discipline for the CAE, so this exception does not apply at the present time. Under the proposed Charter, the Committee will approve discipline upon the CAE, and accordingly the Committee will be able to discuss salary adjustments that result from such discipline if the proposed Charter becomes effective.

ANALYSIS

1. Basic Brown Act Rule

Under the Brown Act, local legislative bodies (including their committees) must meet in open session to conduct the public's business, subject to certain exceptions. The exceptions must be narrowly construed. Government Code section 54957(b)(1) of the Brown Act creates an exception for certain personnel matters. This section provides, in relevant part:

" . . . this chapter shall not be construed to prevent the legislative body of a local agency from holding closed sessions during a regular or special meeting to consider the appointment, employment, evaluation of performance, discipline, or dismissal of a public employee or to hear complaints or charges brought against the employee by another person or employee unless the employee requests a public session."

To invoke this exception, the local body must possess the power to appoint, evaluate, discipline, or dismiss the employee, either by itself or jointly with management. *Gillespie v. San Francisco Public Library Commission*, 67 Cal.App.4th 1165 (1998) (because the library commission has shared power with the mayor to appoint librarian, the commission may meet in closed session to discuss the appointment); 85 Ops.Cal.Atty.Gen. 77 (2002) (superintendent has personnel authority over certificated or classified employees, and therefore the school board cannot utilize the exception to go into closed session).

The local body may delegate its authority to a subsidiary body, such as a committee, and the committee may then meet in closed session under the personnel exception. 80 Ops.Cal.Atty.Gen. 308 (1997) (ad hoc committee of school board can meet in closed session to interview superintendent candidates and formulate a recommendation to the full board).

If staff has all appointing authority, the local body cannot meet in closed session under this exception to consider that employee's personnel issues. This is true even if staff's authority is delegated to them by the governing body. The closed session exception will

not available unless and until the governing body adjusts its delegation to bring the body back into the personnel process.

2. Use of the Personnel Exception by LACERA's Audit Committee

The rules and authority discussed above are helpful in determining the LACERA Audit Committee's ability to invoke the personnel exception under the current Charter and the proposed Charter.

a. Performance Evaluation of the CAE

i. The Current Charter

Under the current Audit Committee Charter, the Committee "Reviews and approves the Chief of Internal Audit (CIA) annual performance Evaluation." The Charter further provides:

"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."

(Current Charter, at p. 2 of 4.)

These provisions of the current Charter give the Committee a substantive role in the CAE's performance evaluation. While the evaluation is prepared by the CEO, it is reviewed and approved by the Committee. The Committee's specific authority under the current Charter enables the Committee to invoke the closed session exception when discussing the CAE's performance evaluation.

ii. The Proposed Charter

Under the proposed Charter, the Audit Committee will have the authority to "Perform the CAE's annual performance evaluation with qualitative input from the CEO." This provision, if adopted, will give the Committee even greater authority over the CAE's performance evaluation because the Committee will actually perform the evaluation. This authority will permit the Committee to continue to use the Brown Act's personnel exception when discussing the CAE's performance evaluation.

b. Appointment, Discipline, Dismissal, and/or Removal of the CAE

i. The Current Charter

The current Charter gives the Committee no authority with respect to the appointment, discipline, dismissal, and/or removal of the CAE. This authority

currently belongs entirely to the CEO. The Committee cannot, therefore, invoke the personnel exception to discuss these issues in closed session.

ii. The Proposed Charter

Under the revised Charter, the Committee reserves for itself the authority to approve the appointment, discipline, dismissal, and/or removal of the CAE. If the Boards adopt the proposed Charter, the Committee will have the authority to utilize closed session to conduct deliberations and decision-making on these subjects.

c. **Salary Adjustments for CAE**

The CAE's salary adjustments are not a matter for closed session discussion under either the existing Charter or the proposed Charter. Government Code section 54957(d)(4) of the Brown Act provides as follows:

"Closed sessions held pursuant to this subdivision shall not include discussion or action on proposed compensation except for a reduction of compensation that results from the imposition of discipline."

This means there can be no personnel closed sessions on a salary change other than a disciplinary reduction.

Under the current Charter, the Committee has no role or authority in the CAE's salary adjustments. Under the proposed Charter, the Committee will administer the CAE's salary adjustments based on the Board-approved compensation structure. Therefore, the Committee's deliberations and decisions on the CAE's salary must take place in open session, except that, given the Committee's disciplinary authority under the proposed Charter, the Committee may meet in closed session to discuss salary reductions resulting from disciplinary action.

Under a separate Brown Act exception, a legislative body may meet in closed session with its labor negotiator, and can discuss compensation in that context. Gov't Code section 54957.6(a). That exception does not apply here. 98 Ops.Cal.Atty.Gen. 41 (2015) (reviewing personnel exception generally, and discussing application of labor negotiations exception).

CONCLUSION

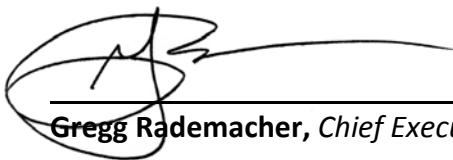
To summarize, under the Brown Act, the Audit Committee has the following rights with respect to closed session:

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Legal Office Opinion on Audit Committee's Authority to Meet in Closed Session

1. The Committee **may** meet in closed session under the Brown Acts personnel exception to discuss and determine the CAE's performance evaluation under both the existing Charter and the proposed Charter.
2. The Committee **may not** meet in closed session under the existing Charter with respect to the CAE's appointment, discipline, dismissal, and/or removal. Under the proposed revised Charter, the Committee **may** meet in closed session on these issues.
3. The Committee **may not** meet in closed session to discuss the CAE's salary adjustments under either the current or proposed Charters, except under the proposed Charter, the Committee **may** meet in closed session to discuss a reduction resulting from disciplinary action.

NOTED AND CONCUR:



Gregg Rademacher, *Chief Executive Officer*

July 1, 2016

Date

MEMO DISTRIBUTION

2016 Audit Committee	Gregg Rademacher	John Nogales
Audit Committee Consultant	Robert Hill	Johanna Fontenot
Internal Audit Staff	John Popowich	



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

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