

# AGENDA

## A REGULAR MEETING OF THE BOARD OF RETIREMENT

### LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

9:00 A.M., THURSDAY, JANUARY 12, 2017

*The Board may take action on any item on the agenda,  
and agenda items may be taken out of order.*

- I. CALL TO ORDER
- II. PLEDGE OF ALLEGIANCE
- III. APPROVAL OF MINUTES
  - A. Approval of the Minutes of the Regular Meeting of December 15, 2016
- IV. REPORT ON CLOSED SESSION ITEMS
- V. OTHER COMMUNICATIONS
  - A. For Information
    1. November 2016 All Stars
    2. Chief Executive Officer's Report  
(Memo dated January 3, 2017)
- VI. PUBLIC COMMENT
- VII. NON-CONSENT AGENDA
  - A. Recommendation as submitted by Les Robbins, Chair, Insurance, Benefits and Legislative Committee: That the Board select Segal Consulting to provide the Retiree Healthcare Benefits Program Consulting Services for the five (5) year period beginning July 1, 2017 and ending June 30, 2022. (Memo dated December 27, 2016) (Supplemental Legal Memo dated December 28, 2016)

VII. NON-CONSENT AGENDA (Continued)

- B. Recommendation as submitted by Joseph Kelly, Chair, Audit Committee: That the Board adopt the Audit Committee Charter (*Revised December 28, 2016*). (Memo dated December 29, 2016)
- C. Recommendation as submitted by Joseph Kelly, Chair, Audit Committee: That, if the revised Audit Committee Charter is adopted, the Board act to: 1) Adopt amendments to the Los Angeles County Salary Ordinance, County Code, Section 6.127.040, on LACERA's MAPP Program, to permit implementation of the Audit Committee Charter provisions relating to personnel matters concerning the Chief Audit Executive; and 2) Direct staff to submit the Salary Ordinance amendments to the Board of Supervisors for adoption. (Memo dated December 27, 2016)

VIII. REPORT ON STAFF ACTION ITEMS

IX. GOOD OF THE ORDER

(For information purposes only)

X. EXECUTIVE SESSION

- A. Conference with Legal Counsel - Anticipated Litigation  
Significant Exposure to Litigation (Pursuant to Paragraph (2) of Subdivision (d) of California Government Code Section 54956.9)

- 1. Administrative Appeal of Joseph Ruggiero
- 2. Administrative Appeal of Magda Schafler
- 3. Administrative Appeal of Donnell Willis

- B. Conference with Legal Counsel - Existing Litigation  
(Pursuant to Paragraph (1) of Subdivision (d) of California Government Code Section 54956.9)

- 1. Sarah Marks v. LACERA  
Los Angeles Superior Court Case No. BC 598957

XI. ADJOURNMENT

*Documents subject to public disclosure that relate to an agenda item for an open session of the Board of Retirement that are distributed to members of the Board of Retirement 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 Board of Retirement Members at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101, during normal business hours of 9:00 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, from 8:30 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 REGULAR MEETING OF THE BOARD OF RETIREMENT  
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

9:00 A.M., THURSDAY, DECEMBER 15, 2016

PRESENT: Shawn R. Kehoe, Chair  
Vivian H. Gray, Vice Chair  
William de la Garza, Secretary  
Marvin Adams  
Anthony Bravo  
Yves Chery  
David L. Muir (Alternate Retired)  
Joseph Kelly (Left at 10:40 a.m.)  
Keith Knox (Alternate) (Arrived at 9:14 a.m. and left at 10:40 a.m.)  
Ronald A. Okum  
William Pryor (Alternate Member)  
Les Robbins

STAFF ADVISORS AND PARTICIPANTS

Gregg Rademacher, Chief Executive Officer  
John Popowich, Assistant Executive Officer  
Robert Hill, Assistant Executive Officer  
Steven P. Rice, Chief Counsel

STAFF ADVISORS AND PARTICIPANTS (Continued)

Michael Herrera, Senior Staff Counsel  
Legal Division

Bernie Buenaflor, Division Manager  
Benefits Division

Cassandra Smith, Director  
Retiree Healthcare Division

James Pu, Chief Information Officer

John Nogales, Director of Human Resources

Draza Mrvichin, LACERA's Contracted Negotiator

Dan Weber, Aon Consultant

I. CALL TO ORDER

The meeting was called to order by Chair Kehoe at 9:01 a.m., in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Mr. Adams led the Board Members and staff in reciting the Pledge of Allegiance.

III. REPORT ON CLOSED SESSION ITEMS

No items were reported.

#### IV. OTHER COMMUNICATIONS

##### A. For Information

##### 1. Awards

Mr. Rademacher presented Kathy Quan and Tina Young with a service award recognizing each of them for their 25 years of county service.

In addition, Mr. Rademacher recognized Stephanie (Nga) Van, Maria Soriano, Albert Robles, Persian Petron, Stephanie Kawai, Laura Fuentes, Silvano Cruz, Soledad Cortez, and Gladys Asuncion with an award for graduating the Core Benefits Trainee class.

##### 2. October 2016 All Stars

Mr. Hill announced the eight winners for the month of October: Alvina Heard, Kathy Quan, Natalie Ng, Tina Young, Koreana Wong, Van Bonifacio, Julia Ray, and Cynthia Martinez for the Employee Recognition Program and Christina Tung for the Webwatcher Program. Bernard Edwards, Mariela Mariscal, Dana Brooks, and Robert Santos were the winners of LACERA's RideShare Program.

##### 3. Chief Executive Officer's Report (Memo dated December 6, 2016) (Mr. Knox arrived at 9:14 a.m.)

Mr. Rademacher provided a brief overview of his Chief Executive Officer's Report with a quick update on what transpired at the previous Board of Investments meeting.

(Board of Investments minutes are available to view on LACERA's Website

[www.lacera.com](http://www.lacera.com).)

Mr. Rademacher recognized and thanked the Communication and Financial and

#### IV. OTHER COMMUNICATIONS

##### A. For Information

##### 3. Chief Executive Officer's Report (Continued)

Accounting Services Divisions for the work in putting together LACERA's Fiscal Year 2015-2016 Comprehensive Annual Financial Report.

Furthermore, Mr. Rademacher announced the new Secure Message Center, which allows members to interact with Retirement Benefit Specialists electronically in a secure environment.

In addition, Mr. Rademacher shared that SACRS pulled two legislative items for vote from the agenda at the November 2016 SACRS Business Meeting. SACRS may or may not pursue those items in the future.

Mr. Rademacher announced that the Consumer Price Index went down .4% to 2% for November. This equals the maximum available for eligible members in Plans B, C, D, and E.

Lastly, Mr. Rademacher shared that Mr. Okum has been placed on the December 20, 2016 Board of Supervisors agenda for appointment to the Board of Investments.

#### V. PUBLIC COMMENT

There were no requests from the public to speak.

VI. NON-CONSENT AGENDA

- A. Recommendation as submitted by Les Robbins, Chair, Insurance, Benefits and Legislative Committee: That the Board approve Life Secure as LACERA's Long Term Care insurance program carrier pursuant to the Board of Retirement's authority under and in compliance with Article 8.8 Long-Term Care Group Insurance of the County Employees Retirement Law of 1937, Cal. Gov't Code §§ 31696.1-31696.5.  
(Memo dated November 18, 2016)

Ms. Smith was present and answered questions from the Board.

Ms. Gray made a motion, Mr. Okum seconded, to approve staff's recommendation. The motion passed unanimously.

- B. Recommendation as submitted by Bernie Buenaflor, Division Manager, Benefits Division: That the Board 1) Determine that Terri L. McDonald is not incapacitated for the duties assigned to her in the position of Chief Probation Officer (UC); and 2) Grant the application of Terri L. McDonald for reinstatement to active membership. (Memo dated November 22, 2016)

Mr. Buenaflor was present to answer questions from the Board.

Chair Kehoe made a motion, Mr. Chery seconded, to approve staff's recommendation. The motion passed unanimously.

- C. Recommendation as submitted by Steven P. Rice, Chief Counsel: That the Board of Retirement adopt the proposed restated Code of Ethical Conduct.  
(Memo dated December 5, 2016)

Mr. Rice was present and answered questions from the Board.

Mr. de la Garza made a motion, Mr. Kelly seconded, to approve staff's recommendation. The motion passed unanimously.



VI. NON-CONSENT AGENDA (Continued)

- D. Recommendation as submitted by Robert Hill, Assistant Executive Officer; John Nogales, Director of Human Resources; and James Pu, Chief Information Officer: That the Board approve the following:

Mr. Pu made a presentation and Messrs. Hill, Nogales and Weber were present to answer questions.

1. Approve the following new information technology classifications:
  - Chief Technology Officer, LACERA, LS15
  - Chief Information Security Officer, LACERA, LS14
  - Information Technology Manager I, LACERA, LS11
  - Information Technology Manager II, LACERA, LS12
  - Information Technology Specialist I, LACERA, 114A
  - Information Technology Specialist II, LACERA, 119C
  
2. Approve revising the following information technology classifications to adjust salaries to market levels:
  - Information Systems Manager, LACERA, from LS13 to LS17
  - Assistant Information Systems Manager, LACERA, from LS11 to LS12
  
3. Direct staff to submit to the Board of Supervisors the required ordinance language to implement the new and revised information technology classifications by amending the Los Angeles County Salary Code Sections 6.28.050 and 6.127.010, allowable by the County Employees Retirement Law of 1937 Section 31522.1.

(Memo dated December 5, 2016)

Chair Kehoe made a motion, Mr. Muir seconded, to approve staff's recommendation. The motion passed with Mr. Kelly voting no and Mr. Chery abstaining.

VI. NON-CONSENT AGENDA (Continued)

- E. Recommendation as submitted by Gregg Rademacher, Chief Executive Officer: That the Board review the 2017 meeting calendar and reschedule meeting dates as needed. (Memo dated December 6, 2016)

This item was postponed till the January 4, 2017  
Board of Retirement Meeting.

VII. REPORT ON STAFF ACTION ITEMS

There was nothing to report on for staff action items.

VIII. GOOD OF THE ORDER

(For information purposes only)

The Board recognized and thanked Mr. Robbins for his dedicated service and time spent on the Board of Retirement and Board of Investments during his nine terms.

In addition, Mr. Rademacher recognized Mr. Pryor for his dedicated services and congratulated him on another term on the Board of Retirement. Furthermore, Mr. Rademacher recognized Mr. Kehoe for his dedicated service and contribution to the Board of Investments and Board of Retirement and congratulated him on another term.

IX. EXECUTIVE SESSION (Mr. Knox and Mr. Kelly left the meeting at 10:40 a.m.)

- A. Conference with Legal Counsel - Existing Litigation  
(Pursuant to Paragraph (1) of Subdivision (d) of California Government Code Section 54956.9)

- 1. Maureen McCollough-Hill v. LACERA, etc.  
Los Angeles Superior Court Case No. BS 159408

The Board met in Executive Session pursuant to Paragraph (1) of Subdivision (d) of Government Code Section 54956.9; and it was reported that the Board voted

December 15, 2016

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IX. EXECUTIVE SESSION (Continued)

unanimously to comply with the Writ of Mandate issued by the Superior Court and authorize payment of costs of \$1,053.56 and attorney fees in the amount of \$27,351.

B. Conference with Labor Negotiators  
(Government Code Section 54957.6)

1. Agency designated representatives:  
John Popowich, Assistant Executive Officer  
John Nogales, Director, Human Resources  
Draza Mrvichin, LACERA's Contracted Negotiator  
Employee Organization: SEIU Local 721

The Board met in Executive Session pursuant to Government Code Section 54957.6 and there was nothing to report.

X. ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 11:43 a.m. in honor of Mr. Les Robbin's service to the Board.

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WILLIAM DE LA GARZA, SECRETARY

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SHAWN R. KEHOE, CHAIR



January 3, 2017

TO: Each Member  
Board of Retirement  
Board of Investments

FROM: Gregg Rademacher   
Chief Executive Officer

SUBJECT: **CHIEF EXECUTIVE OFFICER'S REPORT**

I am pleased to present the Chief Executive Officer's Report that highlights a few of the operational activities that have taken place during the past month, key business metrics to monitor how well we are meeting our performance objectives, and an educational calendar.

### **March Madness**

We refer to the period beginning in December through the end of March as "March Madness" because retirements tend to spike during this period as members desire to retire in time to be eligible for any April 1<sup>ST</sup> cost-of-living adjustment (COLA) that may be approved. As we have in years past, we are continuing our commitment to share the annual March Madness statistics in the Chief Executive Officer's report. There are two key statistics we track during this time of year.

*How well are we keeping up with our member's requests to retire?* The chart below shows the total number of pending retirement elections. All incoming retirement requests are triaged by staff to facilitate processing those retirements with immediate retirement dates and those which will require special handling (i.e. legal splits and those with uncompleted service credit purchases).

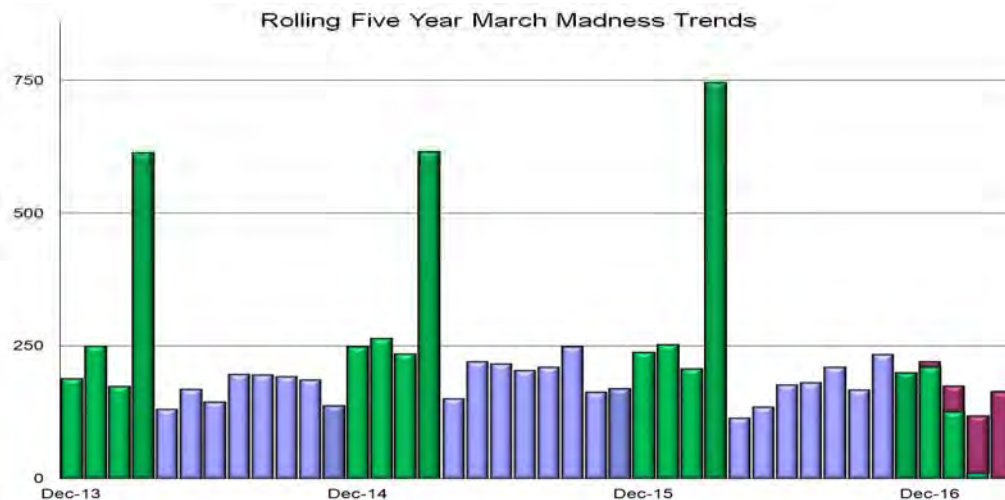
<b>Retirement Month</b>	<b>Retirement Elections</b>
December 2016	<b>10</b>
January 2017	<b>48</b>
February 2017	<b>108</b>
March 2017	<b>162</b>
Pending Disability Cases	<b>88</b>
<b>Total Pending</b>	<b>416</b>

The retirement elections not completed for December are pending for the following reasons: Receipt/Review of Receipt of Reciprocal Confirmation/Information (5 cases), and last minute retirement submissions (5 cases).

The Pending Disability Cases represents the number of approved disability cases being processed by the Benefits Division. Once a disability has been granted by the Board, the Benefits Division staff works with the member and their employer to select a disability effective date, determine the member's option election, and bring them on payroll. Of the 88 cases pending, 7 are actively being worked, 43 are pending review and action, and 38 cases have not been reviewed or processed. These cases are not assigned to a specific month in the "March Madness" period because the final effective date has not been determined. As with service retirements some cases have mitigating factors such as legal splits and uncompleted purchases which can also extend processing. We expect to successfully meet the retirement agenda deadlines for a majority of our March Madness retirees.

The second key statistic is the volume of retirements during the year, and especially during March Madness. This gives us an indication on the severity of the stress being placed on our capacity to meet our various member service requests and demands placed upon our staff.

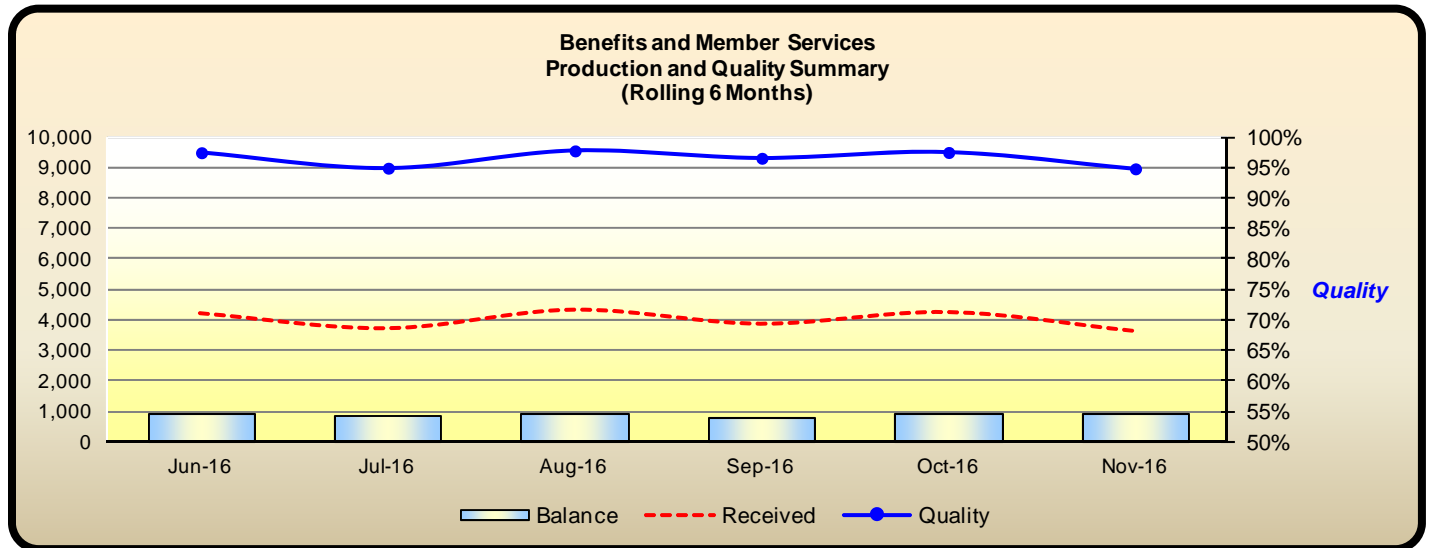
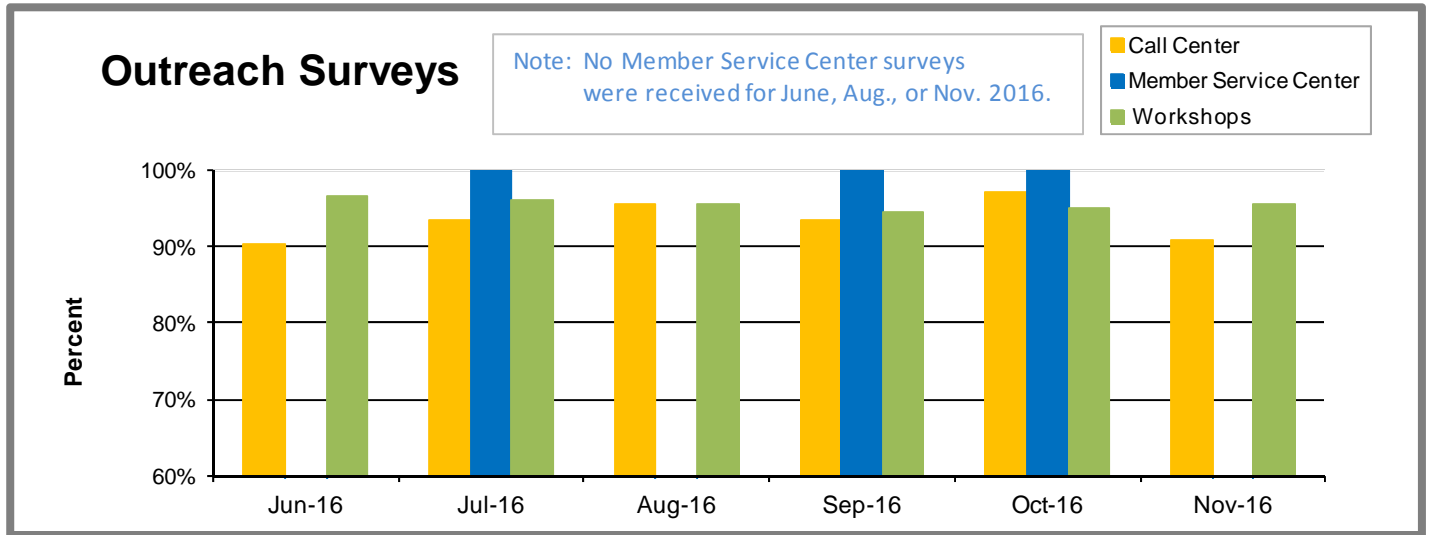
The green bars in the following chart reflect those members who have been approved to retire (i.e., their retirement elections have been approved and completed). The red bars reflect those cases that have not been processed as of the date of this report. As of January 3, 2017, we have processed 371 out of 699 retirements for the March Madness period so far. Comparing the total processed and pending per month we are running under the five year average for December (219 vs. average of 242). Putting this into perspective during last year's March Madness 1,439 members retired, which was higher than the rolling five year average of 1,171.



# LACERA's KEY BUSINESS METRICS

## OUTREACH EVENTS AND ATTENDANCE

Type	# of WORKSHOPS		# of MEMBERS	
	Monthly	YTD	Monthly	YTD
Benefit Information	11	92	283	3556
Mid Career	1	16	12	465
New Member	13	81	273	1,671
Pre-Retirement	7	41	148	959
General Information	0	5	0	381
Retiree Events	2	10	90	587
Member Service Center	Daily	Daily	1,084	6,006
<b>TOTALS</b>	<b>34</b>	<b>245</b>	<b>1,890</b>	<b>13,625</b>



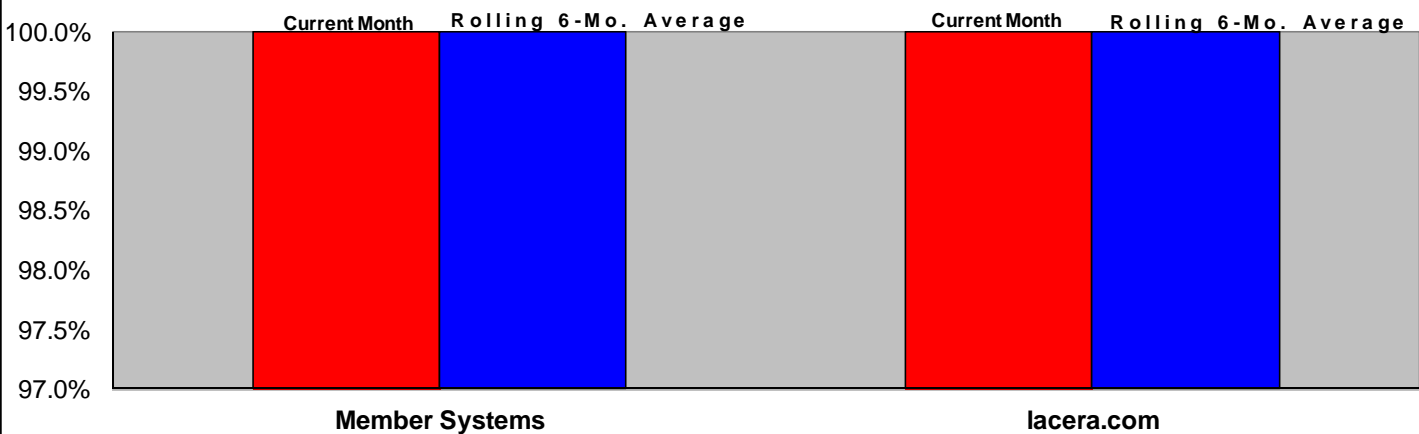
Member Services Contact Center			RHC Call Center	Top Calls
Overall Key Performance Indicator (KPI)	100.55%			
<b>Category</b>	<b>Goal</b>	<b>Rating</b>		
Call Center Monitoring Score	95%	96.73%	98%	<u>Member Services</u>
Grade of Service (80% in 60 seconds)	80%	78%	47%	1) Workshop Info/Appointments: Inquiries
Call Center Survey Score	90%	90.75%	xxxxx	2) Retirement Counseling: Estimate
Agent Utilization Rate	65%	65%	83%	3) Benefit Payments: Gen. Inquiry/Payday
Number of Calls	8,949		3,996	<u>Retiree Health Care</u>
Calls Answered	8,604		3,645	1) Medical Benefits - General Inquiries
Calls Abandoned	345		359	2) Turning Age 65/Part B Prem Reim.
Calls-Average Speed of Answer	0:00:54		02:46	3) Dental/Vision Benefits Gen. Inquiries
Number of Emails	301		225	
Emails-Average Response Time	06:54:0		1	Adjusted for weekends

## LACERA's KEY BUSINESS METRICS

Fiscal Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets-Market Value	\$40.9	\$38.7	\$30.5	\$33.4	\$39.5	\$41.2	\$43.7	\$51.1	\$51.4	\$50.9
Funding Ratio	93.8%	94.5%	88.9%	83.3%	80.6%	76.8%	75.0%	79.5%	83.3%	n/a
Investment Return	19.1%	-1.4%	-18.2%	11.8%	20.4%	0.3%	12.1%	16.8%	4.3%	1.1%

DISABILITY INVESTIGATIONS						
APPLICATIONS	TOTAL	YTD		APPEALS	TOTAL	YTD
On Hand	510	xxxxxxx		On Hand	134	xxxxxxx
Received	53	231		Received	3	13
Re-opened	0	0		Administratively Closed/Rule 32	2	11
To Board – Initial	43	176		Referee Recommendation	0	2
Closed	1	22		Revised/Reconsidered for Granting	2	6
<b>In Process</b>	<b>519</b>	<b>519</b>		<b>In Process</b>	<b>133</b>	<b>133</b>

### SYSTEMS AVAILABILITY - NOVEMBER 2016



Active Members as of 1/3/17		Retired Members/Survivors as of 1/3/17			Retired Members	
		Retirees	Survivors	Total		
General-Plan A	219	18,968	4,685	23,653	Monthly Payroll	252.38 Million
General-Plan B	85	684	64	748	Payroll YTD	1.2 Billion
General-Plan C	77	427	58	485	Monthly Added	268
General-Plan D	46,218	12,168	1,144	13,312	Seamless %	99.63
General-Plan E	20,358	11,315	954	12,269	YTD Added	1,277
General-Plan G	16,954	5	0	5	Seamless YTD %	99.69
<b>Total General</b>	<b>83,911</b>	<b>43,567</b>	<b>6,905</b>	<b>50,472</b>	Direct Deposit	95.00%
Safety-Plan A	10	5,756	1,584	7,340		
Safety-Plan B	11,174	4,462	236	4,698		
Safety-Plan C	1,538	1	0	1		
<b>Total Safety</b>	<b>12,722</b>	<b>10,219</b>	<b>1,820</b>	<b>12,039</b>		
<b>TOTAL ACTIVE</b>	<b>96,633</b>	<b>TOTAL RETIRED</b>	<b>53,786</b>	<b>8,725</b>	<b>62,511</b>	

Health Care Program (YTD Totals)		
	Employer Amount	Member Amount
Medical	187,511,446	16,310,631
Dental	16,857,472	1,784,248
Med Part B	21,828,291	xxxxxxxxxx
<b>Total Amount</b>	<b>\$226,197,209</b>	<b>\$18,094,879</b>

Health Care Program Enrollments	
Medical	47,864
Dental	48,926
Med Part B	31,526
Long Term Care (LTC)	736

Funding Metrics as of 6/30/16	
Employer Normal Cost	9.28%*
UAAL	8.49%*
Assumed Rate	7.50%*
Star Reserve	\$614 million
Total Assets	\$47.8 billion

Member Contributions as of 6/30/16	
Annual Additions	\$458.7 million
% of Payroll	6.18%*

Employer Contributions as of 6/30/16	
Annual Addition	\$1,443.1 million
% of Payroll	17.77%*

\*Effective July 1, 2016, as of 6/30/15 actuarial valuation.

Date	Conference
<b>February, 2017</b>	
January 31- February 2	2017 Upfront Summit Los Angeles, CA
3	CALAPRS (California Association of Public Retirement Systems) Round Table – Benefits Four Points by Sheraton San Jose Airport
3	CALAPRS (California Association of Public Retirement Systems) Round Table – Trustees Four Points by Sheraton San Jose Airport
22-24	Pacific Pension Institute (PPI) North American Winter Roundtable Seattle, WA
23-24	PREA (Pension Real Estate Association) Spring Conference New York, NY
27-28	National Institute on Retirement Security (NIRS) 2017 Policy Conference Washington D.C.
27-March 1	Council of Institutional Investors (CII) Spring Conference Washington D.C.
27-March 2	SuperReturn International Conference and Summit Berlin, Germany
<b>March, 2017</b>	
1-2	International Corporate Governance Network (ICGN) Washington D.C. Event Washington D.C.
2	The Public Retirement Journal Annual Southern California Public Retirement Seminar Lakewood, CA
4-7	CALAPRS (California Association of Public Retirement Systems) General Assembly Meeting Monterey, CA
8-9	AHIP (America’s Health Insurance Plans) National Health Policy Conference Washington D.C.
13-15	IFEBP (International Foundation of Employment Benefit Plans) Investments Institute Phoenix, AZ
29-31	CALAPRS (California Association of Public Retirement Systems) Advanced Principles of Pension Management for Trustees at UCLA Los Angeles, CA





December 27, 2016

TO: Each Member  
Board of Retirement

FROM: Insurance, Benefits & Legislative Committee  
Les Robins, Chair  
William de la Garza, Vice President  
Shawn Kehoe  
Vivian Grey  
Ronald Okum, Alternate

FOR: January 12, 2017 Board of Retirement meeting

SUBJECT: **RETIREE HEALTHCARE BENEFITS CONSULTING SERVICES  
CONTRACT FOR PERIOD OF JULY 1, 2017 THROUGH JUNE 30, 2022**

### **RECOMMENDATION**

The Board of Retirement select Segal Consulting to provide the Retiree Healthcare Benefits Program Consulting Services for the five (5) year period beginning July 1, 2017 and ending June 30, 2022.

### **EXECUTIVE SUMMARY**

On August 11, 2016, the Insurance, Benefits & Legislative Committee (IBLC) authorized staff to issue a Request for Proposal for Retiree Healthcare Consulting Services for the period of July 1, 2017 through June 30, 2022. Based on the committee's approval, staff sent direct notification of the RFP to five (5) consulting firms in addition to posting the RFP on LACERA's website. Staff received responses from six (6) firms.

Each responding firm was evaluated by the RFP Evaluation Committee Team comprised of five LACERA staff selected from Internal Audit, Legal and Retiree Healthcare Divisions resulting in staff's invitation to the two top finalist firms, Aon Consulting and Segal Consulting to present their proposal to the IBLC at the December 15, 2016 committee meeting.

While both firms were found to be very well qualified to provide Retiree Healthcare Benefit Program consulting services, the IBLC unanimously agreed to recommend the Board of Retirement select Segal Consulting.

The Board of Retirement has contractual obligations from 1982, 1994 and 2014 with the County of Los Angeles to administer the Retiree Healthcare program on behalf of the County of Los Angeles and hiring a consultant to assist the Board of Retirement is consistent with fulfilling the Board's duties under these contracts.

## **BACKGROUND**

The current Retiree Healthcare Benefits Consulting Services contract with AON Consulting is scheduled to expire effective June 30, 2017. As a result, at the August 11, 2016 IBLC meeting, the committee approved issuing an RFP seeking Retiree Healthcare Benefits Consulting Services for the next five (5) year period of July 1, 2017 through June 30, 2022. In response to the releasing of the RFP, the following six firms sent in responses by the given deadline:

- AON
- Buck (Xerox)
- Keenan
- Mercer
- Milliman
- Segal

## **EVALUATION PROCESS**

The RFP responses were thoroughly reviewed by the RFP Evaluation Committee Team comprised of five LACERA staff selected from Internal Audit, Legal and Retiree Healthcare Divisions who reviewed, discussed and scored the responding firm's proposals. The Evaluation Committee concluded with the consensus that two (2) firms differentiated themselves as finalists - Aon Hewitt (our current consultant) and Segal Consulting.

Both firms satisfied the mandatory requirements stated in the RFP by displaying the necessary relevant experience, technical skills, financial stability, and support staff to provide LACERA with advice and assistance in administering our Retiree Healthcare Benefits Program.

The following discussion highlights the background of the finalists:

### **Aon Consulting**

Aon highlighted its experience and knowledge regarding healthcare consulting including work with Congress, retiree healthcare exchanges, State governments, and local governments including the Los Angeles City, Los Angeles County, and the State of Nevada. They have partnerships with over 200 municipalities and 28 states. Aon also outlined its direct retiree healthcare experience by highlighting its relationship with approximately 100 employers providing benefits to over 1.6 million retirees.

### **Segal Consulting**

Segal founded in 1939, has been a leading independent firm of benefit, compensation and human resources consultants. Headquartered in New York and nearly having 1,000 employees throughout the U.S. and Canada with expertise in public sector employee benefits plan design, administration, compliance, and communications.

## **REFERENCES AND CARRIER INTERVIEWS**

Staff requested responding firms to provide current and former client references. We were able to contact some, but not all, firm provided client references.

Additionally, staff contacted LACERA's insurance carriers to gather input on their experiences with the finalist firms. The following summarizes the client reference efforts.

- Aon: Reference indicated Aon was “responsive, thorough, and proactive in their work.” It was further stated that Aon's team has an excellent knowledge base and the team will go above and beyond the assignment without being asked to do so. LACERA insurance carrier references were very positive.
- Segal: Reference indicated Segal "having extent knowledge, impressive history, with an outstanding and accommodating staff". Segal is physically present in all business meetings even when given a short notice advice, conference calls were used as a last resource. The firm renewed the contract with Segal as their service was proven excellent. LACERA insurance carriers commented that they were excellent partners with a wealth and depth of knowledge.

## **FEE COMPARISON**

Each firm presented their billing procedures for a Fixed-Fee Proposal, which details a breakdown of costs by each category of services shown in the Statement of Work of the RFP and a Monthly Retainer-Fee Proposal, which includes a total, detailed, all-inclusive maximum price for the five (5) year contract period. Our current practice utilizes a monthly retainer fee approach.

The following Fees are totals for all work proposed for the five (5) year term of the contract (July 1, 2017 – June 30, 2022). Detailed, fee breakdown for each firm are attached: Attachment I (Aon) and Attachment II (Segal).

	<b>Aon</b>	<b>Segal</b>
Fixed Fee Total Amount	\$4,557,513	\$3,732,000
Monthly Retainer Fee Total Amount	\$4,557,516	\$3,643,200

### **Aon Consulting**

Aon's Fixed Fee proposal total amount is \$4,557,513. Aon indicated they want to discuss the following: 1) collection of carrier money to fund the bi-annual Staying Healthy Together Program Workshops, and 2) bill additional hours for projects that are multiple scopes or out of the scope of items. Aon did not provide details of the multiple scopes, nor the fees associated with these items in their presentation.

Aon's proposal indicated their fees include out of pocket expenses, however, excludes \$40,000 in estimated expenses associated with the spring and fall Staying Healthy Together Program workshops.

Aon included print and fulfillment fees in their proposal. In addition, Aon provided a detailed breakdown of Communications fees. Their quarterly Communications Strategy includes four meetings per year.

### Segal Consulting

Segal's Fixed Fee proposal total amount is \$3,732,000.00. In their proposal, Segal indicated they do not bill separately for travel time or expenses, or for secretarial services.

Segal provided a breakdown of the Communications service and indicated print and fulfillment fees are quoted based on the quantities for materials described in the RFP Questions and Answers response. In addition, Segal provided consulting fee and production estimates for "ad hoc" communications deliverables, including videos and mobile benefits application, should LACERA be interested in pursuing. These fees are for reference only and not included in their annual fee schedule.

### **POTENTIAL CONFLICT OF INTEREST ANALYSIS**

Segal Consulting is currently providing actuarial audit services to the Board of Investments covering both the retirement benefit and OPEB benefit valuation processes through the June 30, 2016 valuation year. There is a concern that a firm providing both actuarial audit services and Retiree Healthcare Program consulting services could be placed into a position of auditing its own consulting advice. The Legal Office provides additional discussion on this matter in the attached memorandum.

### **CONCLUSION**

On December 15, 2016, staff presented the Retiree Healthcare Program consulting services RFP finalists to the Insurance Benefits and Legislative Committee for a forty-five (45) minute presentation; thirty (30) minutes for presentation and fifteen (15) minutes for questions and answers. Aon Hewitt presented first (1<sup>st</sup>), Segal Consulting was second (2<sup>nd</sup>).

While both firms were found to be very well qualified to provide Retiree Healthcare Benefit Program consulting services, the IBLC unanimously agreed to recommend the Board of Retirement select Segal Consulting.

**IT IS THEREFORE RECOMMENDEND THAT** the Board of Retirement select Segal Consulting to provide Retiree Healthcare Benefits Program consulting services for a five (5) year period beginning July 1, 2017 and ending June 30, 2022.

CScs

Attachments

Fee Proposals

Legal Memorandum

## Section 3 – Fee Proposal

*In this section, also provide your firm’s billing procedures.*

1. *A FIXED-FEE PROPOSAL, which details a breakdown of costs by each category of services shown in the Statement of Work of this RFP. Under this fee proposal, for work performed under an individual category, LACERA would pay no more than the total cost for all services in that category and would only pay for those services actually provided. For Communication services, LACERA will pay for postage costs incurred if mailed, as stated in Exhibit A Items E.1 and E.2 should be itemized separately for fee setting purposes.*

Segal’s fixed fee is all-inclusive for all of the services identified in this proposal – we do not bill separately for travel time or expenses, or for secretarial services. LACERA would only pay for the time and services actually performed by Segal, up to the maximum amount listed.

### Exhibit B – Fee Schedule

For services included in the Statement of Work, Consultant will be compensated according to this schedule.

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
<b>Service</b>					
Strategic Planning	\$40,000	\$41,000	\$42,000	\$43,000	\$44,000
Annual Program Evaluation	\$98,000	\$101,000	\$104,000	\$107,000	\$110,000
Annual Medicare Part B Premium Reimbursement Program Analysis and Report	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
Annual Renewal Process	\$40,000	\$41,000	\$42,000	\$43,000	\$44,000
Audits – Anthem/CIGNA (E1)	\$87,000	\$90,000	\$93,000	\$96,000	\$99,000
Audits – Program Development (E2)	\$22,000	N/A	N/A	N/A	N/A
Ongoing Program Administration and Maintenance	\$62,000	\$64,000	\$66,000	\$68,000	\$70,000
Communications	\$280,000	\$280,000	\$280,000	\$280,000	\$280,000
Training and Education	\$40,000	\$41,000	\$42,000	\$43,000	\$44,000
Special Projects	\$63,000	\$65,000	\$67,000	\$69,000	\$71,000
<b>Total</b>	<b>\$738,000</b>	<b>\$729,000</b>	<b>\$742,000</b>	<b>\$755,000</b>	<b>\$768,000</b>

2. *A MONTHLY RETAINER-FEE PROPOSAL, which includes a total, detailed, all-inclusive maximum price for the five year contract period. The total all-inclusive maximum price to be bid must contain all direct and indirect costs, including all out-of-pocket expenses, with the following components identified:*

- *a total detailed, comprehensive fee proposal by year for all services listed in – Exhibit A Section IV of the RFP*

The monthly retainer fees associated with all the requested services in the RFP (Section IV – Exhibit A) are as follows:

- 7/1/2017-6/30/2018 - \$60,000/month
- 7/1/2018-6/30/2019 - \$60,000/month
- 7/1/2019-6/30/2020 - \$60,000/month
- 7/1/2020-6/30/2021 - \$61,800/month
- 7/1/2021-6/30/2022 - \$61,800/month

- *a detailed hourly professional fee rate schedule by classification of staff to be assigned, including areas of specialization to support the maximum all-inclusive maximum price*

Segal’s individual billing rates are proprietary information and may not be released publicly.

**Year 1 Billing Rates:**

<b>Staff</b>	<b>Rate</b>
Vice President or Senior Vice President	\$450/hr
Consultant or Senior Consultant	\$375/hr
Analyst or Senior Analyst	\$300/hr

*Note: Billing Rates increase 3% per year.*

- *a breakdown of your fee quote for each type of service listed in – Exhibit A Section IV, and specifically, a detailed breakdown of Part G of the Statement of Work— Communications*

A breakdown of our fee quote for each type of service listed in – Exhibit A Section IV, are detailed See table on previous page (Section 2, Question #1) for overall breakdown.

**Communications (Part G of Statement of Work) Breakdown:**

Communications consulting fees are based on LACERA’s current scope of work, as described in the RFP and its Questions and Answers.

Print and fulfillment fees are quoted based on the quantities for materials described in the RFP Questions and Answers response. We have included a detailed breakdown of our production assumptions below. The print and fulfillment estimate is included in each year of our annual fixed fee schedule. Segal continuously works with our production vendors to secure the best

possible pricing for print and fulfillment services, which may result in lower costs. However, we also recognize that the cost for raw materials needed for print production may fluctuate over the course of this five-year contract. As such, we reserve the right to provide an updated production estimate once actual specifications are known during each year of the contract.

In addition, we have provided consulting fee and production estimates for “ad hoc” communications deliverables, including videos and a static mobile benefits application, should LACERA be interested in pursuing these new communications. These estimates are for reference—they are not included in our annual fee schedule.

<b>Years 1 to 5 Communications Consulting Fees and Print/Fulfillment Expenses</b>		
<b>Service</b>	<b>Description</b>	<b>Per Year Fees</b>
Communications Consulting	Develop communications strategy and implementation plan Consulting, designing, writing, revising, developing the materials as outlined in Section G of the Statement of Work Coordinate printing, fulfillment and distribution of the work described in Section G of the Statement of Work Manage semi-annual health fairs	<b>\$175,000</b>
Production	Printing, fulfillment (not postage)	<b>\$105,000</b>
<b>ANNUAL TOTAL</b>		<b>\$280,000 (\$23,333 per month)</b>
<b>CONTRACT TOTAL</b>		<b>\$1,400,000</b>

**Our proposed fees reflect:**

- Communications project management, which includes coordination with LACERA’s communications team and vendors, preparation of the project plan, regular status calls as required and day-to-day project oversight.
- Development and delivery of an original draft and up to three revisions (the second revision is final copy) of all requested materials.



# Fee Proposal

*In this section, also provide your firm's billing procedures.*

1. *A FIXED-FEE PROPOSAL, which details a breakdown of costs by each category of services shown in the Statement of Work of this RFP. Under this fee proposal, for work performed under an individual category, LACERA would pay no more than the total cost for all services in that category and would only pay for those services actually provided. For Communication services, LACERA will pay for postage costs incurred if mailed, as stated in Exhibit A Items E.1 and E.2 should be itemized separately for fee setting purposes.*

Aon's fixed fee proposal for the requested services is detailed below. As Aon is the incumbent, the billing processes and procedures remain unchanged. However we would like to discuss the following two items with LACERA

- 1) The collection of carrier dollars to fund the Healthy Living Workshops due to changes in the accounting rules
- 2) Allocation of fees for projects that may encompass multiple scope items or out of scope items. Aon proposes to bill no more than the fixed retainer each month but may allocate funds across scope items.

Aon Annual Retiree Healthcare Benefits Program Consulting Services Fees for LACERA						
	7/1/17 – 6/30/18	7/1/18 – 6/30/19	7/1/19 – 6/30/20	7/1/20 – 6/30/21	7/1/21 – 6/30/22	Total
A. Strategic Planning	\$25,000	Provided in years 1, 3, & 5	\$25,000	Provided in years 1, 3, & 5	\$25,000	<b>\$75,000</b>
B. Annual Program Evaluation	\$25,000	\$25,000	\$25,000	\$25,500	\$26,010	<b>\$126,510</b>
C. Annual Medicare Part B Premium Reimbursement Program	\$10,000	\$10,000	\$10,000	\$10,200	\$10,500	<b>\$50,700</b>
D. Annual Renewal Process	\$125,000	\$125,000	\$125,000	\$127,500	\$130,050	<b>\$632,550</b>
E1. Claims Audits	\$77,000	\$77,000	\$77,000	\$78,540	\$80,111	<b>\$389,651</b>
E2. Operational Audit	\$15,000	Provided in year 1				<b>\$15,000</b>
F. Ongoing Program Administration and Maintenance	\$225,000	\$225,000	\$225,000	\$229,500	\$234,090	<b>\$1,138,590</b>
G1. Communications	\$290,000	\$294,100	\$298,282	\$304,248	\$310,333	<b>\$1,496,962</b>
G2. Communications Strategy	\$25,000	\$25,000	\$25,000	\$25,500	\$26,010	<b>\$126,510</b>
H. Training and Education	Included in ongoing program and maintenance fee					<b>\$ -</b>
I. Special Projects	\$100,000	\$100,000	\$100,000	\$102,000	\$104,040	<b>\$506,040</b>
<b>Consulting Fees</b>	<b>\$917,000</b>	<b>\$881,100</b>	<b>\$910,282</b>	<b>\$902,988</b>	<b>\$946,143</b>	<b>\$4,557,513</b>

2. *A MONTHLY RETAINER-FEE PROPOSAL, which includes a total, detailed, all-inclusive maximum price for the five year contract period. The total all-inclusive maximum price to be bid must contain all direct and indirect costs, including all out-of-pocket expenses, with the following components identified:*

- *a total, detailed, comprehensive fee proposal by year for all services listed in - Exhibit A Section IV of the RFP*

Aon Monthly Retiree Healthcare Benefits Program Consulting Services Fees for LACERA (Rounded)						
	7/1/17 – 6/30/18	7/1/18 – 6/30/19	7/1/19 – 6/30/20	7/1/20 – 6/30/21	7/1/21 – 6/30/22	Total
A. Strategic Planning	\$2,083	Provided in years 1, 3, & 5	\$2,083	Provided in years 1, 3, & 5	\$2,083	<b>\$6,250</b>
B. Annual Program Evaluation	\$2,083	\$2,083	\$2,083	\$2,125	\$2,168	<b>\$10,543</b>
C. Annual Medicare Part B Premium Reimbursement Program	\$833	\$833	\$833	\$850	\$875	<b>\$4,225</b>
D. Annual Renewal Process	\$10,417	\$10,417	\$10,417	\$10,625	\$10,838	<b>\$52,713</b>
E1. Claims Audits	\$6,417	\$6,417	\$6,417	\$6,545	\$6,676	<b>\$32,471</b>
E2. Operational Audit	\$1,250	Provided in year 1				<b>\$1,250</b>
F. Ongoing Program Administration and Maintenance	\$18,750	\$18,750	\$18,750	\$19,125	\$19,508	<b>\$94,883</b>
G1. Communications	\$24,167	\$24,508	\$24,857	\$25,354	\$25,861	<b>\$124,747</b>
G2. Communications Strategy	\$2,083	\$2,083	\$2,083	\$2,125	\$2,168	<b>\$10,543</b>
H. Training and Education	Included in ongoing program and maintenance fee					<b>\$ -</b>
I. Special Projects	\$8,333	\$8,333	\$8,333	\$8,500	\$8,670	<b>\$42,170</b>
<b>Consulting Fees</b>	<b>\$76,417</b>	<b>\$73,425</b>	<b>\$75,857</b>	<b>\$75,249</b>	<b>\$78,845</b>	<b>\$379,793</b>

- *a detailed hourly professional fee rate schedule by classification of staff to be assigned, including areas of specialization to support the maximum all-inclusive maximum price*

Hourly Profession Fee Rate Schedule		
Classification of Assigned Staff / Areas of Specialization	Hourly Rate	
	2017 – 2020	2021 & 2022
Senior Vice President / Account Manager / Subject Matter Expert	\$510	\$520
Vice President / Lead Consultant / Project Manager	\$450	\$460
Consultant / Financial Analyst / Specialist	\$295	\$300
Administrative Support Staff	\$130	\$132

- *a breakdown of your fee quote for each type of service listed in - Exhibit A Section IV, and specifically, a detailed breakdown of Part G of the Statement of Work – Communications*

- Please refer to the annual and monthly fee quotes above for the full scope of services. The table below reflects the fees for Part G Communications:

Component	7/1/17 – 6/30/18	7/1/18 – 6/30/19	7/1/19 – 6/30/20	7/1/20 – 6/30/21	7/1/21 – 6/30/22	Total
Quarterly communications strategy. Includes four meetings per year.	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,500	\$ 26,010	\$ 126,510
Development, production and distribution of the following items. Fees assume Aon and LACERA will meet prior to creating an initial draft to confirm the components, review the prior documents and agree on material changes. Aon will prepare two drafts and one final document for LACERA review. Please refer to the Scope of Work for additional detail	\$ 290,000	\$ 294,100	\$ 298,282	\$ 304,248	\$ 310,333	\$ 1,496,962

- *a total of all estimated out-of-pocket expenses to be reimbursed, if not included in the quoted hourly professional fee rates*

Aon fees include out of pocket expenses excluding those expenses associated with the spring and fall workshops. Estimated fees for a well-attended workshop are \$40,000.

- *a total, all-inclusive maximum price for any additional services the firm deems necessary to provide comprehensive benefit consulting services to LACERA*

At some point we believe LACERA should evaluate implementing a state of the art benefits administration system, to minimize administrative burdens such as monthly carrier eligibility reconciliation, improve accuracy, reporting capabilities, etc. Consulting fees and system costs can vary significantly based on system requirement.

- *Exhibit A Items E.1 and E.2 should be itemized separately for fee setting purposes*

Please see the tables above for annual and month fees.

*Under this fee proposal, LACERA would pay the maximum fee and any or all of the services listed would be provided as requested by LACERA.*

**Noted:** Aon also welcomes an opportunity to discussing placing a portion of core consulting fees at risk based on the terms identified in our Client Promise with LACERA

December 28, 2016

TO: Each Member  
Board of Retirement

FROM: Steven P. Rice *SPR*  
Chief Counsel

FOR: January 12, 2017 Board of Retirement Meeting

SUBJECT: **Conflict Analysis re Proposed Engagement of Segal Consulting as Retiree Healthcare Benefits Program Consultant**

At its December 15, 2016 meeting, the Insurance, Benefits & Legislative Committee voted to recommend to the full Board of Retirement that Segal Consulting be engaged as LACERA's Retiree Healthcare Benefits Program Consultant (RHC Consultant), pending review by the Legal Division of conflict of interest issues.

### **Summary**

Segal Consulting is currently LACERA's Auditing Actuary. Segal also recently submitted proposals in response to the Internal Audit Division's pending Request for Proposals (RFP) for future Auditing Actuary and Consulting Actuary services.

The Legal Division considered whether these facts create actual or potential conflict of interest issues relating to the selection of Segal Consulting as LACERA's RHC Consultant. The Legal Division's conclusion is that conflict issues do not preclude the Board of Retirement from engaging Segal Consulting as RHC Consultant because Segal's current Auditing Actuary contract will end before its contract for RHC Consultant services begins.

However, if the Board of Retirement engages Segal Consulting as RHC Consultant, the facts create conflict issues that will need to be considered by staff and the Board of Investments if Segal is recommended, through Internal Audit's RFP, to continue its services as Auditing Actuary. Segal's proposal to be engaged as Consulting Actuary, by contrast, does not raise conflict issues.

### **Legal Authority**

LACERA's Code of Ethical Conduct directs that LACERA's Boards and staff consider and address vendor conflict of interest issues. The Code provides, "LACERA's contracts shall include appropriate provisions to ensure that there are no conflicts of interest during the contracting process and to prevent conflicts of interest during the term of a contract. Board members and staff should be alert to, and take other

Each Member, Board of Retirement

December 28, 2016

Re: Conflict Analysis of Segal Consulting as Retiree Healthcare Consultant

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appropriate steps to prevent, actual or potential conflicts of interest by vendors in connection with the making or performance of contracts.” (Code of Ethical Conduct, Section V(G), page 16.)

### **Analysis**

Segal Consulting currently serves as LACERA’s Auditing Actuary under a contract that runs through completion of services for the June 30, 2016 valuation year. The Internal Audit Division is now running an RFP for both Consulting Actuary and Auditing Actuary services for valuation years ending June 30, 2017 through June 30, 2021. Segal responded to the RFP, submitting proposals for both actuarial positions. If Segal becomes LACERA’s RHC Consultant, its responsibilities will include providing certain information to the Consulting Actuary in connection with actuarial work on the OPEB Program. The Auditing Actuary will in turn audit the work of the Consulting Actuary, including work concerning the OPEB Program.

These facts do not create concern with respect to Segal Consulting’s current contract as Auditing Actuary through the June 30, 2016 valuation year because Segal’s work as RHC Consultant will not begin until July 1, 2017. Segal will not provide healthcare consulting services relating to June 30, 2016 valuation activities.

However, if Segal Consulting is selected in the current actuarial RFP to continue as Auditing Actuary for future valuation years, there could be an appearance of an actual or potential conflict to the extent Segal’s auditing work might be perceived as auditing its own healthcare information that, in its role as RHC Consultant, it provides to the Consulting Actuary.

The potential conflict is supported by a comparison of the Statement of Work for the Auditing Actuary and the Statement of Work for the RHC Consultant:

- On the one hand, the Statement of Work – OPEB Program Auditing in the RFP for Auditing Actuary specifically provides, with respect to both audit of the Consulting Actuary’s Valuation and preparation of the Audit of Experience Study, that “Auditor will work with . . . LACERA’s healthcare consultant.” The Auditing Actuary RFP further provides, in two places, that the Auditor will “Review the reasonableness of . . . health specific assumptions . . . .”
- On the other hand, the Statement of Work for the RHC Consultant provides that the consultant will provide “the actuarial cost of benefit changes,” provide information to LACERA on various healthcare “trends,” and “assist[ ] and participat[e] in discussions relative to LACERA’s GASB liability.”

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Re: Conflict Analysis of Segal Consulting as Retiree Healthcare Consultant

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The overlap in Auditing Actuary and RHC Consultant services also appears in Segal's proposals for the two engagements. The proposals show that the actuarial and healthcare service teams are part of the same legal entity, Segal Consulting. The proposals include an overlap of the staff proposed to support LACERA in that the same senior healthcare actuary is listed as devoting up to 10% of his time to each LACERA engagement.

The Legal Division discussed these issues at length with Segal Consulting's business and legal teams. Segal does not believe there are any conflict of interest issues at all because the information it will provide as RHC Consultant will be accepted and adopted by the Consulting Actuary, such that the Auditing Actuary will therefore only audit the work of the Consulting Actuary. Nevertheless, Segal is willing to enforce an ethical wall between its retirement actuarial staff, which is located in San Francisco, and its healthcare staff, which is located in Los Angeles, and will remove overlapping staff from the auditing and consulting teams. Segal further offered to stipulate that it will not be involved, as RHC Consultant, in the delivery of healthcare census data to LACERA's Consulting Actuary, with such data being directly delivered to the Consulting Actuary by LACERA or other vendors. Segal pointed out that it maintains data security and segregation between the IT resources of its actuarial and healthcare services teams. Segal explained that its retirement and healthcare practices utilize parallel but separate supervisory reporting structures within the company. Segal also advised that it employs separate teams of internal auditors to review and ensure that proper quality control procedures are followed by auditing and healthcare personnel.

While the Legal Division appreciates the value of Segal's safeguards, they do not, in the Division's opinion, eliminate the appearance of an actual or potential conflict that will exist, for the reasons explained above, between the same firm serving both Auditing Actuary and RHC Consultant roles. The appearance will exist even if Segal's safeguards are incorporated into the contract between LACERA and Segal. In this regard, it is important to note that LACERA's template agreement, as included in the Auditing Actuary RFP, already includes a conflict provision that prohibits the actuary from auditing its own work. Our conflict concerns are supported by the fact that, in our discussions, Segal did not identify any public retirement systems for which it provides both Auditing Actuary and Healthcare Consultant services.

Finally, if Segal Consulting is selected through the actuarial RFP as Consulting Actuary, the Legal Division agrees there will be no conflict issues because, while Segal as Consulting Actuary will receive information from its own healthcare consulting group, it will not audit that information; the Auditing Actuary in this scenario will be a different firm

Each Member, Board of Retirement

December 28, 2016

Re: Conflict Analysis of Segal Consulting as Retiree Healthcare Consultant

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unrelated to Segal. Segal already frequently serves both Consulting Actuary and Healthcare Consultant roles for other public retirement systems, including 1937 Act systems. Even though there will be no conflict issues, the Board of Investments may consider whether it wants LACERA's Consulting Actuary to be independent for other reasons from its RHC Consultant.

### **Conclusion**

To be clear, the Legal Division does not believe it was improper for Segal Consulting to submit proposals for all three consulting positions – RHC Consultant, Auditing Actuary, and Consulting Actuary – because the timing of the RFPs overlapped and Segal did not know which, if any, of the positions it might be awarded. Segal Consulting has a longstanding relationship with LACERA as Auditing Actuary, and Segal has conducted itself in that role with competence and integrity. However, now that Segal has been recommended for RHC Consultant, it is necessary and appropriate, under LACERA's Code of Ethical Conduct, for staff and the Boards to consider conflict issues.

In the opinion of the Legal Division, the Board of Retirement is not limited by any conflict considerations in approving the recommendation of the IBLC and RHC staff to engage Segal as RHC Consultant. Segal's current Auditing Actuary services agreement runs only through the June 30, 2016 valuation year, and services under the RHC Consultant agreement will not begin until July 1, 2017.

If the Board of Retirement approves Segal's engagement as RHC Consultant, the Legal Division will discuss with Internal Audit staff the effect that such engagement has on selection of the Auditing Actuary in the current RFP given the conflict issues that would arise from the same vendor serving both roles. The Legal Division will also discuss these issues with the Board of Investments as appropriate. Segal's engagement as RHC Consultant will not raise conflict issues in connection with Segal's consideration for Consulting Actuary.

SPR:dd

Reviewed and Approved:



---

Gregg Rademacher  
Chief Executive Officer

Each Member, Board of Retirement

December 28, 2016

Re: Conflict Analysis of Segal Consulting as Retiree Healthcare Consultant

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c: Gregg Rademacher

Robert Hill

John Popowich

Cassandra Smith

Leilani Ignacio

Fern Billingsy

Jill Rawal

Barry Lew





December 29, 2016

TO: Each Member  
Board of Investments

Each Member  
Board of Retirement

FROM: Audit Committee  
Joseph Kelly – *Chair*  
Michael Schneider – *Vice Chair*  
Vivian Gray – *Secretary*  
David Green  
Shawn R. Kehoe

FOR: January 11, 2017 Board of Investments Meeting  
January 12, 2017 Board of Retirement Meeting

**SUBJECT: APPROVAL AND ADOPTION OF THE AUDIT COMMITTEE CHARTER (*REVISED  
DECEMBER 28, 2016*)**

#### **RECOMMENDATION**

The Board of Investments and Board of Retirement adopt the Audit Committee Charter (*Revised December 28, 2016*).

#### **LEGAL AUTHORITY**

The Boards have "plenary authority" over the administration of the retirement system under Article XVI, Section 17 of the California Constitution. This authority includes the ability to structure the Boards' business as they reasonably see fit, including, in this case, through the adoption of a revised Audit Committee Charter. As explained further below and in the Legal Office's accompanying memo with respect to the corresponding changes to the Salary Ordinance, the specific Charter provisions proposed here comply with auditing standards and practices and with governing law.

#### **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 audit committee charters to ensure they are 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 revisions to the Charter at the April and July 2016 Audit Committee Meetings to align the Charter with the most current IIA model template and organizational changes. The suggested changes also provided additional clarity to the purpose of the Charter and expanded

Approval and Adoption of the Audit Committee Charter (*Revised December 28, 2016*)

some of the Committee's authority and responsibilities. Most significant changes include the addition of specific responsibilities of the Audit Committee to oversee LACERA's system of compliance, as well as changes that result in the Audit Committee having more of a direct role in the oversight of the Chief Audit Executive (CAE).

Although there was agreement amongst the Committee regarding most of the Charter revisions, the Committee could not reach a consensus regarding the Committee having the final authority over the hiring, discipline and firing of the CAE.

At the December 14, 2016 meeting, the Committee approved a motion that the Charter be presented to both boards for adoption, with direction to staff that the Charter language involving the responsibilities of the appointing authority for the CAE be allocated as follows:

- (1) The Board of Retirement and Board of Investments, upon recommendations by the Audit Committee, will approve the appointment, discipline, dismissal, and/or removal of the CAE;
- (2) The CEO will have authority to administer discipline limited to verbal and written counseling and written warnings;
- (3) The Committee will perform the CAE's performance assessment; and

The Committee will administer the CAE's annual salary adjustment using the Boards' established compensation structure.

The Committee felt that this solution better aligns the Audit Committee Charter with the governance structure of LACERA's boards and committees. The proposed 2016 Audit Committee Charter (*Revised December 28, 2016*) and the Redline Version of the Proposed 2016 Audit Committee Charter (revised December 28, 2016), which reflects all of the changes made prior to and after the December Audit Committee meeting, are attached for your review (Attachments A and B).

**CONCLUSION**

The Audit Committee recommends that the Board of Investments and Board of Retirement adopt the Audit Committee Charter (*Revised December 28, 2016*).

**MEMO DISTRIBUTION**

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

RB:dv  
AC Charter Approval Memo 12-29.docx

**Attachments:**

- A: Proposed 2016 Audit Committee Charter (*Revised December 28, 2016*)
- B: Redline Version of Proposed 2016 Audit Committee Charter (revised December 28, 2016)

## ATTACHMENT A

Proposed 2016 Audit Committee Charter

*(Revised December 28, 2016)*

# Audit Committee Charter

**Revised December 28, 2016**



**2016**



## **AUDIT COMMITTEE CHARTER**

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## **AUDIT COMMITTEE CHARTER**

### **I. PURPOSE**

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

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

### **II. AUTHORITY**

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

#### **It shall have the following authorities:**

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

## AUDIT COMMITTEE CHARTER

### III. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of the chair and vice-chair of the Boards of Retirement and Investments, plus one additional Board member elected annually by each Board, for a total of four to six members<sup>1</sup>. 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.

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<sup>1</sup> 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. Make recommendations to the Boards regarding 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 of Retirement 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*.



## **AUDIT COMMITTEE CHARTER**

### **E. Monitoring 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, 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 December 14, 2016 and approved by the Board of Retirement and Board of Investments on January 11, 2017 and January 12, 2017 respectively. This AC Charter is thereby effective **January 12, 2017** and is hereby signed by the following persons who have authority and responsibilities under this Charter.

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**TBD**

*Chair, Board of Retirement*

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*January 12, 2017*

**Date**

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**TBD**

*Chair, Board of Investments*

---

*January 11, 2017*

**Date**

## ATTACHMENT B

Redline Version of  
Proposed 2016 Audit Committee Charter  
(Revised December 28, 2016)



## AUDIT COMMITTEE CHARTER

### I. ~~PURPOSE~~/AUTHORITY

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

The purpose of this "Audit Committee Charter" is to govern the Audit Committee that assists the Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the financial reporting process, the system of internal controls, the audit processes, and the organization's 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

#### ~~AUDIT COMMITTEE ROLES AND RESPONSIBILITIES~~

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

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

#### It shall have the following authorities:

1) Meet with LACERA's ~~the organization's~~ officers, ~~employees~~, Internal Auditors, External Auditors, or consultants ~~outside counsel and/or specialists~~ as necessary.

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

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

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

3)5) Make recommendations to the Boards regarding:

**AUDIT COMMITTEE CHARTER**

1. ~~regarding~~ The appointment, compensation and work of the ~~certified public accounting firm~~ External Auditors employed to audit LACERA's financial statements,
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.~~



## AUDIT COMMITTEE CHARTER

~~III. Oversees and supports the work of the Internal Audit Division~~

~~IV.~~

~~V. Monitors the performance of the Internal Audit Division's scope of work~~

~~VI. Ensures the independence of the Internal Audit Division~~

~~VII. Approves the Internal Audit Division Charter and scope of work~~

~~VIII. Reviews and approves the Chief of Internal Audit (CIA) annual performance evaluation.~~

~~IX.~~

~~X. 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.~~

### ~~XI.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<sup>1</sup>. 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 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

<sup>1</sup> 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

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.

### **XII.IV. AUDIT COMMITTEE MEETINGS**

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

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

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

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

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

### **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.



**AUDIT COMMITTEE 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.



## 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, 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). Make recommendations to both Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE. In a joint meeting, both Boards will make the final decisions as to the appointment, discipline, dismissal, and/or removal of the CAE. The CEO has authority to administer minor discipline, which is limited to counseling memos and written warnings, with notice of such discipline to be provided to the Committee and the Boards at their next meetings. Consideration by the Boards and the Committee concerning the appointment, discipline, 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

## AUDIT COMMITTEE CHARTER

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.



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**AUDIT COMMITTEE CHARTER**

5. Communicates public disclosures related to the purpose, authority, function, and responsibility of the Audit Committee.

**AUDIT COMMITTEE CHARTER****XIII.VI. APPROVAL**

This Audit Committee Charter ("AC Charter") was reviewed by the Audit Committee on December 14, 2016 and approved by the Board of Retirement and Board of Investments on January 12, 2017 and January 11, 2017, respectively. This AC Charter is thereby effective January 12, 2017 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

_____	<u>January 12, 2017</u>
<u>TBD</u>	<u>Date</u>
<u>Chair, Board of Retirement</u>	

_____	<u>January 11, 2017</u>
<u>TBD</u>	<u>Date</u>
<u>Chair, Board of Investments</u>	



December 27, 2016

TO: Each Member  
Board of Investments  
  
Each Member  
Board of Retirement

FROM: Audit Committee  
Joseph Kelly – *Chair*  
Michael Schneider – *Vice Chair*  
Vivian Gray – *Secretary*  
David Green  
Shawn R. Kehoe

FOR: January 11, 2017 Board of Investments Meeting  
January 12, 2017 Board of Retirement Meeting

**SUBJECT: SALARY ORDINANCE AMENDMENTS TO IMPLEMENT REVISED AUDIT  
COMMITTEE CHARTER**

#### **RECOMMENDATION**

That, if the revised Audit Committee Charter is adopted, the Board of Investments and Board of Retirement act to:

- (1) Adopt amendments to the Los Angeles County Salary Ordinance, County Code, Section 6.127.040, on LACERA's MAPP Program, to permit implementation of the Audit Committee Charter provisions relating to personnel matters concerning the Chief Audit Executive; and
- (2) Direct staff to submit the Salary Ordinance amendments to the Board of Supervisors for adoption.

The proposed Salary Ordinance amendments are included in Attachment B, which contains a redlined and highlighted version of Section 6.127.040 in its entirety.

#### **LEGAL AUTHORITY FOR BOARD ACTION**

The California Constitution, article XVI, section 17, provides that LACERA's Boards have "plenary authority" over the administration of the retirement system. Under Government Code section 31522.1, LACERA's Boards have the specific authority to "appoint such administrative, technical, and clerical personnel as are required to accomplish the necessary work of the

## Salary Ordinance Amendments to Implement Revised Audit Committee Charter

boards.” The Chief Audit Executive (CAE) is among the personnel covered by this statute. Under the Constitution and Section 31522.1, the Boards have legal authority to act as the CAE’s appointing authority or delegate that authority, in whole or in part, to the Audit Committee and/or the Chief Executive Officer. The proposed Audit Committee charter creates a structure under which the responsibilities of appointing authority for the CAE are shared between the Boards, the Committee, and the CEO.

Section 31522.1 further provides that such 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.” The CAE’s appointing authority is defined in the portion of the Los Angeles County Salary Ordinance, Section 6.127.040, establishing the “LACERA Tier I and Tier II Management Appraisal and Performance Plan” (MAPP), of which the CAE is a Tier II participant. Therefore, in order to implement the portions of the Audit Committee Charter concerning the CAE, changes are required to the Salary Ordinance. Under the Constitution and Section 31522.1, the Charter changes are lawfully adopted by LACERA’s Boards but to be effective must also be adopted by the Board of Supervisors for inclusion in the County’s Salary Ordinance.

### **BACKGROUND**

The Internal Audit Division proposes a revised Audit Committee Charter. When the revised Charter was first presented at the Audit Committee’s April 15, 2016 meeting, the Committee took no action but requested the Legal Office provide an opinion on the legality of expanding the role of the Audit Committee over personnel matters relating to the CAE in the manner provided in the revised Charter. A copy of the Legal Office’s opinion, dated July 1, 2016, is attached as Attachment A.

In summary, it is the Legal Office’s opinion, based on an analysis of the California Constitution, CERL, the Civil Service Rules, and the Salary Ordinance, that the provisions of the proposed Charter concerning the CAE are lawful and consistent with the authority of LACERA’s Boards, and that changes are required to the LACERA MAPP portion of the Salary Ordinance before the revised Charter can be implemented. Under CERL, as noted above, these changes must be adopted by the Board of Supervisors.

At its December 14, 2016 meeting, the Audit Committee directed that certain changes be made to the revised Audit Committee Charter as proposed by staff. With the Committee’s changes, the responsibilities of appointing authority for the CAE are allocated as follows:

- (1) The Board of Retirement and Board of Investments, upon recommendations by the Audit Committee, will approve the appointment, discipline, dismissal, and/or removal of the CAE;

## Salary Ordinance Amendments to Implement Revised Audit Committee Charter

- (2) The CEO will have authority to administer discipline limited to verbal and written counseling and written warnings;
- (3) The Committee will perform the CAE's performance assessment, with any requested review by the CAE to also be performed by the Committee, whose decision shall be final; and
- (4) The Committee will administer the CAE's annual salary adjustment using the Boards' established compensation structure.

Because of these Committee-directed Charter changes, the proposed Salary Ordinance revisions also changed. Thus, the Salary Ordinance revisions as submitted for Board action in Attachment B (and discussed below) differ from the changes originally suggested by the Legal Division in Attachment A. The supporting legal authority and analysis as set forth in Attachment A remain the same and is not repeated here.

### **SALARY ORDINANCE CHANGES**

#### **Amendment No. 1**<sup>1</sup>

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. 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. The Appointing Authority of the Chief, Internal Auditor, LACERA shall be as described in Section 6.127.040 S of this code."

**Explanation:** This amendment makes reference to a new Section 6.127.040 S which defines the CAE's 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

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<sup>1</sup> The Amendments as shown in this memo underline the changes from the current Salary Ordinance. Changes from the version originally presented to the Audit Committee in July 2016 (which are included in Attachment A) are shown in Attachment B.



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 Auditor, LACERA, such presentation shall be made to the Audit Committee of the board of retirement and the board of investments, 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, whose decision shall be final, 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 6.127.040 S shall be added to the salary ordinance, to read:

"S. Chief, Internal Auditor, LACERA. As to the Chief, Internal Auditor, LACERA, 'Appointing Authority' means:

1. The Audit Committee of the board of retirement and the board of investments with respect to performance management and administering annual salary adjustment, including the actions specified in Sections 6.127.040 B(10), E, H, P, and R of this code.
2. The board of retirement and the board of investments jointly, upon the recommendation of the Audit Committee of the boards, with respect to appointment, discipline, dismissal, and/or removal in accordance with the Civil Service Rules, except that the retirement administrator may administer discipline limited to verbal and written counseling and written warnings."

///

## Salary Ordinance Amendments to Implement Revised Audit Committee Charter

**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 Boards jointly, the Audit Committee, and the retirement administrator 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);
- Placement or movement in the MAPP Tier II basic salary structures (Section 6.127.040 H);
- Special salary provisions (Section 6.127.040 K); and
- Step placement upon appointment (Section 6.127.040 P).

With respect to salary, it is important to note that the proposed ordinance changes do not revise the Salary Schedule or Level of the CAE as designated elsewhere in the Salary Ordinance, which remain as currently stated. (See Section 6.28.050, Item 0774.)

### **CONCLUSION**

For these reasons, it is recommended that, if the revised Audit Committee Charter is adopted, the Board of Investments and Board of Retirement act to:

- (1) Adopt amendments to the Los Angeles County Salary Ordinance, County Code, Section 6.127.040, on LACERA’s MAPP Program, to permit implementation of the Audit Committee Charter provisions relating to personnel matters concerning the Chief Audit Executive; and
- (2) Direct staff to submit the Salary Ordinance amendments to the Board of Supervisors for adoption.

Attachments A and B

### **MEMO DISTRIBUTION**

2016 Audit Committee	Gregg Rademacher	John Nogales
Audit Committee Consultant	Robert Hill	Steven P. Rice
Internal Audit Staff	John Popowich	Johanna Fontenot

## **ATTACHMENT A**

**July 1, 2016 Legal Analysis Memo to  
Audit Committee**



July 1, 2016

TO: Each Member  
2016 Audit Committee  
  
Audit Committee Consultant  
Rick Wentzel

FROM: Steven P. Rice *SPR*  
Chief Counsel

Johanna M. Fontenot *JMF*  
Senior Staff Counsel

FOR: July 20, 2016 | Audit Committee Meeting

**SUBJECT: AUDIT COMMITTEE CHARTER**

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

#### **BACKGROUND**

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

#### **RECOMMENDATION**

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

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

## **QUESTIONS PRESENTED AND SUMMARY**

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

Is it legally permissible for the Audit Committee to:

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

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

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

## **DISCUSSION**

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

#### **A. CERL and the Constitution**

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

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

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

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

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

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

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

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

#### **B. Civil Service Rules**

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

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

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

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

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

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

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

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

## **II. Performance Evaluation of the CAE and Administration of Compensation**

### **A. CERL and the Constitution**

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

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

### **B. Civil Service Rules**

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

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

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

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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 underlined. A redlined and highlighted copy of the entire LACERA MAPP

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

**Amendment No. 1**

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

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

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

**Amendment No. 2**

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

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

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

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

**Amendment No. 3**

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

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

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

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

**CONCLUSION**

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

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


**RECOMMENDATION**

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

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

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

**NOTED AND CONCUR:**

  
\_\_\_\_\_  
Gregg Rademacher, *Chief Executive Officer*

**July 1, 2016**  
**Date**

**MEMO DISTRIBUTION**

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

# **ATTACHMENT A**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21 E. Performance management.

22 1. Performance rating categories and process.

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

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

27  
28 The performance management process includes annually setting goals and defining  
29 performance expectations developed jointly by the retirement administrator or his/her



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

5 2. Rating period.

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

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

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

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

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

15 a. Permanent Employees.

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

16  
17 b. Probationary Employees.

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

18  
19 F. Appeal process.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 J. Reinstatement, reemployment, and restoration.

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

5 R. Tier II Step advancement provisions.

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

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

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

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

22

## **ATTACHMENT B**

**Revised LACERA MAPP Ordinance  
County Code, Section 6.127.040**

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

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

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

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

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

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

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

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

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

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

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

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

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

22 E. Performance management.

23 1. Performance rating categories and process.

24 The retirement administrator, or his/her designee, shall annually evaluate the  
25 performance of each Participant, in accordance with guidelines and in a format  
26 established by the LACERA director of human resources, which shall provide for an  
27 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"

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

7 2. Rating period.

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

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

32 3. Performance evaluation timeliness. Tier I Merit Salary Adjustments and/or  
33 Tier II Step Advancements will be withheld for both the rater and employee



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

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

17 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"

18  
 19 b. Probationary Employees.

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

20  
 21 F. Appeal process.

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

1 outlined in subsection 2 of this section. In the case of an assistant  
2 executive officer, such presentation shall be made to the retirement  
3 administrator, whose decision shall be final. In the case of the Chief,  
4 Internal Auditor, LACERA, such presentation shall be made to the Audit  
5 Committee of the board of retirement and the board of investments, whose  
6 decision shall be final.

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

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

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

- 30 1. Reassignment of Positions. The retirement administrator shall recommend  
31 to the board of retirement and board of investments reassignment of  
32 positions to higher or lower Tier I or Tier II Salary ranges when appropriate

1 as necessitated by external market conditions or changes in the duties and  
2 responsibilities of affected positions.

3 2. Salary Rate Below the Minimum of the Salary Range. A Participant's salary  
4 may fall below the minimum of the Salary range as a result of a Salary  
5 Structure adjustment. In such case, there shall be no adjustment in the  
6 Participant's salary absent specific authorization and instruction from the  
7 board of retirement and board of investments jointly or the retirement  
8 administrator. When an employee's salary rate falls below the minimum of  
9 the Salary range, it shall not constitute a demotion.

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

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

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

- 1           6. Reduction of Salary Range. When a person continues to hold a position  
2           whose Salary range is reduced or which is reclassified to a lower level, said  
3           person will be placed within the new Salary range at his/her current salary,  
4           or for Tier II, placed on the nearest step that does not result in a decrease  
5           in salary for the participant. If the current salary is higher than the new  
6           salary range maximum, said person's rate of pay shall be identified as a Y-  
7           Rate, which shall remain until such time as the Y-Rate is within the Salary  
8           range for the position.
- 9           7. Appointment to Lower-Level Position. When a person on a higher position  
10          is appointed from an eligible list to a lower-level position, or is voluntarily  
11          reduced, he/she shall be placed at any salary within the Salary range for  
12          the lower-level position or his/her current salary, whichever is less.  
13          Notwithstanding any other provision of this subsection 7, a person  
14          appointed prior to completion of his/her probationary period on the higher  
15          position shall be placed at a salary within the Salary range of the lower  
16          position, in accordance with the provisions of Section 6.08.345.
- 17          8. Equivalency of Grade. A class in Tier I is deemed to be equal in grade to a  
18          class in Tier II if the two Salary Ranges are equal in terms of the minimum  
19          and maximum rates as indicated by the numeric designation assigned to  
20          the Salary ranges. (A class compensated at LR10 in Tier I is, for example,  
21          equal in grade to a class compensated at LS10 in Tier II). A class in Tier I  
22          or Tier II is deemed equal in grade to a class paid in accordance with  
23          Chapter 6.08, Part 1 of this title if the top step of the class compensated  
24          under Part 1 is less than 2.75 percent above or below the Control Point of  
25          the Salary range for the Tier I or Tier II class as the case may be.
- 26          9. Exception for Certain Participants. The compensation of any Participant  
27          employed in a class or position designated by an item sub other than "A" or  
28          "L" pursuant to the provisions of Section 6.28.020 A shall be limited to that  
29          provided by this subsection. Such Participant shall be compensated at a  
30          salary rate not to exceed the Control Point of the Salary range or at any  
31          salary within the Salary range, with the concurrence of the retirement  
32          administrator. The salary rate for such Participants shall be adjusted in  
33          accordance with the approved General Salary Adjustments provided the

1 retirement administrator certifies such Participant's performance is  
2 equivalent to "Met Expectations" or better.

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

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

22 J. Reinstatement, reemployment, and restoration.

- 23 1. Reinstatement. The Salary of a person reinstated to a Tier I position  
24 following separation from County service will be determined in accordance  
25 with the provisions of Section 6.127.040 M.1 and the salary of a person  
26 reinstated to a Tier II position following separation from County service will  
27 be determined in accordance with the provisions of Section 6.127.040 P.1,  
28 as if the person was entering County service as a new hire. However,  
29 persons reinstated pursuant to Government Code Section 31680.7 may be  
30 placed at any salary rate not to exceed the salary paid to said person prior  
31 to retirement unless a higher rate is specifically authorized by the  
32 retirement administrator.

1           2. Reemployment. A person reemployed under Civil Service Rule 19.08 to the  
2           position held immediately prior to separation will be reemployed at the  
3           same salary rate within the Salary range for the position held prior to  
4           separation or the minimum of the Salary range, whichever is greater. A  
5           person reemployed on a different position than that previously held prior to  
6           separation will be reemployed at the maximum of the Salary range for the  
7           new position or at the same salary paid to said person prior to separation,  
8           whichever is the lesser. An employees whose last performance rating was  
9           "Needs Improvement Meeting Expectations" or "Failed to meet  
10          Expectations" shall not be reemployed.

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

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

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

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

30          3. Manpower Shortage Recruitment Rates. The provisions of Section  
31          6.10.050 shall not apply to Participants.

32          4. Manpower Shortage Ranges. The provisions of Section 6.10.060 shall not  
33          apply to Participants; provided, however, that in addition to all other

1 compensation provided by this code, the retirement administrator may  
2 adjust the salary of one or more Participants up to 11 percent pursuant to  
3 provisions in Section 6.10.060 when such adjustment is necessary to  
4 preserve supervisory pay differentials or to maintain internal pay equity  
5 following adjustments in pay for non-participants pursuant to Section  
6 6.10.050 or Section 6.10.060. Such additional compensation may be  
7 discontinued by the retirement administrator in the same manner and  
8 subject to the same terms and conditions as such pay under Section  
9 6.10.050 may be discontinued for non-participants.

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

20 6. Assignment of Additional Responsibility. The provisions of Section  
21 6.10.073 shall apply to Participants except that such additional  
22 compensation authorized in accordance with the provisions of Section  
23 6.10.073 shall be up to 11 percent of a Participant's current salary.

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

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

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

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

32 1. Notwithstanding any other provision of this code, any employee who, on  
33 September 1, 2008, was a Participant in the Plan and who, on October 1,

1 2008 is a Participant in Tier I of the Plan, as amended, shall receive no  
2 change in salary on October 1, 2008 as a consequence of any  
3 amendments to the Plan which became operative on that date. The  
4 Participant's actual salary in such case may or may not fall within the  
5 established Tier I Range.

- 6 2. Notwithstanding any other provisions of this code, any employee who, on  
7 September 1, 2008, was a Participant in the Plan and who, on October 1,  
8 2008, is a Participant in Tier II of the Plan, as amended, shall, effective  
9 October 1, 2008, be placed on the Tier II salary step closest to the  
10 Participant's September 1, 2008 salary that does not result in a decrease in  
11 salary.

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

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

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

31 N. Tier I General salary adjustment provision. General Salary Adjustments for Tier I  
32 Participants will take the form of a percentage change in the LR-Range Salary  
33 structure on specific dates approved by the board of retirement and board of



1 investments jointly with concurrent changes in the actual salaries of Participants.  
2 Only Tier I Participants who have received a current performance evaluation of "Met  
3 Expectations" or better shall receive a General Salary Adjustment.

4 O. Tier I merit salary adjustment provisions. Annually, the retirement administrator shall  
5 grant to the board of retirement and board of investments jointly a Merit Salary  
6 Adjustment, ranging from a minimum of zero percent to a maximum of 5 percent.  
7 Such Merit Salary Adjustments shall be limited to Participants whose current  
8 performance rating is "Met Expectations" or higher and shall take effect on October  
9 1st of each year except as otherwise provided by this Plan and provided further that  
10 such adjustment shall be limited to Participants who have worked at least six months  
11 in the Tier I position. Such adjustments may apply to and/or result in a salary that  
12 falls outside the established Tier I Salary range.

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

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

26 2. Promotional Appointments. A person being promoted from another position  
27 in county or LACERA service shall be compensated at a salary within the  
28 Salary range of the higher position, except that such persons shall receive  
29 an increase of at least 5.5 percent, plus step placement, above his/her  
30 previous base salary, but not less than the minimum of the Salary range.  
31 Promotional increases greater than 5.5 percent, plus step placement, shall  
32 require the approval of the retirement administrator. Persons compensated  
33 at Y-Rate shall receive the salary within the Salary range of the higher-level

1 Position which provides an increase of 5.5 percent over the maximum of  
2 the Salary range for the person's present position. If the person would  
3 thereby suffer a reduction in salary, said person will be placed at his/her  
4 current salary or as such higher salary as may be specifically authorized by  
5 the retirement administrator.

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

10 R. Tier II Step advancement provisions.

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

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

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

23 S. Chief, Internal Auditor, LACERA. As to the Chief, Internal Auditor, LACERA, the  
24 "Appointing Authority" means:

25 1. The Audit Committee of the board of retirement and the board of  
26 investments with respect to performance management and administering  
27 annual salary adjustment, including the actions specified in Sections  
28 6.127.040 B(10), E, H(2) and (3), K, P, and R(4) of this code shall be  
29 performed by the Audit Committee of the board of retirement and the board  
30 of investments.

31 2. The board of retirement and the board of investments jointly, upon the  
32 recommendation of the Audit Committee of the boards, with respect to  
33 appointment, discipline, dismissal, and/or removal in accordance with the

1 |  
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Civil Service Rules, except that the retirement administrator may administer discipline limited to verbal and written counseling and written warnings.



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**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**



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