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

December 14, 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 JULY 20, 2016
(Attached)

II. PUBLIC COMMENT

III. ACTION ITEMS

A. 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: December 1, 2016)
      (Supplemental Memo Dated: July 1, 2016 submitted by Steven Rice)

B. Recommendation as submitted by Steven Rice, *Chief Legal Counsel*, and Johanna Fontenot, *Senior Staff Counsel*, that the Audit Committee, if the proposed (Audit Committee Charter) Charter is approved:

1. The portion of the County Code on the LACERA MAP 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.
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.
(Memo Dated: July 1, 2016)

C. Recommendation that the Audit Committee review and approve the updated Internal Audit Charter as submitted by Richard Bendall, *Chief Audit Executive,* and Leisha Collins, *Principal Internal Auditor*, and Christina Logan, *Senior Internal Auditor*.
(Memo Dated: November 14, 2016)

IV. REPORTS

A. **Brown Armstrong Presentation of the Reports** – *June 30, 2016*
Agenda and Reports from Brown Armstrong et. al.
- *Report on Internal Control Over Financial Reporting and on Compliance*
- *Required Communications to the Audit Committee*
- *Agreed Upon Conditions Report*

Andrew J. Paulden, *CPA, Managing Partner*
Alaina C. Sanchez*, CPA*

B. **Internal Audit Staffing Report**
Richard Bendall, *Chief Audit Executive*
(Oral Presentation)

C. **Audit Plan Status Report**
Richard Bendall, *Chief Audit Executive*
(Report Dated: December 1, 2016)

D. **Goal Status Report**
Richard Bendall, *Chief Audit Executive*
(Memo Dated: December 1, 2016)
(Supplemental Policy Dated: December 1, 2016 submitted by Richard Bendall)

E. **CAE Perspective on LACERA Governance Issues**
Richard Bendall, *Chief Audit Executive*
(Memo Dated: December 1, 2016)

F. **Recommendation Follow-Up Report**
Quoc Nguyen, *Principal Internal Auditor*
Gabriel Tafoya, *Senior Internal Auditor*
(Memo Dated: December 1, 2016)

G. **Privacy Audit Recommendation Follow-Up**
Steven Rice, *Chief Legal Counsel*
Richard Bendall, *Chief Audit Executive*
(Memo Dated: December 1, 2016)

H. **Attorney-Client Privilege/Confidential Memo**
Human Resources Compliance Audit [by Liebert Cassidy Whitmore] Recommendation Follow-Up
Steven Rice, *Chief Legal Counsel*
Richard Bendall, *Chief Audit Executive*
(Memo Dated: December 1, 2016)

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

V. 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)

F. **Education & Travel Policy Compliance Audit**
Christina Logan, *Senior Internal Auditor*
(Report Issued: September 20, 2016)

G. **Los Angeles County Rehired Retirees Audit**
Nathan Amick, *Internal Auditor*
(Report Issued: November 2, 2016)

H. **Pensionable Cap Compliance**
Nathan Amick, *Internal Auditor*
(Report Issued: November 3, 2016)

I. **Audit Report Questions**
Richard Bendall, *Chief Audit Executive*
(Memo Dated: December 1, 2016)

VI. CONSULTANT COMMENTS

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

VII. GOOD OF THE ORDER

(For Information Purposes Only)

VIII. EXECUTIVE SESSION

A. **Performance Evaluation**
[Pursuant to Government Code Section 54957(b)(1)]

Title: Chief Audit Executive

IX. ADJOURNMENT

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

****Although the meeting is scheduled for 9:00 a.m., it can start anytime thereafter, depending on the length of the Board of Investments meeting preceding it. Please be on call.**

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

July 20, 2016 – 9:00 a.m.

2016 COMMITTEE MEMBERS

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

ABSENT: David Green
Rick Wentzel – *Audit Committee Consultant*

BOARD MEMBERS AT LARGE
Yves Chery

STAFF, ADVISORS, AND PARTICIPANTS PRESENT

Gregg Rademacher
Robert Hill
John Popowich
Nathan Amick
Sylvia Botros
Leisha Collins
Elvia Gonzalez
Christina Logan
George Lunde
Quoc Nguyen
David Redman
Gabriel Tafoya

Bernie Buenaflor
Derwin Brown
Roxana Castillo
Ted Granger
Gloria Harriel
Kimberly Hines
Francisco Jaranilla
John Nogales
James Pu
Steven Rice
Cassandra Smith

EIDE BAILLEY LLP
Lealan Miller
Eric Berman

PLANTE MORAN
Beth Bialy
Amanda Cronk
Michelle Watterworth

BROWN ARMSTRONG
Rosalva Flores
Alaina Sanchez

I. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF APRIL 15, 2016

Mr. Kelly called for a motion to approve the Minutes of the Audit Committee Meeting of April 15, 2016. A motion for approval was presented by Mr. Schneider. A second was provided by Ms. Gray. The Minutes were unanimously approved.

II. PUBLIC COMMENT

No items to report.

III. EXECUTIVE SUMMARY

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

Mrs. Collins and Mr. Nguyen provided an overview and purpose of the July 20, 2016 Audit Committee meeting.

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
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: July 1, 2016)

Mr. Redman provided an overview of the process for the selection of the external financial auditor. The three top finalists, Eide Bailly, Plante Moran and Brown Armstrong made presentations and answered questions from the Committee. Mr. Kehoe moved a recommendation to the Board of Retirement to select Plante Moran as LACERA's external financial statement auditor. A second to the motion was provided by Mr. Schneider. The motion passed unanimously.

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)

Ms. Collins provided a brief review of the Audit Committee Charter and answered questions from the Committee. Mr. Rice provided a summary of his analysis of the Audit Committee's oversight authority over the Chief Audit Executive (CAE). Mr. Kehoe moved to strike the sections in the Audit Committee Charter related to the Audit Committee overseeing the appointment, discipline, dismissal, and/or removal of the CAE as well as the approval of all non-compliance work. Ms. Graye provided a second.

Following an evenly split vote on Mr. Kehoe's proposed motion Mr. Kehoe moved to hold Action Items B, C, and D to the next Audit Committee meeting. The motion was unanimously approved.

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)

(This Action Item was held to the next Audit Committee Meeting. See comments above.)

D. Recommendation that the Audit Committee review and approve the updated Internal Audit Charter as submitted by Richard Bendall, *Chief Audit Executive,* Leisha Collins, *Principal Internal Auditor*, and Christina Logan, *Senior Internal Auditor*.
(Memo Dated: June 30, 2016)

(This Action Item was held to the next Audit Committee Meeting. See comments above.)

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,* Leisha Collins, *Principal Internal Auditor*, and Quoc Nguyen, *Principal Internal Auditor*
(Memo Dated: June 30, 2016)

Mr. Nguyen presented the Audit Plan for the fiscal year end 2017 as well as Internal Audit's risk assessment process. Mr. Nguyen also discussed the risk assessment worksheet completed by all LACERA managers and the Quality Assurance Review (QAR) that was completed in January. Mr. Kelly moved to approve the proposed fiscal year ending 2017 Audit Plan. Mr. Schneider provided a second. The motion was unanimously approved.

V. ADMINISTRATIVE REPORTS

A. **Internal Audit Annual Report – Fiscal Year End 2016**
Richard Bendall, *Chief Audit Executive*
(Memo Dated: June 30, 2016)
Ms. Collins provided a brief overview of work performed in the fiscal year ended 2016.

B. **Recommendation Follow-Up Report**
Quoc Nguyen, *Principal Internal Auditor*
(Memo Dated: June 30, 2016)

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

Mr. Nguyen summarized the audit recommendation activity between February 1, 2016 and May 31, 2016.

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

Ms. Collins noted that the RDS Program Audits are still being conducted by Milliman. The results of this work were reported at the last IBL Committee Meeting.

VI. AUDIT REPORTS

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

Mr. Kelly moved that the Audit Report agenda items be moved to the December Audit Committee Meeting. A second was provided by Ms. Graye. The motion was unanimously approved.

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)

Mr. Kelly, Ms. Graye and Mr. Chery thanked staff for their time and work in preparing the Audit Committee Meeting.

X. ADJOURNMENT
The meeting was adjourned at 11:02 a.m.

DV/dv

LACERA

December 1, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

Leisha Collins
Principal Internal Auditor

Christina Logan
Senior Internal Auditor

FOR**:** December 14, 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 that Audit Committees formally define their purpose, authority, and responsibilities in a charter. In addition, the IIA recommends periodic reviews of the charter to ensure it is aligned with industry best practices and organizational changes. LACERA's Audit Committee Charter (Charter) was established in 2004 and was last updated in December 2009.

Staff proposed additional revisions to the Charter (Attachment A & B) at the April and July 2016 Audit Committee Meetings to align the Charter with the most current IIA model template (Attachment C) and organizational changes. The suggested changes also provided additional clarity to the purpose of the Charter and expanded some of the Committee's authority and resposbilities. Although their was agreement amongst the Committee regarding most of the revisions, the Committee could not reach a majority vote regarding the proposed additional responsibilities for oversight over the Chief Audit Executive (CAE). The Committee requested staff to include the Charter on the agenda for the December 2016 meeting.

Staff will be present at the December 14, 2016 meeting to discuss revisions to the above sections.

CONCLUSION

Staff recommends the Committee approve the Charter or provide Internal Audit with further direction. Upon approval, staff recommends the Committee forward a recommendation to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter.

RB: /LC/cl
AC Charter Memo.doc

Attachments:

A: Proposed 2016 Audit Committee Charter Revised December 1, 2016
B. Redline Copy of Proposed 2016 Audit Committee Charter
C: 2013 IIA Template
D: Legal Office Opinion on Audit Committee's Authority Under the Brown Act to Meet in Closed Session with Respect to CAE Personnel Issues

Attachment A

LACERA
Los Angeles County Employees Retirement Association

Audit Committee Charter

Revised December 2016

2016

AUDIT COMMITTEE CHARTER

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 members[1]. 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 Board 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 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.

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.

______________________________ *Month xx, 2016*

Shawn R. Kehoe **Date**
Chair, Board of Retirement

______________________________ *Month xx, 2016*

David Green **Date**
Chair, Board of Investments

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,~~ I~~i~~nternal A~~a~~uditors, E~~e~~xternal A~~a~~uditors, 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 or~~ 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 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.~~

~~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 members[1]. 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.

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 m~~M~~eeting 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.

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.

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.

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.

_______________________________ *Month xx, 2016*

Shawn R. Kehoe — **Date**

Chair, Board of Retirement

_______________________________ *Month xx, 2016*

David Green — **Date**

Chair, Board of Investments

The Institute of Internal Auditors
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, signif accting 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.

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. **<u>Basic Brown Act Rule</u>**

   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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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:

________________________________	**July 1, 2016**
Gregg Rademacher, *Chief Executive Officer*	**Date**

MEMO DISTRIBUTION

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

LACERA

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: December 14, 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 MAP 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 MAP 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. <u>Appointment, Discipline, Dismissal, and/or Removal of the CAE</u>

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.

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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 <u>underlined</u>. 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

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:

____________________________________ **July 1, 2016**

Gregg Rademacher, *Chief Executive Officer* **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

Note: Section 6.126.040 is provided in its entirety.

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

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

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

1. "Appointing Authority" means the retirement administrator as to Participants serving on the staff of the Los Angeles County Employees Retirement Association. 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, 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.

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

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

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

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

5. "Plan" means the Management Appraisal and Performance Plan set forth in this Section 6.127.040.

6. "Salary Structure" means the Tier I and Tier II Salary ranges specified in Section 6.26.020 A.

7. "Tier I" means that part of the Plan that is applicable to positions specifically designated as eligible for Tier I by the board of supervisors as requested by the board of retirement and board of investments jointly. Salary ranges applicable to Tier I Participants are designated by the letters "LR" in Sections 6.28.050 and 6.26.020 A of this code. Tier I Salary ranges are defined in terms of a minimum rate, a maximum rate, and a Control Point and are divided into quartiles for salary administration purposes in accordance with the provisions of Section 6.08.370.

8. "Tier II" means that part of the Plan that is applicable to all Participants other than Tier I Participants. Salary ranges applicable to Tier II Participants are designated by the letters "LS" in Sections 6.28.050 and 6.26.020 A of this code. Tier II Salary ranges consist of 18 salary steps, with the first 12 being 3 percent apart and the last six steps being 1 ½ percent apart.

9. "Tier I Merit Adjustment" means movement through the applicable LR range based on an evaluation of performance as provided for in the Plan and any pertinent instructions issued by the retirement administrator. A Tier I Merit Adjustment may range from zero to 5 percent with respect to any given rating period.

10. "Tier II Step Advancement" means advancement to the next salary step in the applicable LS range based on an evaluation of performance as provided for in the Plan and any pertinent instructions issued by the retirement administrator.

11. "Y-Rate" means, for purposes of this Part 3, a special salary rate which entitles a person to receive a salary at a rate higher than the maximum of the Salary range for the position which the person holds.

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

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

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

E. Performance management.

1. Performance rating categories and process.

The retirement administrator, or his/her designee, shall annually evaluate the performance of each Participant, in accordance with guidelines and in a format established by the LACERA director of human resources, which shall provide for an 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"

The performance management process includes annually setting goals and defining performance expectations developed jointly by the retirement administrator or his/her designee and each Participant. The retirement administrator defines department values for the performance management process. At the discretion of the retirement administrator, Participants on a leave of absence during the rating period are not required to have a performance plan while on an approved leave of absence.

2. Rating period.

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

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

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

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

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

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"

b. Probationary Employees.

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

F. Appeal process.

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 requests 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

J. Reinstatement, reemployment, and restoration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

R. Tier II Step advancement provisions.

1. Subject to retirement administrator approval, each Tier II Participant may be eligible on October 1st of each year for advancement to the next salary step on the applicable Tier II LS Range. Such step advancement shall be limited to Participants who have been MAPP participants prior to April 1st of the current fiscal year and who otherwise meet the conditions for salary step advancement set forth in the Plan.
2. Step Advancement up to and including step 12 requires, in addition to the provisions of subsection A above, that a Participant have a current performance rating of at least "Met Expectations."
3. Step Advancement beginning with Step 13 and above requires, in addition to the provisions of subsection A above, that a Participant have a current performance rating of at least "Exceeded Expectations" or better.

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

November 14, 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**:** December 14, 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 July 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 December 14, 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

Attachment A

Los Angeles County Employees Retirement Association

Internal Audit Charter

INTERNAL AUDIT SERVICES

Version 2: July 2016

2016

INTERNAL AUDIT CHARTER

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 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. RESPONSIBILTY

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.

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.

LACERA

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** *Chief Executive Officer*	**Date**
______________________	*, 2016*		
Richard Bendall *Chief Audit Executive*	**Date**		

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 goven 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 Proactive 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.

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 propert~~y~~ies, 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 objectivs.~~
- ~~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.

RESPONSIBILTY

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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

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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.

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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

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APPROVAL

This Internal Audit Charter ("IA Charter") was reviewed and adopted by the Audit Committee on (date). This IA Charter is therby 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

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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5250 CLAREMONT AVENUE
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STOCKTON, CA 95207
TEL 209.451.4833

BROWN ARMSTRONG
Certified Public Accountants

Los Angeles County Employees Retirement Association
Audit Committee presentation of the June 30, 2016 audit results

By: Andrew J. Paulden, CPA, and Alaina C. Sanchez, CPA
Brown Armstrong Accountancy Corporation
December 1, 2016

1. Purpose of the Audit

2. The Audit Process
   a. Timeline coordination with LACERA staff
   b. Periodic status meetings
   c. Understanding and evaluation of LACERA internal controls through inquiry and observation
   d. Confirmation of account balances, legal, and actuary
   e. Interim testing
   f. Final fieldwork
   g. Report presentation

3. Significant Audit Areas/Scope of Audit Work
   a. Risk based approach
   b. Investments and related earnings
   c. Participant data and actuarial information
   d. Employee and employer contributions
   e. Benefit payments
   f. OPEB Trust audit

4. Audit Reports
   a. Independent Auditor's Report (opinion) on financial statements – unmodified ("clean") opinion
   b. Independent Auditor's Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*
   c. Required Communication to the Audit Committee in accordance with professional standards – SAS 114
   d. Agreed upon conditions report designed to increase efficiency, internal controls, and/or financial reporting

5. GASB 67/68

6. Questions and/or Comments?

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Boards of Retirement and Investments
Los Angeles County Employees Retirement Association
Pasadena, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Los Angeles County Employees Retirement Association (LACERA) and the Other Post Employment Benefits Trust (the OPEB Trust), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise LACERA's and the OPEB Trust's basic financial statements, and have issued our report thereon dated October 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LACERA's and the OPEB Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LACERA and the OPEB Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of LACERA and the OPEB Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LACERA and the OPEB Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted two matters that are opportunities for strengthening internal controls and operating efficiency that we reported to management in a separate letter dated October 13, 2016.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LACERA's and the OPEB Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACERA and the OPEB Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 13, 2016

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BROWN ARMSTRONG
Certified Public Accountants

**REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE
IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

Boards of Retirement and Investments
Los Angeles County Employees Retirement Association
Pasadena, California

We have audited the financial statements of the Los Angeles County Employees Retirement Association (LACERA) and the Other Post Employment Benefits Trust (the OPEB Trust) for the year ended June 30, 2016, and have issued our report thereon dated October 13, 2016. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by LACERA and the OPEB Trust are described in Note B to the financial statements. As described in the notes to the financial statements, LACERA implemented the following standards in 2016: Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application,* GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68* and GASB Statement No. 82 – *Pension Issues an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB Statement No. 72 is to improve financial reporting related to fair value measurements. The objective of GASB Statement No. 73 is to improve financial reporting by establishing a single framework for the presentation of information about pensions. The objective of GASB Statement No. 82 is to improve financial reporting by enhancing consistency in the applicable of financial reporting requirements to certain pension issues. We noted no transactions entered into by LACERA and the OPEB Trust during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the fair value of investments:

> Management's estimate of the fair value of investments and the money-weighted weight of return were derived by various methods as detailed in Note P and Note B to the financial statements. We evaluated the key factors

and assumptions used to develop the fair value of investments and the money-weighted rate of return in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the contribution amounts and net pension liability based on actuarially-presumed interest rate and assumptions recommended by an independent actuary and adopted by the Board of Investments and involve estimates of the values of reported amounts and probabilities about the occurrence of future events as detailed in Note E to the financial statements. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures for deposits and investments in Note B and Note G were derived from LACERA's investment policies. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes to the financial statements.

The disclosures related to the funding policies, funded status, progress, actuarial methods and assumptions for the Net Pension Liability in Note E were derived from actuarial valuations, which involve estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were identified.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the Management Representation Letter dated October 13, 2016.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to LACERA and the OPEB Trust's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as LACERA and the OPEB Trust's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We were not engaged to report on the introductory, investment, actuarial and statistical sections, which accompany the financial statements. We did not audit or perform procedures on this other information and we do not express an opinion or provide any assurance on it.

****

This information is intended solely for the use of the Boards of Retirement and Investments and management of LACERA and the OPEB Trust, and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 13, 2016

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AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING

Boards of Retirement and Investments
Los Angeles County Employees Retirement Association
Pasadena, California

We have audited the financial statements of the Los Angeles County Employees Retirement Association (LACERA) and the Other Post Employment Benefits Trust (OPEB Trust) for the year ended June 30, 2016, and have issued our report thereon dated October 13, 2016. In planning and performing our audit of the financial statements of LACERA and the OPEB Trust, we considered their internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LACERA's and the OPEB Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of LACERA's and the OPEB Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination, of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

However, during our audit we became aware of two matters that are opportunities for strengthening internal controls and operating efficiency. The recommendations that are listed in this report summarizes the conditions and recommendations regarding these matters.

We have already discussed these conditions and recommendations with various LACERA and OPEB Trust personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of the matter, or to assist you in implementing the recommendations.

Current Year Agreed Upon Conditions and Recommendations

1. Condition – Performance Benefit Pay (PBP) Continuance to Survivors

During our decedent testing, we recalculated the continuing pension for a sample of survivors who were entitled to the benefit and noted one (1) was calculated in error. The retired member was receiving service retirement plus $234.66 PBP benefit. Upon the death of the member, the survivor began receiving 60% continuance pay of the service retirement but did not receive the $140.80 PBP benefit. The monthly underpayment to the member occurred from November 2015 through September 2016 and totaled $1,565.70. Per inquiry with LACERA, in the event of a retired member's death the survivor benefit payable should include the amount attributed to PBP.

Recommendation

We recommend that LACERA re-communicate the survivor continuance PBP procedures to Retirement Benefit Specialists and Supervisors to ensure that they are properly aware and in accordance with the continuance procedures and that survivor continuance payments are paid correctly. In addition, we recommend that Quality Assurance sample deceased members who were receiving PBP to verify the benefit has continued to the survivor, if applicable.

Views of Responsible Officials and Planned Corrective Action

The Benefits Division will issue the survivor in question a manual check for the $1,565.70 underpayment by month-end September, 2016, and will correct the account so the survivor will receive an ongoing, proper PBP amount beginning on October 31, 2016. The Benefits Division has begun reviewing and updating its PBP procedures (paying special attention to address the PBP continuance) and will redistribute them to appropriate Supervisors and Staff. The Benefits Division will also review for a wider impact, including similar cases and other processes; and this is estimated to be completed by June 30, 2017.

Further, the Quality Assurance and the Benefits Divisions will work together to expand auditing to cover the PBP Continuance process. The estimated date to implement this expansion is January 1, 2017.

2. Condition – Base Monthly Allowance

During our recalculation of retiree benefit payments, we noted of the forty (40) retirees selected for monthly benefit recalculation, one (1) was calculated in error.

Member file contained the correct calculation of base retirement allowance however an error occurred when the base retirement allowance was input to Workspace. This input error resulted in a monthly overpayment in the Base Monthly Allowance of $980 from March 15, 1997 through December 31, 2005, and $998 from January 1, 2006 through September 30, 2016, for a total base overpayment of $230,662.50. Including the Cost of Living Adjustment (COLA) portion, the total amount overpaid from March 15, 1997 through September 30, 2016, was $301,466.19.

In addition, the Member's Old-Age, Survivors, and Disability Insurance (OASDI) was overstated as 14 years and 8 months but should have been 1 year and 10 months.

Recommendation

We recommend that LACERA re-communicate the calculation procedures to Retirement Benefit Specialists and Supervisors to ensure that they are properly aware and in accordance with the calculation procedures to ensure that pension payments are paid correctly. In addition, we recommend that Quality Assurance sample and recalculate pension payments.

Views of Responsible Officials and Planned Corrective Action

The member's benefit in this case is being adjusted going forward, and the overpaid benefits will be collected per LACERA's collection policy. Robust preventative controls have been implemented since the time this instance originated in 1997, including a much closer secondary review of both benefit calculations and processing steps from the Board Agenda phase through the first benefit payment. The Benefits Division will work with the Systems and the Quality Assurance Divisions to identify and correct any similar cases. These corrective actions should be completed by 6/30/2017.

Status of Prior Year Agreed Upon Conditions and Recommendations

1. Condition – Retirement Benefit Payments

During our recalculation of retiree benefit payments, we noted of the forty (40) retirees selected for monthly benefit recalculation, two (2) were calculated in error.

Case #1 – The member retired in 2000 and elected to receive the Pension Advance option. Upon reaching the age of 62 in 2006, the member's monthly pension benefit should have been reduced from $840.26 to $441.12. The monthly overpayment to the member occurred from June 2006 to August 2015 and totaled $36,914.54. The member's file contained correspondence in 2006 that the monthly pension payment would be reduced but no changes were made in Workspace. Per inquiry with LACERA, we noted the Pension Advance option is an automated process performed by Workspace and the lack of the required, benefit reduction was likely a manual override.

Case #2 – The member's file contained the correct calculation of the base retirement allowance, however, an error occurred when the base retirement allowance was input to Workspace. This input error resulted in a monthly overpayment in the Pension Reserves Portion of $5.37 from February through July 31, 2015, for a total overpayment of $27.71.

Recommendation

We recommend that LACERA re-communicate the calculation procedures to Retirement Benefit Specialists and Supervisors to ensure that they are properly aware and in accordance with the calculation procedures to ensure that pension payments are paid correctly. In addition, we recommend that Quality Assurance sample and recalculate pension payments.

Views of Responsible Officials and Planned Corrective Action

Upon learning of Case #1, the Benefits Division immediately corrected the member's records and began recovery from the member. The Benefits Division also immediately conducted a search for other possible, similar occurrences but did not find any. Case #1 appears to be an isolated instance.

Internal Audit investigated Case #1, determining that a manual override had indeed occurred and that no documentation exists to support the override. At the time it occurred, no effective means existed of either detecting or preventing it. Shortly afterwards, however, improvements were made both to the membership data system and to the Benefits Division's operating procedures. It is currently all but impossible to accomplish such overrides independently or undetected; and Internal Audit concurs that it appears to be an isolated instance.

Concerning Case #2, staff has corrected the specific benefit discrepancy identified in this finding. This discrepancy was the result of a timing issue wherein a late adjustment to service credit was not factored into the final system calculation of the retirement benefit. Staff has been reminded to document and resolve such cases according to current procedures. Furthermore, Management will review the programming in E-HR and the County's business rules that gave rise to the variance found in this case. Benefits, QA, Systems and our partners at the Auditor Controller will collaborate in this review and develop a resolution plan.

With regard to both Cases #1 and #2, the Benefits Division concurs with the recommendation and will re-communicate the correct procedures.

Current Year Status

For Case #1, the Benefits Payroll Advance Supervisor met and reviewed the Pension Advance policy and procedures with the entire Benefits Payroll Advance Team.

The following applies to both Case #1 & #2:

Currently, 100% of all Retirement Elections placed on the Retirement Agenda are audited by the Quality Assurance Division ("QA"). For the First Payment (Payroll) process, however, QA audits a lower percentage since the case had been previously audited at the Retirement Agenda placement stage.

Once the Final Calculation Program has been completed, the monthly base retirement benefit becomes permanent, but with annual Cost of Living Adjustment ("COLA") increases if applicable. Even so, the monthly base retirement benefit can change in post-retirement due to an account correction and/or a planned adjustment.

There two types of post-retirement planned adjustments:

(1) The automatic adjustment, which includes a contract rollover, a pension advance, and/or double or dual retirement plan accounts in one of which the member is not yet eligible to retire; and

(2) A manual adjustment, which usually occurs as a result of an account/benefit correction or with exception cases that require manual input of a COLA.

To maintain accuracy in either post-retirement adjustment type, the Benefits Division is working with QA to begin auditing both types. The Benefits Division is also working with the Systems Division to identify changes that affect a member's account between the Retirement Agenda and the First Payment stages, so that all such cases will be re-audited by QA.

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This report is intended solely for the information and use of the Boards of Retirement and Investments and management of LACERA and the OPEB Trust, and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

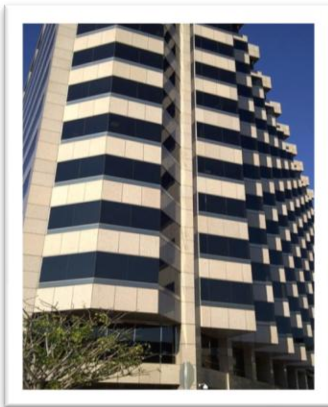
Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 13, 2016

LACERA
Los Angeles County Employees Retirement Association

2016
Presentation to the Audit Committee

PRESENTED BY
ANDREW PAULDEN, CPA, PARTNER
ALAINA SANCHEZ, CPA, MANAGER



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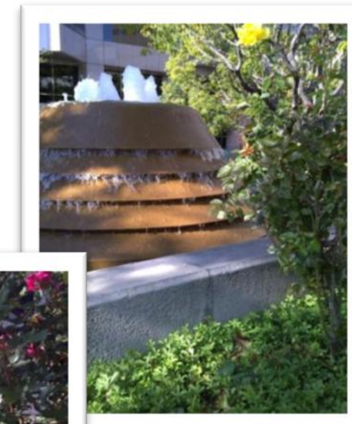

Agenda

A. The Purpose of the Audit

B. The Audit Process

C. Scope of Work

D. Audit Reports

E. Changes Ahead

F. Other Required Communications

G. Questions or Comments

A. Purpose of the Audit

B. The Audit Process

1) Timeline coordination with LACERA staff
2) Periodic status meetings
3) Understanding and evaluation of LACERA's controls through inquiry and observation
4) Confirmation of account balances, legal and actuary
5) Interim testing
6) Final fieldwork
7) Report presentation

Agenda

C. Significant Audit Areas/Scope of Audit Work

1) Risk based approach
2) Investments and related earnings
3) Participant data and actuarial information
4) Employee & employer contributions
5) Benefit payments
6) OPEB Trust Audit

Agenda

A. The Purpose of the Audit

B. The Audit Process

C. Scope of Work

D. Audit Reports

E. Changes Ahead

F. Other Required Communications

G. Questions or Comments

D. Audit Reports

1) *Independent Auditor's Report* – opinion on financial statements
   - ✓ **Unmodified ("clean") opinion**
2) *Independent Auditor's Report* – on internal control over financial reporting, on compliance, & other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*
3) *Required Communication to the Audit Committee* – in accordance with professional standards (SAS 114)
4) *Agreed Upon Conditions Report* – designed to increase efficiency, internal controls, and/or financial reporting

Changes Ahead

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Accounting & Auditing Pronouncements

1) LACERA Implement in 2016

- ☑ **Statement No. 72 –** *Fair Value Measurement and Application*
- ☑ **Statement No. 73 –** *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- ☑ **Statement No. 82 –** *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73.*

2) LACERA to Implement in 2017

- ☑ **Statement No. 74 -** *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

3) Employers to Implement in 2017

- ☑ **Statement No. 78 –** *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*

4) Employers to Implement in 2018

- ☑ **Statement No. 75 -** *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*

GASB 74/75 Task Force

1) First meeting was held February 2, 2016.
2) Task Force include all stakeholders and discusses the upcoming implementations of GASB 74/75.

Other Required Communications

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Required Auditor Communications

Topic	Response
Our responsibilities under generally accepted auditing standards and government auditing standards	•*Our audit was designed to obtain reasonable assurance that the financials statements are free from material misstatement.*
Significant accounting policies - GAAP Basis	•*The basis of accounting applied in preparation of the CAFR is described in Note B.* •*Discussed quality/acceptability of principles and the consistency of their application.*
Management judgments and accounting estimates	•*Accounting estimates are an integral part of the CAFR.* •*We evaluated key factors and assumption used to develop management's estimates and found them reasonable in relation to the financial statements taken as a whole.*
Significant audit adjustment affecting the financial reporting process	•*All material differences were recorded.*
Other information in documents containing audited financial statements	•*We have no responsibility to audit the introductory or statistical sections of the CAFR.*

Required Auditor Communications

Topic	Response
Disagreements with management	•*None*
Consultation with other accountants	•*None*
Major issues discussed with management	•*We discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. Such discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.*
Difficulties encountered in performing the audit	•*None*
Independence	•*We hereby confirm that we are independent accountants under all relevant professional and regulatory standards.*

Questions or Comments

Brown Armstrong is proud to be in Pasadena, preserving and enhancing the commitment we have to LACERA's engagement and operations.

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2016

LACERA
Los Angeles County Employees Retirement Association

Audit Plan Status Report

FYE 2017 Plan Status as of October 31, 2016

Submitted to the Audit Committee
December 14, 2016

In This Report

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, CFA	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

AUDIT COMMITTEE CONSULTANT

Rick Wentzel, CPA

EXECUTIVE SUMMARY

On behalf of the Internal Audit team, I am pleased to submit the **Internal Audit Work In Progress Report** *(Report)* of the Los Angeles County Employees Retirement Association *(LACERA)* for the period of July 1, 2016 to October 31, 2016. This Report provides information on the FYE 2017 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, 2016; the FYE 2017 Audit Plan consisted of thirty-eight (38) projects. As the year progressed four (4) unplanned projects were added to the audit plan, for a total of forty-two (42) audit projects for the FYE 2017 Audit Plan. Of the forty-two (42) total projects on the current Audit Plan, twenty-two (22) projects have been tackled during the year with six (6) completed and sixteen (16) in progress.

As of July 1, 2016 to October 31, 2016; there were 3,754 staff hours available. A total of 2,849 staff hours (76%) were applied to audit projects, while 905 staff hours (24%) were applied to administrative projects.

The attached report contains the status on all projects undertaken this fiscal year including the objective of the project, the rationale for the work, and a brief synopsis on the "progress" or "conclusion" of each project. We also include the justification for initiating each of the unplanned projects. Recently completed projects with corresponding audit reports are provided in the Audit Reports section of your December 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 2017

The following table provides the status of both the planned and unplanned Internal Audit projects for the fiscal year ending 2017**.** Total estimated hours for fiscal year ending 2017 is 13,000 hours.

MANAGEMENT, GOVERNANCE & COMPLIANCE				
PROJECT	**TYPE**	**FREQUENCY**	**EST. HOURS**	**ACTUAL HOURS**
1. Actuarial Experience Study – RFP	RFP	Periodic	300	62
2. Actuarial Audit – RFP	RFP	Periodic	300	61
3. Audit Guidebook Update	Admin	Planned	600	
4. Compliance Monitoring *(Administration)*	Consulting	Planned	400	55
5. Continuous Auditing Program	Audit	Ongoing	750	
• Fraud Testing – Duplicate Member Payments*	Audit	Periodic	-	309
6. New Payees Testing	Audit	Ongoing	300	99
7. County Medical Reimbursements*	Audit	Planned	400	
8. Felony Convictions Plan Sponsor Reporting*	Audit	Periodic	300	
9. Internal Audit Contractor Pool – RFP*	RFP	Planned	200	265
10. Internal Audit Websites Update	Admin	Planned	200	
11. PEPRA Employer Compliance Testing*	Audit	Periodic	600	
• 960 Hours Testing	Audit	Periodic	-	145
• Pensionable Cap Compliance	Audit	Periodic	-	233
12. Privacy Audit Reco. Coordination	Consulting	Planned	500	350
13. Quality Assurance Improvement Program	Admin	Planned	550	20
14. Risk Assessment – FYE 2018	Admin	Annual	550	
15. Travel & Education Policy Compliance*	Audit	Planned	200	163
BENEFITS ADMINISTRATION				
16. Active Death Process*	Audit	Planned	500	
17. Certificates Processing Audit*	Audit	Planned	500	114
18. Member Death Verification Process	Audit	Planned	450	
19. Member High Risk Verification	Audit	Planned	450	
20. New Benefits Tier Plan*	Audit	Planned	400	
21. Member Accounts Settlement Process*	Audit	Planned	500	
22. Physician Selection and Compensation	Audit	Planned	400	
INFORMATION SYSTEMS				
23. Business Continuity/Disaster Recovery	Consulting	Planned	300	
24. Data Backup/Retention Testing*	Audit	Planned	200	125
25. Member Applications Change Control*	Audit	Planned	600	
26. Systems Penetration Testing*	External Audit	Periodic	200	5
27. IT Risk Assessment	External Audit	Planned	300	

**Rollover from fiscal year ending June 30, 2016 Audit Plan.*

In Process Ongoing Completed Project

FINANCIAL & INVESTMENT OPERATIONS				
PROJECT	**TYPE**	**FREQUENCY**	**EST. HOURS**	**ACTUAL HOURS**
28. External Financial Audit	External Audit	Annual	300	324
29. Audit of Actuarial Consulting Services	External Audit	Periodic	200	
30. Compliance Monitoring (Investments)	Consulting	Planned	400	45
31. Investment Fee Reporting & Validation*	Audit	Planned	200	70
32. Princeville THC Audit & Tax Service – RFP	RFP	Periodic	300	
33. Real Estate Financial Audit & Tax Service	External Audit	Annual	250	62
34. Real Estate Investment Operations*	External Audit	Planned	100	
35. Real Estate Advisor Review *(EMMES)**	External Audit	Periodic	100	
36. Real Estate Advisor Review *(Cornerstone)**	External Audit	Periodic	100	
37. Securities Lending*	External Audit	Planned	50	
38. Real Estate Debt Program Review*	External Audit	Planned	50	
UNPLANNED PROJECTS				
39. Tuition Reimbursement	Audit	Unplanned		69
40. APPFA Fall Conference 2016	Admin	Unplanned		139
41. Retiree Health Care Consultant - RFP	Consult	Unplanned		55
42. Private Equity Audit Monitoring	Consult	Unplanned		50

**Rollover from fiscal year ending June 30, 2016 Audit Plan.*

In Process   Ongoing   Completed Project

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, 2017.** 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 **October 31, 2016**.

ADMINISTRATIVE SERVICES

Office Renovations

DIVISION(S)	ADMINISTRATIVE SERVICES	**REPORT DATE**	APR 12, 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 a need for the following areas to be strengthened: documenting vendor selection, formalizing procedures for change orders, and defining the "Renovation Team."		

BENEFITS

415(b) Adjustments

DIVISION(S)	BENEFITS	**REPORT DATE**	JAN 8, 2016
OBJECTIVE	To assure that LACERA pays affected retirees no more than the maximum amount of the annual benefit permitted under Section 415(b) of the *Internal Revenue Code*; 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. Responses to Audit Committee Members questions completed. Awaiting acceptance of the responses and the report by the Audit Committee.		

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 and LACERA 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: 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	Due to some recent updates to certificates processing, we have performed additional follow-up fieldwork and testing for this review. We now plan to complete this project and issue a report by January 31, 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 December 31, 2016.		

EXECUTIVE OFFICE

PEPRA 960 Hours Testing FYE 2016

DIVISION(S)	EXECUTIVE OFFICE	**REPORT DATE**	NOV 2, 2016
OBJECTIVE	To determine whether all retirees were temporarily rehired in compliance with legal requirements and LACERA policies.		
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. Additionally, the Public Employees Pension Reform Act of 2013 and LACERA policy requires a bona fide break in service prior to the retiree being rehired by the County. Compliance with State law and LACERA policy helps ensure that LACERA retains its "qualified" tax deferred status		
CONCLUSION	Internal Audit identified minor issues of non-compliance with legal requirements and LACERA policies. These issues were reported to the County's Chief Executive Office - Benefits, Compensation Policy, and Employee Relations Division and they are in the process of implementing workable solutions to mitigate these issues in the future.		

EXECUTIVE OFFICE

PEPRA Pensionable Cap Compliance

DIVISION(S)	EXECUTIVE OFFICE	REPORT DATE	NOV 3, 2016
OBJECTIVE	• Verify that LACERA and the plan sponsor applied the PEPRA limit to all PEPRA members whose annual earnings exceed the PEPRA limit. • Verify that all PEPRA members' employee contributions did not exceed the capped contribution amount for calendar year 2015.		
RATIONALE	This particular audit focused on LACERA's compliance with California Government Code Section 7522.10 which put a specified compensation cap (or "PEPRA limit") on the pensionable salaries that can be used when calculating: 1) a member's pension benefit, and 2) the annual pension contributions paid by the employee and employer to fund the pension benefit. Only members hired on or after January 1, 2013 are subject to the PEPRA limit.		
CONCLUSION	Based on our review and audit objectives, we did not note any instances of non-compliance. Of the 12,533 PEPRA members identified we noted 162 individuals whose pensionable salary exceed the PEPRA limit of $140,424. Our test results verified that all 162 individuals had their pensionable salaries capped at the PEPRA limit of $140,424 and that their contributions did not exceed the capped annual contribution amount for calendar year 2015.		

Compliance Monitoring (Administration)

DIVISION(S)	EXECUTIVE OFFICE	REPORT DATE	*N/A*
OBJECTIVE	Provide consulting to the Executive Office in their development a framework for a formal compliance program at LACERA.		
RATIONALE	As part of the updates to the Audit Committee Charter, the Audit Committee will have responsibility for monitoring managements system of compliance. Additionally, Internal Audit will be required to annually review the effectiveness of management's system of compliance with laws, regulations, and policies and procedures that are business critical. In order for the Audit Committee and Internal Audit to perform these activities, management must first formalize their compliance program. Currently, Management has a decentralized compliance program and does not have a formal framework in place. Internal Audit has been requested to assist with the development of a framework.		
PROGRESS	Internal Audit will be having on-going meetings with Management on the compliance program.		

EXECUTIVE OFFICE

PEPRA Employer Compliance Testing

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 February 28, 2017		

Actuarial Audit and Experience Study - RFP

DIVISION(S)	EXECUTIVE OFFICE	REPORT DATE	*N/A*
OBJECTIVE	Internal Audit will issue an RFP for LACERA Actuarial Consulting and Auditing Services for fiscal years ending 2017 – 2021.		
RATIONALE	LACERA has retained Milliman and Segal for actuarial consulting and auditing services for the past 12 years. At the approval of the BOI, Internal Audit has issued an RFP to hire to firms to perform these services. As the RFP project coordinator, IA staff will oversee the issuance of the RFP, hiring of the firms and act as liaison between the firms and the Legal Office in finalizing the contract.		
PROGRESS	The RFP was issued on November 7, 2016. Bids are due by December 7, 2016 and the estimated completion of the RFP process is April 30, 2017.		

FINANCIAL AND ACCOUNTING SERVICES

Duplicate Vendor Payments

DIVISION(S)	FASD	REPORT DATE	MAR 29, 2016
OBJECTIVE	To determine whether the FASD Division was paying duplicate invoices and to assess the effectiveness of its internal controls to detect duplicate invoices and avoid unnecessary payments.		
RATIONALE	This audit is a component of our fraud and compliance testing program which leverages data analytics using audit software such as Audit Command Language (ACL). ACL allows us to analyze large sets of data relatively quickly using algorithmic formulas. As such, we determined this type of analytical testing would be appropriate to apply to an audit area such as duplicate vendor payments.		
CONCLUSION	Overall, based on the data analytics that were performed, we noted that LACERA's FASD Accounting controls related to preventing duplicate payments are functioning as intended. Our audit testing and analysis determined there is minimal risk of LACERA issuing duplicate payments to vendors		

Education & Travel Policy Compliance Review

DIVISION(S)	FASD & BOARD TRAVEL COMMITTEE	REPORT DATE	SEP 20, 2016
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. For the fiscal year ended June 30, 2016, staff’s education and travel expenses were $995,017 while the Boards’ expenses were $279,337.		
CONCLUSION	The Final Report was issued on September 20, 2016. Based on our audit work, we concluded the Policy and related processes are generally effective. We identified the following areas to be strengthened: ensure travel expenses are adequately documented and reviewed before accepted for payment, update the Policy to require written justification of meal reimbursement when pre-paid meals are provided, and provide regular reinforcement of the guidance and procedures contained in the Education and Travel Policy.		

FINANCIAL AND ACCOUNTING SERVICES

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, completed their final fieldwork and issued their (1) opinion on LACERA's 2016 financial statements, (2) the three "Management Letters" to LACERA, and (3) the GASB 68 Report needed by the County. Brown Armstrong will formally present the results to the Audit Committee at its December 14, 2016, Meeting. The 2016 CAFR should probably be issued by LACERA sometime in December.		

HUMAN RESOURCES

Tuition Reimbursement

DIVISION(S)	HUMAN RESOURCES	REPORT DATE	TBD
UNPLANNED PROJECT JUSTIFICATION	The Executive Office and Human Resources (“HR”) management requested Internal Audit (“IA”) to review the Tuition Reimbursement Program (Program) due to concerns over reimbursement claims submitted during fiscal year 2016-2017. Internal Audit determined that an audit of the Program was necessary to ensure that adequate controls have been established to address risks associated with this program.		
OBJECTIVE	To determine if LACERA’s Tuition Reimbursement Policy, procedures, and process are aligned with industry standards and best practices, effective, and efficient. To determine if staff is in compliance with the Policy.		
RATIONALE	The Executive Office and Human Resources management requested Internal Audit (“IA”) review the Tuition Reimbursement Program due to concerns over reimbursement claims submitted during fiscal year 2016-2017.		
PROGRESS	Staff has completed fieldwork, which included reviewing Tuition Reimbursement requests for fiscal year 2013-2014, 2014-2015, and 2015-2016. Internal Audit anticipates issuing the report in mid-December 2016.		

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 by an outside consultant, George Shemo, CPA, CFE, CGMA. The primary objective of the QAR was to evaluate Internal Audit's compliance with the Institute of Internal Auditor's *International Standards for Professional Practice of Internal Auditing (Standards).* The consultant found that Internal Audit **generally conforms** to the *Standards*. This opinion, which is the highest of three possible ratings, means that policies, procedures, and practices are in place to implement the *Standards* and other requirements necessary for ensuring a professional Internal Audit activity.		

Audit Committee Charter & Internal Audit Charter Updates

DIVISION(S)	INTERNAL AUDIT	**MEMO DATE**	DEC 1, 2016
OBJECTIVE	To review and update the Audit Committee and Internal Audit Charters.		
RATIONALE	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. The IIA and APPFA advise the Internal Audit Charter be reviewed and updated periodically. Internal Audit reviewed the IIA's mandated *Standards,* 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 *Standards* 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 *Standards* and to better align with industry standards.		
PROGRESS	Internal Audit proposed updates to the Audit Committee Charter and Internal Audit Charter and discussed revisions at the April and July 2016 Audit Committee meetings. Based on the Audit Committee's instruction, additional revisions were made and will be discussed in the December 2016 meeting.		

INTERNAL AUDIT

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 December 31, 2016.		

Quality Assurance and Improvement Program (QAIP)

DIVISION(S)	INTERNAL AUDIT	IMPLEMENTATION DATE	DEC 1, 2016
OBJECTIVE	Internal Audit develop a Quality Assurance and Improvement Program as required by the Institute of Internal Auditing (IIA) Standards.		
RATIONALE	In our 2015 Quality Assurance Review (QAR), our consultant recommended that LACERA Internal Audit develop a formal QAIP program to be in compliance with IIA standards. Internal Audit, while always implemented some form of the QAIP program, did not have a formalized program that fully complied with standards. Internal Audit believes that a formal QAIP is important with the on-going administration of Internal Audit and will add value to the work performed by staff. Development of the QAIP is also part of Internal Audit's 2016 divisional goals.		
CONCLUSION	Management has completed a draft policy of the QAIP and will be finalize the QAIP by December 2016.		

APPFA Fall Conference 2016

DIVISION(S)	INTERNAL AUDIT	REPORT DATE	*N/A*
UNPLANNED PROJECT JUSTIFICATION	Time spent to plan and coordinate the conference was necessary since LACERA became the local organization hosting the conference.		
OBJECTIVE	LACERA Internal Audit was responsible for the coordination of most of the details of the conference, from the location, facilities, and attendee accommodations to the agenda, speakers, topics and conference material preparation and distribution.		
RATIONALE	The Association of Public Pension Fund Auditors (APPFA) provides a Professional Development Conference for its members twice a year during the spring and fall. Each Conference is hosted by a local organization and we are proud to have hosted the Fall 2016 Conference in Redondo Beach on November 6-9.		
CONCLUSION	The Conference provided a wide range of learning opportunities designed to enhance the knowledge and skills of all who attended including the best ways to measure internal audit value, internal audit strategic planning, and mitigating fraud risk. In addition, external speakers provided insight into a wide array of topics including, but not limited to: Cybersecurity, Fee Transparency in Public Pensions, Business Intelligence and Data Analytics. This Conference was well-attended with over 85 participants from public pensions systems throughout North America.		

INTERNAL AUDIT

Request for Proposal – External Financial Auditor

DIVISION(S)	INTERNAL AUDIT	**MEMO DATE**	N/A
OBJECTIVE	Solicit bids from qualified firms to perform the annual financial audit of 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 external auditor contract with Brown Armstrong expires with the completion of LACERA's June 30, 2016, financial statements. LACERA must hire an external financial statement auditor for 2017 and the immediately subsequent years.		
CONCLUSION	At the Audit Committee Meeting of July 2016, the Committee interviewed 3 finalist CPA firms and selected Plante Moran PLLC alone to be recommended for hire by the Board of Retirement. At the Board of Retirement Meeting of August 11, 2016, the Board unanimously accepted the recommendation and directed staff to commence negotiations with Plante Moran. The negotiation grew lengthy because of LACERA's newly instituted requirements for data security. However, It is anticipated that a completed contract will be in place by the end of November.		

INVESTMENTS

Private Equity Audit Monitoring

DIVISION(S)	INVESTMENTS DIVISION	**REPORT DATE**	TBD
UNPLANNED PROJECT JUSTIFICATION	When LACERA retained Kreisher Miller (KM) to perform the audit engagement, Internal Audit determined it would be appropriate that IA oversee the engagement to help maintain independence over audit process.		
OBJECTIVE	Oversee the contract signed with Kreischer Miller (KM) on August 22, 2016 to retrospectively audit private equity fees for a sample of funds within LACERA's private equity portfolio.		
RATIONALE	The 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: 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 Subsequently, KM was hired to perform the retrospective audit. Internal Audit, being an independent body of LACERA, will be overseeing the engagement to help maintain independence of the audit. Investments office and FASD are monitoring and overseeing the on-going engagement.		
PROGRESS	KM has begun the audit process and is approximately 25% complete. Internal Audit is receiving monthly updates from KM on their progress.		

INVESTMENTS

Compliance Monitoring (Investments)

DIVISION(S)	Investments	**REPORT DATE**	TBD
OBJECTIVE	Consult and assist the Investments Office with enhancing their investment compliance program		
RATIONALE	As part of the updates to the Audit Committee Charter, the Audit Committee will have responsibility for monitoring Managements system of compliance. Additionally, Internal Audit will be required to annually review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical. In order for the Audit Committee and Internal Audit to perform these activities, Management must first formalize their compliance program. Currently, Management's compliance program is decentralized and does not have a formal framework. Internal Audit has been requested to assist with the development of a framework for the compliance program.		
PROGRESS	Internal Audit will be having on-going meetings with the Investments Office on the compliance program.		

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 2016-17 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 asset classes except for private equity. LACERA has already hired a third party to audit private equity investment fees.		
PROGRESS	Internal Audit has completed its test work and is drafting the audit report. Delays in test work were caused by other administrative assignments that took priority. The anticipated completion date for the report will be December 31, 2016.		

Retiree Healthcare

Retiree Healthcare Consultant-RFP

DIVISION(S)	RETIREE HEALTHCARE	**MEMO DATE**	N/A
UNPLANNED PROJECT JUSTIFICATION	RHC requested Internal Audit's participation in their search for the RHC consultant due to Internal Audit staffs' extensive years of experience consulting RHC and background in the RFP process.		
OBJECTIVE	To support the Retiree Healthcare Division in its solicitation to obtain and evaluate proposals from qualified firms to provide comprehensive benefit consulting services related to the administration of the Retiree Healthcare Benefits (OPEB) Program. The current consultant's contract with LACERA expires June 30, 2017.		
RATIONALE	Retiree Healthcare Benefits (OPEB) is an extremely complicated, sensitive and dynamic area. LACERA administers the County's OPEB program, which includes audits of retiree healthcare claims adjudicated by the insurance carriers. Neither the County nor LACERA has the resources or the expertise to fully administer the program either on their own or together. As a result they need a qualified consultant to assure that LACERA and County receive the best possible service from the carriers.		
PROGRESS	The IBL Committee approved the RFP for issue at its August 2016 Meeting. A staff Proposal Evaluation Committee subsequently reviewed all proposals received; and the bidders made presentations to the Evaluation Committee in late October 2016. The IBL Committee will have the finalist bidders' presentations made to it in December 2016 and make a recommendation to the Board of Retirement. The Board will make its selection in January 2017 and contract negotiations will commence.		

SYSTEMS

Member Data File Exception Processing

DIVISION(S)	SYSTEMS	**REPORT DATE**	MAR 24, 2016
OBJECTIVE	To validate member data file exception processing by Systems Analysts are supported with appropriate justifications and authorizations in the membership WorkSpace system. To assess internal controls for restricting Systems Analyst access to member data files and processing transactions, except those for which an authorized and specific request is received from Benefits Division.		
RATIONALE	Member data is created and maintained by a complex series of in-house developed computer programs, system interfaces, calculations and manual data entry by nearly 150 operations staff. Extensive edits, validations, program testing and access controls ensure the integrity of member data file accuracy and completeness. Occasionally member file transactions become too complex or non-standardized and require a Systems Analyst to complete these exception transactions.		
CONCLUSION	Systems Analyst exception processing is documented and easily validated through the membership Workspace System. A well-established review process exists for Benefits Division processing staff to escalate exception processing to Lead and Supervisory staff prior to requesting Systems Analyst help. Improved documentation facilitates the review and validation of member accounts by Benefits Division, and Quality Assurance & Metrics Division (e.g. at time of a member's retirement.)		

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 December 30, 2016.		

Internal Audit Technology Consultant Pool RFI

DIVISION(S)	INTERNAL AUDIT	**MEMO DATE**	N/A
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.		
CONCLUSION	The RFI was issued on May 31, 2016. Responses were received and evaluated by a committee of management and internal audit. Four consultants met evaluation criteria. Master Service Agreements were established with two of the pool consultants for immediate engagement on audit projects. Statement-Of-Work agreements will be incorporated with the Master Service Agreements and tailored to each project.		

SYSTEMS

Systems Penetration Testing

DIVISION(S)	SYSTEMS	REPORT DATE	TBD
OBJECTIVE	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.		
RATIONALE	Prior reviews have found network and application environments exhibit many strong security practices that provided a very robust security framework. However, gaps were noted that could impact the security of the systems and member data maintained by LACERA. Systems Division Management welcomes independent assessment and acknowledges the potential risk significance of vulnerable internet member services due to ever changing technologies.		
PROGRESS	A technology consultant has been retained. A Statement-Of-Work agreement addressing the objectives noted above was executed and incorporated with the recently completed Master Service Agreement. Fieldwork and testing is in progress and a December 30, 2016 completion date is anticipated.		

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 ongoing Internal Audit projects will be concluded, as of June 30, 2017, for Fiscal Year End 2017. All projects will resume July 1, 2017 for Fiscal Year End 2018.

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 2016 through October 2016. Based on our testing performed, Internal Audit found no exceptions to the scheduled new benefit payees

INTERNAL AUDIT

Recommendation Follow-up

DIVISION(S)	INTERNAL AUDIT
OBJECTIVE	In compliance with the Institute of Internal Auditors' *International Professional Practices Framework*, 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 October 31, 2016. This is an ongoing monitoring that will conclude June 30, 2017.

INTERNAL AUDIT

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.
PROGRESS	This is an ongoing monitoring that will conclude June 30, 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.
PROGRESS	Internal Audit maintains an open door policy for general consulting purposes. This is ongoing consulting that will conclude June 30, 2017.

INVESTMENTS

Real Estate External Financial Audit and Tax Services – FYE 2016

DIVISION(S)	INVESTMENTS
OBJECTIVE	▪ 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	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.
CONCLUSION	Financial statements for fiscal year ending June 30, 2016 were completed by September 15, 2016. All applicable tax filings and extensions for fiscal years ending June 30, 2016 are complete.

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**	NOV 9, 2016
OBJECTIVE	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: 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	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).		
CONCLUSION	A final report for this review was presented to the Board of Investments on November 9, 2016 and the Board of Retirement on November 10, 2016.		

LACERA WIDE

Privacy Audit Coordination

DIVISION(S)	ALL DIVISIONS	**REPORT DATE**	NOV 9, 2016
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.		
CONCLUSION	A final report for this review was presented to the Board of Investments on November 9, 2016 and the Board of Retirement on November 10, 2016.		

L///CERA

December 1, 2016

TO: Each Member
2016 Audit Committee Members

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

FOR: December 14, 2016 | Audit Committee Meeting

SUBJECT**:** **GOAL STATUS REPORT - 2016 CALENDAR YEAR END**

The following details the statuses of Internal Audit's goals for the calendar year end 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.

INTERNAL AUDIT

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP) POLICY

POLICY STATEMENT

As set forth by the Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing,* Internal Audit will maintain and support a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments. External assessments are to be performed at least every five (5) years by a qualified, independent assessor or assessment team from outside the organization.

The specific provisions of this Policy are included herein.

THE QAIP

Internal Audit will maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of Internal Audit's assurance and consulting activities and monitors its effectiveness.

The QAIP assesses the extent to which the activity:

- fulfills its charter and the expectations of management and the board;
- operates in conformance with the *International Standards for the Professional Practice of Internal Auditing,* the Code of Ethics, and the Definition;
- complies with Internal Audit policies and procedures; and
- operates in an efficient manner.

The QAIP includes both internal and external assessments.

INTERNAL ASSESSMENTS

Internal assessments will be documented and include ongoing monitoring activities, primarily covering performance and engagement-related standards, such as the following:

- **Ongoing Monitoring:** focuses mainly on Performance *Standards* and other engagement-related standards.
- **Supervision:** guidance provided, including appropriate involvement in preparation and planning for the project, engagement risk assessment, empowerment of staff, obtaining input from customer, determining scope and objectives, review of audit program or risk/control/test methodology, evaluating and communicating results.
- **Review of Working Papers:** a checklist is used for each completed audit project that represents a basic summarized quality assurance review of working papers by the manager. It ensures the projects meet minimum internal standards for planning, performing, and communicating results. It is considered layer 1 of working paper self-assessments.

- **Project Completion Tracking:** use of software to track estimated and actual completion dates for key tasks within all projects as well as ongoing discussions on the status of projects with management and external auditors.
- **Feedback from Audit Clients:** on a periodic basis, the CAE and Principal Auditors meet with Management to solicit feedback regarding Internal Audit's performance of audit engagements.

Internal assessments will also include a periodic (usually annual) assessment of conformance to all *Attribute Standards* and *Performance Standards*.

EXTERNAL ASSESSMENTS

External assessments are to be performed at least every five (5) years by a qualified, independent assessor or assessment team from outside the organization. The scope will include the full spectrum of assurance and consulting work performed and entails all elements of The IIA's *Standards*, internal audit's governance process, and internal audit tools and techniques.

The Chief Audit Executive (CAE) will discuss the following with the Audit Committee:

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

Upon completion of the external assessment, the CAE will report the results of the assessment to the Audit Committee.

In planning the external assessment, the CAE will also consider other options, including a self-assessment approach with independent validation or a reciprocal external assessment team arrangement with internal audit activities in similar industries.

Internal Audit will state in its reports and other statements that it practices in conformance with the *International Standards for the Professional Practice of Internal Auditing* as long as the results of its QAIP continue to so indicate. Results of the QAIP, including resulting improvements, will be reported to the Audit Committee in the Internal Audit Annual Report.

APPROVAL

This Quality Assurance & Improvement Policy was reviewed and approved by the Chief Audit Executive on December 1, 2016. This Policy is thereby effective **December 1, 2016** and is hereby signed by the following:

Richard Bendall *Chief Audit Executive*	*December 1, 2016* **Date**

L/A CERA

December 1, 2016

TO: Each Member
2016 Audit Committee Members

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

FOR: December 14, 2016 | Audit Committee Meeting

SUBJECT**: CAE PERSPECTIVE ON LACERA GOVERNANCE ISSUES**

The purpose of this memo is to provide an introduction to my perspective of the high level governance issues facing LACERA and Internal Audit's involvement in these areas. I hope to engage your Committee in a discussion on these issues at your meeting on December 14.

Organizational governance is of key concern to Internal Audit in assessing risk and planning our work. The Boards and Management of LACERA are ultimately responsible for the governance structure of the organization. However, Internal Audit is also sometimes a catalyst for change to governance through our audit and consulting work, as well as our participation in cross-functional management efforts or projects and involvement in industry groups and other educational forums.

In my tenure as Chief Audit Executive (CAE) from 2004 to the present and in my time at LACERA prior to becoming CAE, LACERA has always had a strong governance structure. From Board Policies to the Mission and Values promulgated by the Boards and Executive Office, the focus has been on fiduciary responsibility to the members and plan sponsors. I am encouraged by the fact that, at LACERA, there is the sense throughout the organization from the top down that change is constant and the organization should continually evolve and improve.

The following are some specific areas where Internal Audit has participated in matters of governance within LACERA.

1) Investment Risk Management

Internal Audit partnered with the Investment Office to oversee the hiring of a consultant to perform an Investment Risk Study in 2015. That study led to the retention of a consultant who assisted the Board of Investments in formalizing their investment beliefs and to further discussions by the Board of Investments about governance matters.

As CAE, I am participating in discussions with Investment Office and Executive Office Management about the investment risk management and compliance functions.

2) Compliance

Internal Audit's proposed updates to the Audit Committee Charter placed additional responsibilities on the Audit Committee for overseeing the system of compliance within LACERA. Executive Management recently retained an attorney who specializes in compliance to facilitate the annual Management Retreat. My understanding is that Management intends to develop a more formal compliance framework. Internal Audit will work with Management and provide our input into the design of the compliance framework.

3) Privacy

As CAE, I have also worn the hat of Privacy Officer for LACERA and Internal Audit has always considered privacy and security as key risk areas in the organization. The recent audit of LACERA's privacy practices by Alston & Bird resulted in a number of recommendations for a more formal and extensive privacy program, including the possible hiring of a dedicated Privacy Officer as well as a dedicated Security Officer.

4) ERM

At a high level, the purpose of an Enterprise Risk Management (ERM) function is to provide a structured, consistent, and continuous process across the whole organization for identifying, assessing, advising, deciding on mitigating responses to, and reporting on opportunities and threats that affect the achievement of objectives.

I, along with Internal Audit staff, have participated for 3 years in the Public Pension Roundtable on Enterprise Risk Management with large public pension systems that have formal ERM programs. This has assisted us in evaluating and contributing to the risk management framework currently at LACERA and weighing in on the merits of LACERA establishing a formal ERM function.

Beside the examples above, Internal Audit participates in governance matters throughout the organization including the broad areas of organizational structure, Information Technology (IT) governance and security, key business partner relationships and related operational interfaces (e.g., Custodial Bank), operational changes resulting from changes in the law (e.g., PEPRA), etc.

As CAE, I champion Internal Audit's seat at the table on these matters and am always mindful of the importance of us providing our input on these matters but ensuring that we do so in a manner that does not impair our independence. I look forward to a discussion about these and any other matters of governance with your Committee.

LACERA

December 1, 2016

TO: Each Member
2016 Audit Committee Members

Audit Committee Consultant
Rick Wentzel

FROM: Quoc Nguyen
Principal Internal Auditor

Gabriel Tafoya
Senior Internal Auditor

FOR: December 14, 2016 Audit Committee Meeting

SUBJECT: **RECOMMENDATION FOLLOW-UP REPORT**

AUDIT RECOMMENDATION IMPLEMENTATION SUMMARY

From July 1, 2016 through October 31, 2016, the following audit recommendation activity occurred:

- Five (5) new recommendations were made. These recommendations resulted from a Member Minor Survivor Compliance and an Education and Travel Compliance.
- Six (6) recommendations were implemented:
    - One (1) was implemented by the Benefits Division.
    - One (1) was implemented by the Investments Office.
    - Four (4) were implemented by the Systems Division.

A summary report containing the relevant audit recommendations for each Division can be found in **Attachment A**.

AUDIT RECOMMENDATIONS STATUS
July 1, 2016 – October 31, 2016

Division	New Recommendations	Implemented/ Closed	Management Accepts Risk	Pending
Administrative Services:				10
Benefits Division:	2	1		11
Communications:				
Disability Litigation:				
Disability Retirement:				
Executive-Org. level:				
FASD:	2			
Human Resources:				
Internal Audit:				1
Investments:		1		4
Legal:	1			
Member Services:				
Quality Assurance:				
Retiree Health Care:				
Systems:		4		1
Actuary:				
Total:	5	6	0	27

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, 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.

BACKGROUND
The Institute of Internal Auditors' (IIA) Performance Standard #2500 pertains to monitoring the implementation progress of Internal Audit's recommendations made to Management. To be in compliance with the IIA Performance Standards, the Chief Audit Executive is required to establish and maintain a system to monitor the disposition of Management's corrective results and communicate those results to Executive Management.

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.

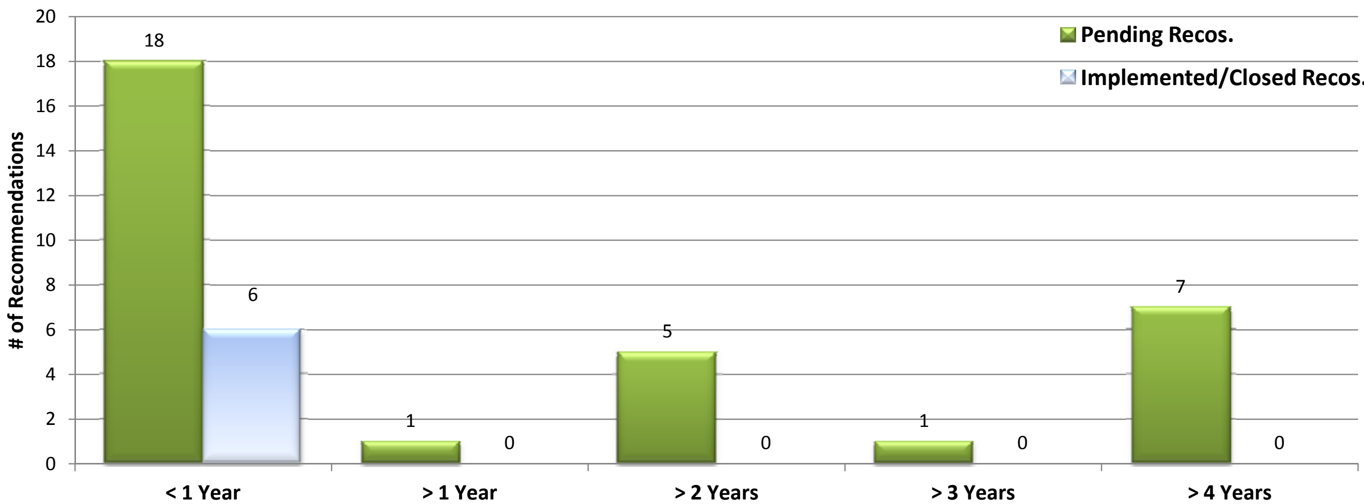
It is Internal Audit's responsibility to ensure that Management's action plans have been effectively implemented, or in the case of action plans that have yet to be implemented, to ensure that Management remains aware of the risks it has accepted by not taking action. In certain situations, if reported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

Audit Recommendation Aged Report

July 1, 2016 through Octobeber 31, 2016



Pending Recos.	< 1 Year	> 1 Year	> 2 Years	> 3 Years	> 4 Years	
Administrative Services	3		1		6	10
Benefits Division	7	1	4	1		
FASD	2					
Human Resources						
Internal Audit					1	
Investments	4					
Legal	1					
Systems Division	1					
Pending Total:	**18**	**1**	**5**	**1**	**7**	32

Implemented/Closed Recos.	< 1 Year	> 1 Year	> 2 Years	> 3 Years	> 4 Years	
Administrative Services						
Benefits Division	1					
FASD						
Human Resources						
Internal Audit						
Investments	1					
Legal						
Systems Division	4					
Implemented/Closed Total:	**6**	**0**	**0**	**0**	**0**	6

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 Admin Manual*	4	3/30/2017	*The Policy draft is complete and has been presented to the Executive Office for review. The Executive Office is currently considering potential modifications to proposed draft rules. Final draft to be completed by January 2017 for submission to the Operations Oversight Committee in February or March of 2017.*
	Daily operating procedures ("desk procedures") need enhancement re control procedures	*Procurement Unit should update & expand its written, daily operating procedures*	4	3/30/2017	*The Policy draft is complete and has been presented to the Executive Office for review. The Executive Office is currently considering potential modifications to proposed draft rules. Final draft to be completed by January 2017 for submission to the Operations Oversight Committee in February or March of 2017.*
	"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	3/30/2017	*The Policy draft is complete and has been presented to the Executive Office for review. The Executive Office is currently considering potential modifications to proposed draft rules. Final draft to be completed by January 2017 for submission to the Operations Oversight Committee in February or March of 2017.*
	Reception area in Administrative Services is not keycard controlled	*# 8 - Install barrier to entry.*	4	3/30/2017	*The Administrative Services renovation began on November 18, 2016. Included as part of the construction, a key carded entrance into the division from the reception area is included. The renovation and relocation of staff back to the 6th floor will be complete by March 30, 2017.*
	All LACERA staff have access to the DPC	*#5 DPC should be physically separated*	4	3/30/2017	*The Administrative Services renovation began on November 18, 2016. Included as part of the construction is building a wall to include a separate entrance between the DPC and the rest of the division. 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 documents. The renovation and relocation of staff back to the 6th floor will be complete by March 30, 2017.*
	Employees must pass through the mail room to gain access to the copy center	*#7 Secure Mail Room*	4	3/30/2017	*The Administrative Services renovation began on November 18, 2016. As part of the construction, 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. The renovation and relocation of staff back to the 6th floor will be complete by March 30, 2017.*
	Record Retention Training - Division Manager Education	*Management Education*	2	3/30/2017	*Training for all managers and records coordinators will be completed by March 30, 2017.*
Internal Audit	*Quality assurance and improvement programs are required*	*#4 - Improve quality assurance program*	5	12/31/2016	*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 procedures will be implemented.*

Benefits	*1st Payment - Separation of Duties*	*Implement secondary review*	3	12/31/2017	*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 help mitigate this risk.*
	Potential for input errors	*Develop field for logging first payment and monthly payment data*	2	12/31/2017	*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 help mitigate this risk.*
	Need to review non-CIB transactions	*Forward non-CIB cases to QA for review*	2	12/31/2017	*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	6/30/2018	*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	6/30/2018	*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 help mitigate this risk.*

Audit Recommendation Follow Up

Administrative Services

Status: **Pending**

Audit Project: **Office Renovation Projects (April 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	
Change Orders are not adequately documented or addressed in written procedures	Develop and codify process for managing Change Orders		12/31/2016	
Inconsistent levels of participation from key stakeholders	Improve Planning and communication of Office Renovation projects		12/31/2016	

Audit Project: **Privacy Review (July 7, 2011)**

Issue:	Recommendation	Actual	Estimated	Revised
Reception area in Administrative Services is not keycard controlled	# 8 - Install barrier to entry.		12/31/2011	2/28/2017
All LACERA staff have access to the DPC	#5 - DPC should be physically seperated.		12/31/2011	2/1/2017
Employees must pass through the mail room to gain access to the copy center	#7 Secure Mail Room		12/31/2011	2/1/2017

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	6/30/2017
Greater clarity & expansion needed in Purchasing Policy & the related Admin Manual	Admin Services Division should modify & expand both the Purchasing Policy and the related Admin Manual		12/30/2011	6/30/2017

Audit Recommendation Follow Up

Administrative Services

Status: **Pending**

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

Issue:	Recommendation	Actual	Estimated	Revised
Daily operating procedures ("desk procedures") need enhancement re control procedures	Procurement Unit should update & expand its written, daily operating procudures		12/31/2011	6/30/2017

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

Issue:	Recommendation	Actual	Estimated	Revised
Record Retention Training - Division Manager Education	Management Education		6/30/2014	6/30/2017

Audit Recommendation Follow Up

Benefits

Status: **Implemented**

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

Issue:	Recommendation	Actual	Estimated	Revised
Member Notification of Possible Benefit Hold	Implement Member Disclosure	11/1/2016	6/30/2016	12/31/2016

Status: **Pending**

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

Issue:	Recommendation	Actual	Estimated	Revised
1st Payment - Separation of Duties	Implement secondary review		12/31/2012	12/31/2017

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

Issue:	Recommendation	Actual	Estimated	Revised
Need to review non-CIB transactions	Forward non-CIB cases to QA for review		12/31/2013	12/31/2017
Potential for input errors	Develop field for logging first payment and monthly payment data		6/30/2014	12/31/2017

Audit Project: **Member Minor Survivor Compliance (June 29, 2016)**

Issue:	Recommendation	Actual	Estimated	Revised
Incomplete Documentation	Develop documented procedures		6/30/2017	
Potential Unclaimed Minor Survivor Benefits	Develop documented procedures		6/30/2017	

Audit Project: **Previous service to contracts (QC/QA/CP) (February 26, 2014)**

Issue:	Recommendation	Actual	Estimated	Revised

Audit Recommendation Follow Up

Benefits

Status: **Pending**

Audit Project: **Previous service to contracts (QC/QA/CP) (February 26, 2014)**

Issue:	Recommendation	Actual	Estimated	Revised
Recreating Timelines	Certify Member Timelines		6/30/2014	6/30/2018

Audit Project: **Retired Death Benefit Audit (October 28, 2014)**

Issue:	Recommendation	Actual	Estimated	Revised
Survivor Direct Deposit Set-up	Direct Deposit Confirmation		12/31/2014	6/30/2017

Audit Project: **Returned ADR Process Review (November 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
ADR Open Holds	ADR Open Holds - Member Verification		6/30/2016	12/31/2016
ADR Open Holds	ADR Open Holds - Health Care Benefits Reinstatement		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 (July 3, 2012)**

Issue:	Recommendation	Actual	Estimated	Revised
Two Different Disability Databases	Eliminate Double Entry and Continue Reconciling Disability Status		6/30/2014	6/30/2018

Audit Recommendation Follow Up

FASD

Status: **Pending**

Audit Project: **Education and Travel Compliance Audit (September 20, 2016)**

Issue:	Recommendation	Actual	Estimated	Revised
Training on Policy	Provide regular reinforcement of the Education and Travel Policy		1/30/2017	
Ensure Travel Expenses and Supporting Dcoumentation Are Adequately Reviewed	Ensure Travel Expenses and Supporting Dcoumentation Are Adequately Reviewed		12/1/2016	

Audit Recommendation Follow Up

Internal Audit

Status: **Pending**

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

Issue:	Recommendation	Actual	Estimated	Revised
Quality assurance and improvement programs are required	#4 - Improve quality assurance program		6/30/2011	12/31/2016

Audit Recommendation Follow Up

Investments

Status: **Implemented**

Audit Project: **Investment Private Equity Operations (July 10, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
Contract Compliance	Consider developing contract compliance function	8/22/2016	3/31/2016	7/31/2016

Status: **Pending**

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

Issue:	Recommendation	Actual	Estimated	Revised
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	6/30/2017
Due Diligence Checklists	Include guidelines for checklists and sign-off on checklists		12/31/2015	6/30/2017
Limited back office due diligence performed	Include manager back-office review as part of due diligence		12/31/2015	6/30/2017

Audit Recommendation Follow Up

Legal

Status: **Pending**

Audit Project: **Education and Travel Compliance Audit (September 20, 2016)**

Issue:	Recommendation	Actual	Estimated	Revised
Written Justification of Meal Requests if Pre-Paid Meal Was Available	Update the Policy to Require Written Justification of Meal Reimbursement If a Pre-Paid Meal Was Available		12/16/2016	

Audit Recommendation Follow Up

Systems

Status: **Implemented**

Audit Project: **External Business Partner Security/Privacy (July 10, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
Aon's Use of 3rd Party Vendor	Due Diligence at Aon	10/1/2016	12/31/2015	7/31/2016
Due Diligence	SOC-2 Review by Data Security Officer	8/2/2016	12/31/2015	8/31/2016
Due Diligence	Conduct On-going Due Diligence	8/2/2016	12/31/2015	8/2/2016
Due Diligence	Promulgate Due Diligence Policy	8/2/2016	12/31/2015	8/31/2016

Status: **Pending**

Audit Project: **Software License Compliance (November 24, 2015)**

Issue:	Recommendation	Actual	Estimated	Revised
Software License Compliance Monitoring Guidelines Needed	Develop software licensing compliance guidelines.		6/30/2016	12/31/2016

L//.CERA

December 1, 2016

TO: Each Member
2016 Audit Committee Members

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

FOR: December 14, 2016 | Audit Committee Meeting

SUBJECT: **2016 PRIVACY AUDIT (BY ALSTON & BIRD) - FOLLOW-UP**

At the Board of Investments and Board of Retirement meetings on October 12 and 13, respectively, your Boards were presented with the results of the 2016 Privacy Audit performed by Alston & Bird and their subcontractor, Stroz Friedberg. The final audit report, findings and conclusions provided at these meetings concluded an almost year-long process and a concerted effort by LACERA staff and Alston & Bird to ensure that your Boards received a clear understanding of privacy practices at LACERA and relevant recommendations for further strengthening and enhancing those practices.

While Alston & Bird found that LACERA generally conforms to the applicable privacy laws, regulations, and best practices in the areas identified through the audit, they provided a number of recommendations and advice to enhance prudent privacy practices. All sixty-five (65) recommendations along with management responses were provided to both Boards in connection with the October Board meetings as privileged and confidential attorney-client communications, because the audit was conducted by counsel to evaluate legal issues and provide legal advice.

Due to the confidential nature of the report, Internal Audit will report to the Audit Committee separately from our standard recommendation follow-up reporting process. At future meetings, we will provide you with detailed updates on the status of recommendations in a confidential attorney-client communication. With each detailed update, we will also provide a high level public summary to track the general categories of recommendations as included in Alston & Bird's public presentation in October.

At this point in the process, we want to assure your Committee that staff has met to prioritize and plan an approach toward addressing the recommendations in a logical sequence. First and foremost, given the importance of LACERA's compliance obligations as they relate to the Health Insurance Portability and Accountability Act (HIPAA), the Legal Office has begun the process of ensuring that LACERA comply with Alston & Bird's recommendations made in that regard.

Other efforts by staff will be reflected in the possible addition of staff or services through the upcoming budget process that address some of the recommendations made by Alston & Bird. Information on these matters will be provided to the Boards in the Budget approval process and again, we will provide your Committee with more specific follow-up to the recommendations at the first Audit Committee meeting in 2017.

Staff will be available to address questions at your December Audit Committee meeting, but please remember that due to the privileged nature of the 2016 Privacy Audit Report, the specific recommendations should not be the subject of detailed discussion at the meeting.

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

For further information, contact:
LACERA
Attention: Public Records Act Requests
300 N. Lake Ave., Suite 620
Pasadena, CA 91101

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

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

2016 Audit Committee	Gregg Rademacher	Steven Rice	Bernie Buenaflor
Audit Committee Consultant	Robert Hill	Theodore King	Steven Hoang
Internal Audit Staff	John Popowich	Kevin Hawkins	

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

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

Date: March 24, 2016

Richard Bendall
Chief Audit Executive

REPORT DISTRIBUTION

2016 Audit Committee	Gregg Rademacher	James Pu
Audit Committee Consultant	Robert Hill	Mary Phillips
Internal Audit Staff	JJ Popowich	Bernie Buenaflor
	Steve Rice	Derwin Brown

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 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

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

Date: **March 29, 2016**

Richard Bendall
Chief Audit Executive

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

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	Gregg Rademacher	Steve Rice
Rick Wentzel	Robert Hill	Kim Hines
Internal Audit Staff	JJ Popowich	James Pu

MINOR SURVIVOR ELIGIBILTY 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 ELIGIBILTY AUDIT

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.

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

NOTED AND CONCUR:

____ Date: June 29, 2016_____

RICHARD BENDALL
Chief Audit Executive

REPORT DISTRIBUTION

2016 LACERA Audit Committee
Gregg Rademacher
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LACERA INTERNAL AUDIT DIVISION

Education and Travel Policy Compliance Audit

September 20, 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 compliance with the Education and Travel Policy (Policy). The Policy provides guidance and procedures for reimbursement of allowable expenses, and applies to the Board of Investments and Board of Retirement (Boards) and designated staff members. Education and travel expenses include, but are not limited to, attendance at industry conferences and various educational seminars, attendance at legislative meetings/hearings, and on-site due diligence visits to existing and potential service providers. For the fiscal year ended June 30, 2016, staff's education and travel expenses were $995,017 while the Boards' expenses were $279,337.

Board and staff may incur education and travel expenditures by using either a LACERA issued corporate card or paying the expenses directly and submitting an expense voucher for reimbursement. Both methods require the individual to submit receipts for charges to the Financial Accounting Services Division ("FASD") which administers LACERA's payment process. FASD reviews the receipts for accuracy and completeness, and compliance with the Policy. FASD also, prepares monthly and quarterly Travel Reports to ensure the Boards and management are aware of the travel anticipated, completed, and cancelled during the fiscal year.

Adherence to the Education and Travel Policy, as well as strong internal controls is essential to reduce the risk of paying unauthorized or inappropriate travel and education expenses. If Board Members, staff, management, or FASD do not comply with established policies and procedures, LACERA's funds could be imprudently spent or improperly recorded.

The objectives of this audit were to assess if:

1. LACERA's Education and Travel Policy, procedures, and process design are adequate,
2. LACERA's reimbursement process is efficient and effective,
3. Board and staff travel are in compliance with LACERA's Education and Travel Policy,
4. Board and staff travel expenses are valid and supported by the required documentation.

Our audit concluded the Education and Travel Policy and related processes are generally effective. However, we identified the following areas where management could further strengthen controls:

1. Ensure travel expenses are adequately documented and reviewed before accepted for payment,
2. Update the Education and Travel Policy to require written justification of meal reimbursement when pre-paid meals are provided, and
3. Provide regular reinforcement of the guidance and procedures contained in the Education and Travel Policy.

Internal Audit would like to thank FASD management and staff, and the Legal and Executive offices for their cooperation and assistance in facilitating this audit.

EDUCATION AND TRAVEL COMPLIANCE AUDIT

BACKGROUND

The Board of Retirement and the Board of Investments (Boards), and designated staff have a fiduciary duty to obtain education about public pension administration and investments, to monitor the administration and investments of the Trust, and to advocate positions that protect and further the interests of the Trust. To facilitate the Boards and staff in executing this fiduciary duty, and to ensure LACERA’s funds are used in a manner consistent with LACERA’s overall mission, an Education and Travel Policy (“Policy”) was created. The Policy provides guidance and procedures for reimbursement of allowable expenses. Education and travel expenses include, but are not limited to, attendance at industry conferences and various educational and training seminars, attendance at legislative meetings/hearings, and on-site due diligence visits to existing and potential service providers.

The Travel Committee consists of four members from each Board, with LACERA’s Chief Counsel as the responsible staff member for the Committee. The Committee meets twice a year to review the most recent Quarterly Travel Reports, to discuss issues that may have arisen, and propose updates to the Policy. The Board of Retirement and Board of Investments approved the most current version of the Policy on April 6, 2016 and April 13, 2016, respectively. The Boards approved the prior version in June 2015.

An individual can pay education and travel costs directly, and then request reimbursement by submitting a Reimbursement Expense Voucher (“Expense Voucher”). Individuals are required to submit an expense voucher within 90 days of completing the education and travel, or 30 days after the fiscal year-end, whichever comes first. Division managers review and approve their staff’s expense vouchers, while Board Secretaries review and the Chief Executive Officer (“CEO”) approves Board Member's expense vouchers.

Individuals can also pay for education and travel expense with a LACERA issued corporate credit card (“corporate card”). Each division manager receives a corporate card to pay for business related expenses for their division. Board Secretaries are also, issued corporate cards so they can coordinate and pay Board Members’ travel and education expenses. FASD requires corporate cardholders to provide receipts for purchases, and managers to approve card purchases, on a monthly basis and follows-up on any discrepancies or missing documentation.

FASD is responsible for reviewing the monthly corporate card receipts and expense vouchers relating to education and travel to ensure the expenditures are consistent with the Policy. FASD reviews the receipts provided to ensure date, times, and amounts are consistent with the corresponding conference agenda. Staff also reviews the mathematical accuracy of the mileage calculation, ensures the per diem is calculated based on the correct General Services Administration (“GSA”) rate and Meal & Incidental Breakdown, and allocates expenses that are shared between individuals (e.g., a shared meal, shared taxi ride) to the appropriate divisions. If FASD has questions about an expense, they will contact either the Board Secretaries or staff for additional information.

FASD prepares a monthly Travel Report for Board and staff travel. The cumulative Monthly Travel Report lists the attendee, travel purpose/location, event dates and travel status (i.e., completed, anticipated, or canceled travel). FASD also, prepares a Quarterly Travel Report for Board and staff travel. The cumulative Quarterly Travel Report details similar information as the monthly report except it includes the costs for each completed and/or cancelled travel. Board Members and management receive Monthly and Quarterly Reports to keep them informed of LACERA's education and travel expenditures. Additionally, the Board Secretaries maintain a "Board Member Education Priority" list to ensure all Board Members have equitable access to conferences, seminars, and meetings where attendance is limited.

AUDIT OBJECTIVE(S)

The objectives of this audit were to assess if:

1. LACERA's Education and Travel Policy, procedures, and process design are adequate,
2. LACERA's reimbursement process for education and travel is efficient and effective,
3. Board and staff travel are in compliance with LACERA's Education and Travel Policy,
4. Board and staff travel expenses are valid and supported by the required documentation.

AUDIT SCOPE

The scope of this audit included Board and staff education and travel expenditures from July 2015 – March 2016. Internal Audit selected events during this period, and tested the related expense voucher and corporate card payments for compliance with the Education and Travel Policy.

AUDIT METHODOLOGY

Audit work included, but was not limited to:

1. Reviewing the current and previous Education and Travel Policies.

2. Interviewing staff on the Travel Committee, FASD, and Board Secretaries.

3. Testing a selected sample of Board and staff's education and/or travel expenses from July 2015 – March 2016, to verify that travel was properly approved, expenditures were consistent with the Policy, and management and FASD thoroughly reviewed expense reimbursements and corporate card expenses.

    a) **Board's Education and Travel:** During the period reviewed, LACERA recorded Board expenditures of $190,950.57 for 77 business trips. Internal Audit tested approximately 10% of the 77 business trips. The sum of the seven business trips selected was $52,150, 27% of the total expenditures.

    b) **Staff's Education and Travel:** During the period reviewed, LACERA recorded staff expenditures of $504,921.95 for 245 business trips for staff. Internal Audit tested approximately 10% of staffs' business trips. The sum of the 24 business trips was $112,666, 22% of the total expenditures.

4. Reviewing all cancelled business travel for both Board and staff, from July 2015 – March 2016, to verify the individuals, Board Secretaries, and FASD handled the cancellations consistent with the Policy. This test work also included verifying if the individual notified LACERA about the cancellation as soon as possible and the cancellation was for a valid business reason.

AUDIT RESULTS

Internal Audit found the controls related to the Education and Travel Policy are generally effective, provide reasonable assurance risks are being managed, and objectives are being met.

Internal Audit noted the following best practices in use:

- The Travel Committee reviews the Education and Travel Policy annually or as needed, and the Policy is maintained on the LACERA intranet, allowing staff easy access to the Policy and any updates.
- FASD staff verifies receipts support travel and education expenses.
- FASD staff verifies that per diem amounts requested correspond with the appropriate GSA geographical rates and Meal & Incidental breakdown, and the travel agenda.
- FASD staff reconciles the monthly corporate card statements for each cardholder against actual receipts provided.
- Cancelled business trips were documented in the Travel Reports. Individuals who needed to cancel business travel appeared to provide as much notice as they could, and provided valid reasons.

We identified opportunities to strengthen the existing Education and Travel Policy, procedure, and/or process in the following areas:

1. <u>Ensure travel expenses are adequately documented and reviewed before being accepted for payment</u>

As part of our audit work, we tested a sample of 31-expense voucher packages.

We noted two instances where travel expenses were not adequately documented or reviewed in accordance with the Policy:

- According to the Education and Travel Policy "Travel the day prior to and/or the day after a conference will be reimbursed if reasonably necessary because of time constraints...Written justification for travel expenses incurred prior to or after a conference shall be submitted with the claim for reimbursement." Based on audit work, we identified one expense voucher package where a traveler's post-conference costs were inadequately documented. Although prior verbal approval was obtained for an additional lodging night due to the distance between the airport and the hotel location, the traveler did not document the approval in the expense voucher as the Policy requires. Although FASD documented its inquiry about the additional lodging costs, the resolution was not documented in the expense voucher package. Due to the lack of clarity and documentation of the approval, two subsequent nights of hotel fees were charged to the corporate card instead of the one additional night that had been approved. Subsequent to the audit, the traveler reimbursed LACERA for the second additional night of hotel fees.

- According to the Education and Travel Policy, "Reimbursement is limited to a standard class single room rate." Our audit work disclosed that in November 2015, a traveler incurred fees for an upgraded hotel room, which did not comply with the Policy. We noted the traveler did not provide an explanation for the exception in the submitted expense voucher package. Although FASD staff may have inquired about the additional costs, the inquiry and resolution was not documented in the expense voucher package. Subsequent to the audit, management reviewed the incident with the traveler, who voluntarily agreed to reimburse LACERA for the cost associated with the room upgrade.

RECOMMENDATION 1:
FASD should review documentation submitted with travel expense vouchers to ensure the proper and completed written documentation, as required by the Policy, is submitted. FASD should reject travel expenses that are not in compliance with the Policy, unless documented approval and justification is provided from an appropriate level of management.

Management Response:
Agree. Within 30 days, FASD management will re-emphasize to FASD staff the importance of ensuring all travel expense voucher packages are reviewed, including confirming required documentation is properly submitted and the documentation has the supporting details and justification, as necessary. Staff will also emphasize to all travelers that it is each individual's responsibility to comply with the Education and Travel Policy. If an exception to the Policy is permitted, FASD will ensure that written explanations and approvals are included in the expense voucher package. In addition, FASD discussed with the affected individual to challenge the hotel directly about discrepancies between the confirmed hotel room rate versus the actual room rate charged.

2. Update the Education and Travel Policy to require written justification of meal reimbursement if a pre-paid meal was available

Based on our audit work, we observed inconsistencies between the Policy and actual practice for meal reimbursements. The Policy states, "LACERA will not reimburse the traveler for a meal which has been pre-paid for by LACERA, whether or not the traveler consumed the meal, except where the traveler could not consume the pre-paid meal because: 1) The traveler has special dietary or medical concerns, or 2) It was reasonably necessary for the traveler to conduct LACERA business while the pre-paid meal was being served." Based on the Policy, meal reimbursements, when meals are provided at conferences, should be the exception, not the standard. However, of the 31-expense voucher packages included in our audit work, we noted four incidents where travelers requested a full day per diem for meals although conference brochures clearly indicated that the meals were provided.

For these instances, the travelers did not document on their expense voucher the reason that they could not consume the conference provided meals. Since there was no documentation of the justification for the exception, neither FASD nor Internal Audit could determine if the requests for reimbursement complied with the Policy. To ensure that meal expenses comply with the Policy, LACERA should require travelers to provide an explanation for meal reimbursement when a pre-paid meal is provided during the conference or travel. Additionally, during training and/or discussions, this topic should be reviewed and discussed to ensure Board Members and staff understand the Policy.

RECOMMENDATION 2:
The Travel Committee should consider updating the Policy to require travelers to document justification for meal reimbursements when meals are provided during conferences or travel.

Management Response:
Agree. At the next Travel Policy Committee meeting (estimated to be in the Fourth Quarter 2016), staff will request the Committee to consider the following additional clarifying language be added immediately after the Policy verbiage stated above: "If reimbursement is requested under either the Per Diem Method or the Actual Receipt Method for a meal pre-paid by LACERA, written justification under the above two exceptions will be provided with the reimbursement request." Thereafter, FASD will ensure that proper written documentation for meal reimbursement requests is included in the expense voucher. Staff will also emphasize to all travelers that it is each individual's responsibility to comply with the Education and Travel Policy.

3. Provide regular reinforcement about the Education and Travel Policy

Based on our audit work, we noted FASD regularly provides training to Administrative Assistants on the process for submitting corporate card receipts and expense reimbursements within the Policy framework. Also, as exceptions to the Policy are noted, FASD reinforces the Policy requirements to travelers or the Administrative Assistant on a one-on-one basis. However, Board and staff, who regularly travel on LACERA business, do not receive training on the Education and Travel Policy. By providing training and/or discussions, LACERA will ensure travelers are aware of the Education and Travel Policy, its restrictions, required processes, and updates on the Policy and current issues. Additionally the training and/or discussions will give FASD and management an opportunity to remind frequent travelers they are responsible for complying with the Education and Travel policy. A significant factor in the effectiveness and adherence to any policy is that adequate training and reinforcement is provided to effected individuals. It may also, create a forum for individuals to express their concerns or suggestions to improve the Policy or its processes.

RECOMMENDATION 3:
FASD and managers should provide regular reinforcement of the Education and Travel Policy and its processes, to Board Members and staff who regularly travel on behalf of LACERA.

Management Response:
Agree. FASD already provides training on the Education and Travel Policy and its processes at the Annual Secretaries' Meeting. In addition, commencing in 2017, the Policy will be discussed annually by FASD and the Legal Division at a MAC meeting and in the Supervisors Fellowship to reinforce policies and procedures with managers and supervisors and to discuss additional staff training that could be provided. Management believes that in person training for Board Members is unnecessary in that: (a) the Boards approve the Education and Travel Policy and are aware of its terms; (b) the Travel Policy Committee meets approximately twice a year to discuss the Policy and related issues; and (c) the Board Secretaries (who are well-versed in the Policy) assist Board members in submitting reimbursement requests. However, within 60 days, Chief Counsel will provide a reminder memo to Board Members as to the importance of reviewing and following the Policy and highlighting key provisions of the Policy.

AUDIT REVIEW

NOTED AND APPROVED

Richard Bendall
Chief Audit Executive

Date: *September 20, 2016*

REPORT DISTRIBUTION

2016 Audit Committee	Gregg Rademacher	Steve Rice
Rick Wentzel	Robert Hill	Beulah Auten
Internal Audit Staff	JJ Popowich	Ted Granger

LACERA INTERNAL AUDIT DIVISION

LOS ANGELES COUNTY REHIRED RETIREES AUDIT

November 2, 2016

AUDIT PERFORMED BY:

Nathan Amick
Internal Auditor

EXECUTIVE SUMMARY

The State of California's County Employees Retirement Law (CERL) has long provided that if Los Angeles County believes a retiree possesses special skills or knowledge, the County has the option to employ retirees. Under Government Code Section 31680.3, rehired retirees may work up to and not exceed 960 hours per fiscal year, on a strictly temporary basis, without affecting their retirement status or benefits. In addition, IRS regulations require a "bona fide" break in service after retirement before being rehired. To comply with the IRS regulation, LACERA's Board of Retirement adopted a resolution in 2006 stating that a member under the "normal retirement age", as defined in the body of this report, may not return to temporary County service within 90 days of his or her retirement date.

The California Public Employees' Pension Reform Act of 2013 ("PEPRA") added new restrictions to the employment of retirees. The new PEPRA regulations reinforced the 960 hour limit, and notwithstanding the 90-day break in service requirement, added a 180-day continuous break in service after their retirement date before being rehired.

Furthermore, PEPRA indicates that the County may rehire retired employees, within the constraints mentioned above, either 1) during an emergency to prevent stoppage of public business, or 2) because the retired person has skills needed to perform work of limited duration. The specific PEPRA section addressing post-retirement work is Government Code Section 7522.56. Details of and allowable exceptions to this provision can be found in the body of this report.

Failure to adhere to the PEPRA regulations and LACERA requirements not only violates the state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law. Loss of LACERA's qualified status would create significant adverse tax consequences for all active and retired employees. It is, therefore, critical that the 960-hour limit and break in service requirements be strictly adhered to.

Our audit was limited to testing only the County's compliance with the rehired retirees' 960-hour limit and break in service requirements. We did not review the County's or its departments' compliance with having adequate justification for rehiring the retirees.

In a prior audit, for fiscal year ended 2012, we noted that five percent of the then current working retirees had exceeded the 960 hour limit policy. As a result of the audit, the County's Chief Executive Office (CEO) developed and distributed an action plan requiring County departments to monitor the rehiring of retirees and ensure adherence to policy limits. For fiscal years ended 2014 and 2015, the noncompliance rate with the 960 hour limit policy remained marginally equal at 2.8 percent and 2.7 percent, respectively.

For fiscal year ending June 30, 2016, noncompliance with the 960 hours increased from the previous year's rates to 3.8 percent. This included an increase in "total overage hours" from 127.6 in 2015 to 597 total overage hours in 2016. In addition, the "average hours over" almost tripled from 10.6 hours in 2015 to 31.4 hours in 2016. *(See Table on next page.)*

Fiscal Year Ending June 30	Rehired Retirees	Noncompliant Rehired Retirees	Noncompliant Rehired Retirees as a Percentage	Total Overage Hours	Average Hours Over
2014	426	12	2.8%	353.8	29.5
2015	441	12	2.7%	127.6	10.6
2016	502	19	3.8%	597.0	31.4

For fiscal year 2015, there were no instances where a rehired retiree returned to work without complying with the required break in employment as required by both the IRS and PEPRA regulations. However, in fiscal year ending June 30, 2016, we identified three individuals, who as public safety officers were exempt from the PEPRA 180-day break in service requirement, but were non-compliant with the 90-day break in service requirement. All three individuals were under the normal retirement age and worked for the same department, retired on the same day, and returned to work after a 17-day break in service.

LACERA's Internal Audit Division provided the County CEO's Benefits and Compensation Policy (BCOMP) section with the specific policy violations identified in our audit. BCOMP staff informed affected departments of audit findings. The CEO's office issued a memo to those same departments re-enforcing adherence to policies and regulations. To avoid further non-compliance CEO’s office is working directly with the designated departmental staff to fully comply with establish rules and regulations.

BCOMP Management also indicated that in 2015 they worked with the County's eHR Change Management Team to create standardized reports that allow Human Resources staff throughout the County to generate on demand monitoring reports of rehired retirees. The County CEO's Office issued a memo to all Administrative Deputies in July 2016 advising them of the availability of the report, instructions on how to generate the report, and their responsibility for monitoring their rehired retiree hours on a monthly basis. In addition, the BCOMP Manager and staff presented the memo and step by step report retrieval instructions at the August 2016 Departmental Human Resource Manager meeting. County Counsel presented at that meeting the legal aspects and ramifications of not complying with the hours worked regulations. BCOMP now has the ability to regularly monitor the reports at a countywide level and contacts departments who have employees close to the hours works limit so appropriate proactive action can be taken to avoid non-compliance issues.

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INTRODUCTION

The State of California's County Employees Retirement Law (CERL) has long provided that if Los Angeles County believes a retiree possesses special skills or knowledge, the County has the option to employ retirees. Under Government Code Section 31680.3, rehired retirees may work up to and not exceed 960 hours per fiscal year, on a strictly temporary basis, without affecting their retirement status or benefits. In addition, IRS regulations require a "bona fide" break in service after retirement before being rehired. To comply with the IRS regulation, LACERA's Board of Retirement adopted a resolution in 2006 stating that a member under the "normal retirement age", as defined in the "Objectives" section below, may not return to temporary County service within 90 days of his or her retirement date.

The California Public Employees' Pension Reform Act of 2013 ("PEPRA") added new restrictions to the employment of retirees. The new PEPRA regulations reinforced the 960 hours limit, and notwithstanding LACERA's 90-day break in service requirement, added a 180-day continuous break in service after their retirement date before being rehired. Furthermore, PEPRA indicates that the County may rehire retired employees, within the constraints mentioned above, either 1) during an emergency to prevent stoppage of public business, or 2) because the retired person has skills needed to perform work of limited duration. The specific PEPRA section addressing post-retirement work is Government Code Section 7522.56. The details of and allowable exceptions to this provision can be found in the "Objectives" section of this report.

Our audit was limited to testing only the County's compliance with the rehired retirees' 960-hour work limit and break in service requirements. We did not review the County's compliance with having adequate justification for rehiring the retirees.

BACKGROUND

On November 19, 2009, LACERA's Internal Audit Division issued an audit memo covering a review of retirees rehired by the County during the prior two fiscal years ended June 30, 2009. The audit report noted that, of the 746 rehired retirees reviewed, 114 retirees (fifteen percent) had exceeded the 960 hours policy and tax regulatory limit. As a result of the report, an action plan was developed by the County requiring county managers to monitor the rehiring of retirees and ensure adherence to policy limits.

On December 2, 2009, a letter from the County's Chief Executive Officer, addressed to all County departments, reaffirmed the County's policy regarding the rehiring of retirees, the maximum permissible hours, and the need to strengthen internal monitoring controls.

In subsequent reviews performed by LACERA's Internal Audit Division, 960 hours policy violations by the County had declined to less than two percent in fiscal year 2010 and were eliminated in the 2011 review. However, the 2012 review noted the violations had returned, at a rate of five percent (20 violations). Again in 2013, another memo was written by County CEO emphasizing the importance of required compliance by all County departments.

For fiscal years ended 2014 and 2015, the non-compliance rate with the 960 hours limit policy remained marginally equal at 2.8% (12 violations) and 2.7 % (12 violations), respectively. Additionally, there was only one instance where a rehired retiree returned to work without complying with the required break in employment policy as outlined PEPRA.

AUDIT PROCESS

Objectives

The objectives of this review were:

1. To determine all rehired retirees were employed for no more than 960 hours in fiscal year ending June 30, 2016, as required by PEPRA.
2. For all retirees who were newly rehired during fiscal year ending June 30, 2016, determine compliance with LACERA's requirement that all retirees under the "*normal retirement age*" perform a 90-day break in service prior to their re-employment by the County.
   - Normal retirement age for LACERA members, as determine LACERA's Board of Retirement, is as follows:
     - Age 57 for general members of Plan A, B, C, D, or G
     - Age 65 for general members of Plan E
     - Age 55 for safety members
3. Notwithstanding the 90-day break in service requirement noted above, for all retirees who were newly rehired during fiscal year ending June 30, 2016, determine compliance with PEPRA regulations requiring all retirees to perform a continuous 180-day break in service prior to their re-employment by the County.
   - PEPRA allows two possible exceptions to the 180-day requirement.
     - PEPRA Exception (1) - The hiring department can certify it is necessary to fill a critically-needed position and the hiring has been approved by the Board of Supervisors in a public meeting. The appointment may not be placed on a consent calendar; or
     - PEPRA Exception (2) - The retiree is a public safety officer or firefighter and is returning to perform public safety officer or firefighter duties.

Scope

LACERA's Internal Audit Division reviewed all (100%) of LACERA member retirees who were rehired by the County or were employed by the County during the fiscal year ending June 30, 2016 based on the compliance objectives above.

> **Note:** We did not verify whether the County departments had documentation to justify that the department rehired the retired employee 1) during an emergency to prevent stoppage of public business, or 2) because the retired person has skills needed to perform work of limited duration.

Methodology

In October 2016, we received a rehired retiree payroll report from the LA County Auditor Controller's Office. This payroll report detailed hours worked for all rehired retirees for the fiscal year ending June 30, 2016. This payroll report detailed hours by both payroll period and by days. We analyzed and assessed the payroll report to identify those that exceeded the 960 hour limit, as required by PEPRA.

In October 2016, we received, from LACERA's Systems Division, the retirement dates for all rehired retirees noted in the payroll report. Next we isolated all rehired retirees who retired no more than 180 days prior to the beginning of the 2016 fiscal year (July 1, 2015), and documented their return to work dates, per the payroll report. For these same individuals, we then documented their age at retirement date, and retirement plan type (A, B, C, D, E, G or Safety), per LACERA's retiree records system. Lastly, we calculated their break in service to identify those who violated the PEPRA required 180-day break in service and or the 90-day break in service.

Audit Observations

Using the rehired retiree payroll report from the LA County Auditor Controller's Office we identified 502 rehired retired members who had received “099-Regular Earnings” during the fiscal year ending June 30, 2016, an increase of 61 rehired retired members from the previous year's 441. We analyzed 100% of the records for possible 960 hour violations and identified the following;

- Of the 502 (100%) rehired retirees working in fiscal year ending June 30, 2016, we identified 19 (3.8%) rehired retirees who exceeded the 960 hour limit.
  - Twelve (63%) of the 19 exceeded the 960 hour limit by 24 hours or less, for an average of approximately 9.5 hours per individual.
  - Seven (37%) of the 19 exceeded the 960 hour limit in a range from 48 to 137 hours, for an average of approximately 69 hours per individual.
- The 19 exceptions took place in the following nine different county departments:
  - Child Services (2)
  - Internal Services
  - Mental Health (2)
  - Parks and Recreations
  - Probation Department
  - Public Health
  - Public Safety (2)
  - Sheriff (8)
  - Social Services

Using the rehired retiree payroll report from the LA County Auditor Controller's office in conjunction with LACERA's retiree records system; we identified all (103) rehired retirees who retired no more than 180 days prior to the beginning of the 2016 fiscal year (July 1, 2015), and analyzed 100% of the records to ensure these rehired retirees met the necessary break in employment before being rehired, as required by both PEPRA (180 days) and LACERA regulations (90 days).

We noted no instances where the PEPRA 180-day break in service requirement was violated. However, we did identify three individuals, who as public safety officers were exempt from the PEPRA 180-day break in service requirement, but violated the 90-day break in service requirement. In all three violations, the employee was:

- Employed by the District Attorney's Office
- Retired on March 31, 2016
- Returned to work on April 18, 2016
- Only had a 17 day break in service

CONCLUSION

For the fiscal year ending June 30, 2016, noncompliance with the 960 hours increased, from the previous year's rates, to 3.8 percent. This included an increase in "total overage hours" from 127.6 in 2015 to 597 total overage hours in 2016. In addition, the "average hours over" almost tripled from 10.6 hours in 2015 to 31.4 hours in 2016. *(See Table on next page.)*

Fiscal Year Ending June 30	Rehired Retirees	Noncompliant Rehired Retirees	Noncompliant Rehired Retirees as a Percentage	Total Overage Hours	Average Hours Over
2014	426	12	2.8%	353.8	29.5
2015	441	12	2.7%	127.6	10.6
2016	502	19	3.8%	597.0	31.4

For fiscal years 2016, we noted no instances where the PEPRA 180-day break in service requirement was violated, but we did identify three individuals who violated the 90-day break in service requirement by returning to work after a 17-day break in service.

Failure to adhere to the PEPRA regulations and LACERA requirements not only violates the state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law. It is, therefore, imperative that the County have controls in place and continuously work to mitigate all instance of noncompliance. LACERA's Internal Audit Division provided the County CEO's Benefits and Compensation Policy (BCOMP) section with the policy violations identified in this audit.

Los Angeles County Management Response

The County CEO's Benefits and Compensation Policy (BCOMP) Management informed affected departments of audit findings. The CEO's office issued a memo to those same departments re-enforcing adherence to policies and regulations. To avoid further non-compliance CEO's office is working directly with the designated departmental staff to fully comply with establish rules and regulations.

BCOMP Management also indicated that in 2015 they worked with the County's eHR Change Management Team to create standardized reports that allow Human Resources staff throughout the County to generate on demand monitoring reports of rehired retirees. The County CEO's Office issued a memo to all Administrative Deputies in July 2016 advising them of the availability of the report, instructions on how to generate the report, and their responsibility for monitoring their rehired retiree hours on a monthly basis. In addition, the BCOMP Manager and staff presented the memo and step by step report retrieval instructions at the August 2016 Departmental Human Resource Manager meeting. County Counsel presented at that meeting the legal aspects and ramifications of not complying with the hours worked regulations. BCOMP now has the ability to regularly monitor the reports at a countywide level and contacts departments who have employees close to the hours works limit so appropriate proactive action can be taken to avoid non-compliance issues.

NOTED AND CONCUR:

______________________________ **Date:** November 2, 2016

RICHARD BENDALL
Chief Audit Executive

REPORT DISTRIBUTION

Sachi A. Hamai
Los Angeles County Chief Executive Officer

Maryanne T. Keehn
Senior Manager - CEO Benefits and Compensation Policy

2016 LACERA Audit Committee
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Robert Hill
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Fern Billingy

Pensionable Cap Compliance

November 3, 2016

AUDIT PERFORMED BY:

Nathan Amick
Internal Auditor

EXECUTIVE SUMMARY

We have completed our Pensionable Cap Compliance Audit that covers the 2015 calendar year. This audit is a component of our "PEPRA Employer Compliance Testing" project included in our fiscal year 2016-2017 audit plan. The PEPRA Employer Compliance Testing project is comprised of several audits designed to verify LACERA's and/or the plan sponsors' compliance with various legislative items introduced in the California Public Employees' Pension Reform Act of 2013 ("PEPRA") which took effect January 1, 2013.

This particular audit focused on LACERA's compliance with Government Code Section 7522.10, which put a specified compensation cap (or "PEPRA limit") on the pensionable salary that can be used when calculating: 1) a member's pension benefit, and 2) the annual pension contributions collected from both the employee and employer to fund the pension benefit. Only members hired on or after January 1, 2013 are subject to the PEPRA limit.

The PEPRA limit is calculated annually by the California Actuarial Advisory Panel and for 2015 equaled $140,424. LACERA communicates the annual PEPRA limit to the plan sponsors each year so that the plan sponsors can program the limit into its payroll system. This ensures that both *employee* and *employer* contributions are capped for covered "PEPRA" members whose annual earnings exceed the PEPRA limit. LACERA's Systems Division must also program the PEPRA limit into Workspace (LACERA's member application and database) each year to ensure that the pensionable salary component used to calculate retirement benefits for PEPRA members is capped at the PEPRA limit.

Our audit objectives were to verify that:

1. The plan sponsors correctly applied the 2015 PEPRA limit into their payroll system to cap *employer* and *employee* contributions.
2. PEPRA members did not pay *employee* contributions in excess of the capped contribution amount for calendar year 2015.
3. LACERA System's Division correctly applied the 2015 PEPRA limit to Workspace and has good controls for applying the annual PEPRA limit to Workspace.

Based on our review, we did not note any instances of non-compliance. Specifically, the plan sponsors correctly applied the 2015 PEPRA limit into their payroll system. Additionally, of the 12,533 PEPRA members who had regular earnings in 2015, there were 162 (1.3%) members that earned annual salaries in excess of the PEPRA limit. We verified that all 162 members did not pay employee contributions in excess of the calendar year limit. Also, LACERA's Systems Division correctly applied the 2015 PEPRA limit to Workspace and has good controls for applying the annual limit. Additional details of our audit can be found in the attached report. We would like thank the Benefits and Systems Divisions Management and Staff for their assistance with this audit.

PENSIONABLE CAP COMPLIANCE

INTRODUCTION

We have completed our Pensionable Cap Compliance Audit that covers the 2015 calendar year period. This audit is a component of the "PEPRA Employer Compliance Testing" project included in our fiscal year 2016-2017 audit plan. The PEPRA Employer Compliance Testing project is comprised of audits designed to verify LACERA's and/or the plan sponsors' compliance with various legislative items introduced in the California Public Employees' Pension Reform Act of 2013 ("PEPRA") which took effect on January 1, 2013. Plan sponsors which have active plan participants who are subject to PEPRA are Los Angeles County, Los Angeles County Superior Court, and the Local Agency Formation Commission of Los Angeles County (LAFCO).

This particular audit focused on LACERA's compliance with Government Code Section 7522.10, which put a specified annual compensation limit (or "PEPRA limit") on the earnings that can be used when calculating a member's *pension benefit* and *annual contributions*. The risks of non-compliance with this provision include overpaid benefits, overpaid contributions from the member and/or plan sponsor, cost of correcting member accounts, and the potential for negative publicity.

LACERA members hired on or after January 1, 2013 are subject to the PEPRA limit. For the purpose of this report, we refer to members hired on or after January 1, 2013 as PEPRA members and those hired before January 1, 2013 as pre-PEPRA members.

BACKGROUND

The PEPRA limit impacts only PEPRA members whose pensionable salaries exceed the PEPRA limit. Per Government Code Section 7522.10, the limit is calculated using the *"contribution and benefit base specified in Section 430(b) of Title 42 of the United States Code"*. The limit is also adjusted each year based on the Consumer Price Index. Since the calculation is somewhat complex, LACERA and other California public retirement systems rely on the California Actuarial Advisory Panel ("Panel") to perform the annual calculations. The Panel's annual PEPRA limit calculations since 2014 were:

- 2014 - $138,077
- 2015 - $140,424
- 2016 - $140,424

As mentioned, the PEPRA limit impacts PEPRA members in two ways. First, it caps the member's pension benefit by requiring that the pensionable salary component of their retirement benefit calculation be limited to the annual PEPRA limit. Secondly, it caps the annual contributions that both the *employee* and *employer* pay to fund the pension benefit. Employee and employer annual contributions are calculated by multiplying the employee's pensionable salary by the employee and employer contribution rates. However, for members who earn higher salaries than the PEPRA limit, their contributions are capped once the pensionable salary hits the PEPRA limit.

To ensure that the PEPRA limits are administered, LACERA's Systems Division programs the annual limits into Workspace (LACERA's retirement application and database) each year. This is done to ensure that the final compensation component used to calculate retirement benefits is limited to the annual PEPRA limit.

Additionally, LACERA communicates the Panel's PEPRA limit calculation to the plan sponsors at the beginning of each calendar year so that the plan sponsors can ensure that it accurately calculates and collects employee and employer contributions through its payroll system for those PEPRA members who are impacted. Los Angeles County's Auditor-Controller administers the payroll system for both Los Angeles County and Los Angeles County Superior Court employees. The LAFCO has its own payroll system. LACERA only has one active PEPRA member from LAFCO in its membership.

AUDIT OBJECTIVES

We verified that:

1. LACERA correctly applied the 2015 PEPRA limit to Workspace and has good controls for applying the annual PEPRA limit to Workspace.

2. Los Angeles County Auditor-Controller correctly applied the 2015 PEPRA limit to their payroll system, which impacts Los Angeles County and Los Angeles County Superior Courts.

   Note: Since LACERA has only one LAFCO-PEPRA member who currently does not meet the PEPRA limit, we did not verify whether LAFCO applied the PEPRA limit in its payroll system.

3. We verified that PEPRA members did not pay employee contributions in excess of the capped contribution amount for calendar year 2015.

AUDIT SCOPE

We reviewed:

- PEPRA member payroll records for calendar year 2015
- LACERA's Workspace application
- The Systems Division process and procedures for applying the PEPRA limit to Workspace
- Communications from LACERA to the County's Auditor-Controller notifying the plan sponsor of the annual PEPRA limit calculation

AUDIT METHODOLOGY

We interviewed LACERA's Systems Division staff and the County Auditor-Controller's Countywide Payroll staff to understand the process for applying the limits.

To test employee contributions, Internal Audit obtained and reviewed a report of all PEPRA members who had regular earnings in 2015, which equaled 12,533 members. The report included the members' total earnings, pensionable salary, and *employee* contributions for calendar year 2015. We verified that the plan sponsors applied the PEPRA limit to the pensionable salary used to calculate employee contributions for all PEPRA employees that had annual salaries in excess of the limit, which equaled 162 members. For each of the 162 members, we also verified that actual employee contributions paid did not exceed the capped contribution amount for calendar year 2015.

To test the PEPRA limit for calculating *employer* contributions, we reviewed paystubs of ten PEPRA members whose 2015 annual earnings exceeded the PEPRA limit and verified that pensionable salaries the plan sponsors used to calculate employer contributions did not exceed the PEPRA limit of $140,424.

We observed Workspace to determine whether the annual PEPRA limit was applied correctly.

AUDIT RESULTS

Based on our review, we did not note any instances of non-compliance. Specifically, we found that LACERA and the plan sponsors correctly applied the 2015 PEPRA limit to the Workspace application and payroll system, respectively. Additionally, we verified that all PEPRA members that earned annual salaries in excess of the PEPRA limit did not pay employee contributions in excess of the calendar year limit. We would like thank the Benefits and Systems Divisions Management and Staff for their assistance with this audit.

NOTED AND CONCUR:

____ Date: November 3, 2016

RICHARD BENDALL
Chief Audit Executive

REPORT DISTRIBUTION
2016 LACERA Audit Committee

Gregg Rademacher	Steven Rice	Bernie Buenaflor
Robert Hill	Fern Billingy	Mary Philips
JJ Popowich	James Pu	

December 1, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

FOR**:** December 14, 2016| Audit Committee Meeting

SUBJECT**:** **AUDIT REPORT QUESTIONS**

At the April 2016 and July 2016 meetings, the Audit Committee did not have a chance to discuss staff's audit reports. The Committee requested that staff include in the December 14, 2016 meeting package all reports that the Committee has not had a chance to discuss since the April 2016 meeting. The reports have been included in Section V of the Agenda. Additionally, some Committee members have provided questions to staff on these reports prior to the December 2016 meeting.

Based on discussions with the Committee in previous meetings, staff will use the following protocol for documenting and addressing the questions asked by the Committee:

- All questions asked by Committee members prior to the Committee meeting will be included in the attachment to this memo.
- Each audit report will be agendized and Committee members may ask questions and/or take action on each report.

Staff will be prepared to answer these questions and any additional questions that your Committee has during the December 2016 meeting.

Please also note that the protocol for handling Committee questions on audit reports is up for further discussion at the December 2016 meeting and can be discussed during agenda item, *III.A. Revisions to Audit Committee Charter*.

A. IRS Section 415b Adjustments Audit

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

1. [Pg #2, ¶ 3] "To address this conflict [– between IRS Section 415b limits and no previous, retirement benefits limitations –], 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."

   Q: Did this conflict exist only in plans created under the CERL umbrella? Or were there other counties within the State and outside the State that had the conflict?

2. [Pg #2, ¶ 6] "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."

   Q: There is no special flag or group coding that identifies this population. This sounds very manual.

3. [Pg #4, ¶ 2, 2nd bullet] "To address this conflict [– between IRS Section 415b limits and no previous, retirement benefits limitations –], Congress amended Section 415 to allow:
   - "....
   - "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.]"

   Q: See the ES which stated the amendment was applicable to all county plans created under CERL, not just LA County's plan.

   Q: When did Congress amend this section?

4. [Pg #4, ¶ 3] "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."

   Q: And what happened before that?

   Q: Why November, 2010, and not earlier?

5. [Pg #4, ¶ 4] "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."

Q: Why have you not disclosed the $ figures here?

6. [Pg #4, ¶ 5] "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."

Q: Is the County able to consider the deductions LACERA makes in its payment, with the County payment? Perhaps related to taxes withheld or something like that? Or for each entity, it really is like two payments from two separate firms?

7. [Pg #4, ¶ 7] "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."

Q: You don't disclose the $ thresholds nor the population and I wonder why?

8. [Pg #5, "Audit Scope", 1st bullet] "The most recent full (January thru December) calendar year period and thru the present; …."

Q: Not the report issuance date though, but the end of fieldwork date?

9. [Pg #5, "Audit Methodology", 3rd bullet] "Calculated the annualized benefit payments to be made in 2015 for the 60,670 recipients on the listing."

Q: Why did you need to calculate a figure for all 60,670? Couldn't you have just extracted all those payments with an annualized calc of a round figure close to the number, like $225,000, and looked at those?

Q: I believe I might have provided comments on this report previously as this methodology sections seems very familiar. My question then – and I repeat – is why staff just didn't pull an extract of records that was closer to the threshold amount. Why calculate the annualized benefit payments for the 60,670 recipients on the listing when the program does not impact them?

10. [Pg #5, "Audit Methodology", 4th bullet] "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."

Q: I was surprised to see that you didn't add the LACERA 1099 figure to the COUNTY 1099 figure for each of the 1099s to ensure the total for each of the 34 was what you thought it would be.

11. [Pg #5, "Audit Scope", 3rd bullet] "All benefit payments made in the examination period, including any recoupments necessary;"

    Q: Related to overpayments? What about underpayments?

12. [Pg #6, "Audit Results", 5th bullet] "LACERA's actuary, Milliman, provides needed information in a timely fashion; and LACERA provides Milliman and the County likewise."

    Q: I don't really understand their role, so I can't frame whether or not they should have that role.

13. [Pg #6, "Audit Results", 2nd bullet] "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."

    Q: Was consideration given to underpayments?

B. Member Data File Exception Processing

George Lunde, *Senior Internal Auditor*
(Report Issued: March 24, 2016)

Report Context *(Executive Summary p. 2, para. 1)* **–** *"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."*

Question #1 – [Enhancements] to what? A system or series of systems?

Report Context *(Executive Summary p. 2, para. 4)* **–** "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."

Question #2 – I don't understand this sentence.

Report Context *(Executive Summary p. 2, para. 5)* **–** "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."

Question #3 – Did you use the same software that you did in the vendor payment review?

Report Context *(Executive Summary p. 3, para. 1)* **–** "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."

Comment #1 – This statement isn't supported by what follows which is a disclosure that only 50(2%) transactions were reviewed.

Report Context *(Background p. 5, para. 1)* **–** "Since that review, the Systems Division has made extensive enhancements intended to minimize exception processing and facilitate documentation, when it does occur."

Question #4 – To what does "it" refer exacly?

Report Context *(Conclusion p. 7, para. 1)* **–** "We would like to thank Systems Division, Benefits Division, and Quality Assurance & Metrics Division staff for their cooperation and assistance in facilitating this assessment."

Question #5 – I am interested in understanding why you didn't use the ACL approach in this audit.

C. Duplicate Vendor Payments Audit

Gabriel Tafoya, *Senior Internal Auditor*
(Report Issued: March 29, 2016)

No Questions

D. Office Renovations Audit

Christina Logan, *Senior Internal Auditor*
(Report Issued: April 12, 2016)

Context - *(Audit Results, p. 8, Para 4)* – "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."

Comment #1 - The objective was to determine if staff properly selected and properly managed the vendors. This speaks to the latter, not the former.

Comment #2 - I get the documentation piece, but where is the discussion on the selection compliance? For example, if the procurement policy required 3 bids, did staff obtain the three bids?

Comment #3 - OK here is the paragraph regarding selection. From the reader's perspective, this should have been discussed prior to the management of vendors, b/c it was listed first in the objectives.

E. Minor Survivor Eligibility Audit

Nathan Amick, *Internal Auditor*
(Report Issued: June 29, 2016)

Context – *"Currently, LACERA provides a minor survivor continuance to minor survivors of all contributory members whether actively working ("active") or retired. "*

Question #1 - **How can I be an "active" County employee and at the same time have a child who is receiving payments because I am dead?**

Context – *"All eligible minor survivors requesting a minor survivor continuance must submit a LACERA Claim Form."*

Question #2 - **Only once upon request of the benefit? Or on an ongoing, annual basis?**

Context –"*Eligible minor survivors, under age 18, requesting a minor survivor continuance must first obtain a legal guardian and submit legal guardianship documents."*

Question #3 - **Isn't the issue of guardianship determined by the Probate Court, depending on whether or not the parent/parents left a will or advanced directive? And in all instances the Probate Court would appoint a legal guardian, no? So how do you end up with eligible minor survivors who don't' have a legal guardian?**

Context – *"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"*

Question #4 - **So, if one of the 64 first became eligible in October 2014, this test confirmed the child was eligible for payment at that time, but the test did not confirm eligibility for any subsequent payments, correct? Why is that?**

Context – "*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"*

Question #5 - **Why the "if so"? I am not understanding the finding applied to the population.**

Context – *"Based on test work performed, all 64 (100%) minor survivor payees were confirmed as eligible. "*

Question #6 - **For the payments remitted in January 2016, or for payments remitted when first enrolled?**

F. Education & Travel Policy Compliance Audit

Christina Logan, *Senior Internal Auditor*
(Report Issued: September 20, 2016)

Context – (Audit Methodology, p.5, Para 4) – "Reviewing the current and previous Education and Travel Policies."

Comment #1 - Why previous versions?

G. Los Angeles County Rehired Retirees Audit

Nathan Amick, *Internal Auditor*
(Report Issued: November 2, 2016)

Context – "*The State of California's County Employees Retirement Law (CERL) has long provided that if Los Angeles County believes a retiree possesses special skills or knowledge, the County has the option to employ retirees.*"

Question #1 -The statute is not specific to Los Angeles County, correct?

Context – "*Loss of LACERA's qualified status would create significant adverse tax consequences for all active and retired employees. It is, therefore, critical that the 960-hour limit and break in service requirements be strictly adhered to.*"

Question #2 - The report goes on to document a trend, really, of non-compliance but there is no statement regarding whether or not this jeopardized the qualified tax status under federal law. Why is that?

H. **Pensionable Cap Compliance**
Nathan Amick, *Internal Auditor*
(Report Issued: November 3, 2016)

Context – *"PEPRA members did not pay employee contributions in excess of the capped contribution amount for calendar year 2015."*

Question #1 - These members are Plan G members only, correct? Is there any reason you did not note Plan G in the report?

Context – "We would like thank the Benefits and Systems Divisions Management and Staff for their assistance with this audit.

Question #2 - No thank you to Auditor-Controller staff?

Context – "*Since the calculation is somewhat complex, LACERA and other California public retirement systems rely on the California Actuarial Advisory Panel ("Panel") to perform the annual calculations."*

Question #3 - I assume the Government Code allows LACERA to rely on this Panel's calculation, but you don't specifically say that? I think it is important to include that reliance exists in statute.

Context – "*LACERA correctly applied the 2015 PEPRA limit to Workspace and has good controls for applying the annual PEPRA limit to Workspace*"

Question #4 - I was looking for a bit more here. How many staff are authorized to update the system? Did you pull an extract of all authorized staff at a point in time and cross reference the list to the criteria Systems gave you (e.g., the authorization is limited to full time, permanent managers in the Systems Division only)? Were all staff authorized in the System supported by signed paper authorizations? Were employees who left the Agency still on the authorized list? Were contract employees on the authorized list? Did you run an audit trail on the data field itself to determine the frequency of changes in the field over the year and the staff who made them?

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

For further information, contact:
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