

# AGENDA

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

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

March 22, 2017 – 9:00 a.m.

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

### 2017 COMMITTEE MEMBERS

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

### AUDIT COMMITTEE CONSULTANT

Rick Wentzel

- I. ELECTION OF AUDIT COMMITTEE CHAIR, VICE CHAIR, AND SECRETARY FOR CALENDAR YEAR 2017
- II. APPROVAL - MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF DECEMBER 14, 2016  
*(Attached)*
- III. PUBLIC COMMENT
- IV. ACTION ITEMS
  - A. Recommendation, as submitted by Richard Bendall, *Chief Audit Executive*, that the Audit Committee review the Audit Committee Meeting Schedule and provide direction to staff on changes  
*(Memo Dated: March 8, 2017)*
  - B. Recommendation, as submitted by Richard Bendall, *Chief Audit Executive*, that the Audit Committee review and discuss the following engagement reports to take the following action(s):
    1. accept and file report and/or,
    2. instruct staff to forward report to Boards or Committees and/or,
    3. provide further instruction to staff.  
*(Memo Dated: March 8, 2017)*

- a. **Duplicate Special Payments**  
Gabriel Tafoya, Senior Internal Auditor  
*(Report Issued: January 19, 2017)*
  
- b. **External Penetration Test**  
George Lunde, Senior Internal Auditor  
*(Report Issued: February 28, 2017)*
  
- c. **Tuition Reimbursement Audit**  
Christina Logan, Senior Internal Auditor  
*(Report Issued: March 8, 2017)*

**V. ADMINISTRATIVE REPORTS**

- A. **Internal Audit Risk Assessment Report**  
Richard Bendall, *Chief Audit Executive*  
*(Memo Dated: March 8, 2017)*
  
- B. **Audit Plan Status Report**  
Richard Bendall, *Chief Audit Executive*  
*(Updated: March 8, 2017)*
  
- C. **Recommendation Follow-Up Report**  
Quoc Nguyen, *Principal Internal Auditor*  
*(Updated: March 8, 2017)*
  
- D. **Privacy Audit Recommendation Follow-Up**  
Steven Rice, *Chief Legal Counsel*  
Richard Bendall, *Chief Audit Executive*  
*(Memo Dated: March 8, 2017)*
  
- E. **Attorney-Client Privilege/Confidential Memo**  
**Human Resources Compliance Audit [by Liebert Cassidy Whitmore]**  
**Recommendation Follow-Up**  
Steven Rice, *Chief Legal Counsel*  
Richard Bendall, *Chief Audit Executive*  
*(Memo Dated: March 8, 2017)*
  
- F. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit**  
Richard Bendall, *Chief Audit Executive*  
*(Verbal Presentation)*
  
- G. **Internal Audit Goal Report**  
Richard Bendall, *Chief Audit Executive*  
*(Updated: March 8, 2017)*

**VI. CONSULTANT COMMENTS**

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

**VII. GOOD OF THE ORDER**

*(For Information Purposes Only)*

**VIII. EXECUTIVE SESSION**

**A. Performance Evaluation – CAE Goals Report**

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

Title: Chief Audit Executive

**IX. ADJOURNMENT**

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

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

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# MINUTES OF THE AUDIT COMMITTEE

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

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

December 14, 2016 – 1:50 p.m.

### 2016 COMMITTEE MEMBERS

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

### BOARD MEMBERS AT LARGE

None

### AUDIT COMMITTEE CONSULTANT

Rick Wentzel

### STAFF, ADVISORS, AND PARTICIPANTS

Gregg Rademacher	Ted Granger	<b>Brown Armstrong</b>
Richard Bendall	Cynthia Guider	Alaina C. Sanchez, CPA
Nathan Amick	Kimberly Hines	
Sylvia Botros	Leilani Ignacio	
Christina Logan	Vache Mahseredjian	
George Lunde	Cynthia Martinez	
Quoc Nguyen	James Pu	
David Redman	Steven Rice	
Gabriel Tafoya		
Darla Vidger		

## MINUTES OF THE AUDIT COMMITTEE

DECEMBER 14, 2016

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

Mr. Kelly called for a motion to approve the Minutes of the Audit Committee Meeting of July 20, 2016. A motion for approval was presented by Mr. Kehoe. A second was provided by Mr. Green. The Minutes were unanimously approved.

### II. PUBLIC COMMENT

No items to report.

### III. ACTION ITEMS

A. Recommendation as submitted by Richard Bendall, *Chief Audit Executive*, Leisha Collins, *Principal Internal Auditor*, and Christina Logan, *Senior Internal Auditor* that the Audit Committee:

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

*(Memo Dated: December 1, 2016)*

*(Supplemental Memo Dated: July 1, 2016 submitted by Steven Rice)*

Ms. Logan provided an overview of the proposed updates to the Audit Committee Charter. Mr. Kehoe then presented a motion to approve the Audit Committee Charter provided that the Charter language be amended to include "recommend to both Boards jointly for approval" regarding personnel actions related to the Chief Audit Executive. A second was provided by Mr. Green. The revised Audit Committee Charter with Mr. Kehoe's proposed amendment was unanimously approved.

Mr. Kelly moved that the Committee advise the Boards of Retirement and Investments adopt the Charter. A second was provided by Mr. Green. The motion passed unanimously.

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

1. The portion of the County Code on the LACERA MAP Program (Section 6.127.040) be amended to clarify that the Audit Committee is an appointing authority for the CAE and to address certain related clean-up issues.

## MINUTES OF THE AUDIT COMMITTEE

DECEMBER 14, 2016

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2. The Audit Committee recommend approval of the proposed amendments to the Board of Retirement and Board of Investments, and that the Boards direct staff to submit the proposed amendments to the Board of Supervisors.

*(Memo Dated: July 1, 2016)*

Mr. Rice provided some brief comments regarding this motion. A motion for approval of staff's recommendation was presented by Mr. Kehoe. A second was provided by Mr. Green. The motion passed unanimously.

- C. Recommendation, as submitted by Richard Bendall, *Chief Audit Executive*, that the Audit Committee review and approve the updated Internal Audit Charter and Leisha Collins, *Principal Internal Auditor*, and Christina Logan, *Senior Internal Auditor*.

*(Memo Dated: November 14, 2016)*

Mr. Bendall provided an overview of the amendments made to the Internal Audit Charter. Mr. Wentzel proposed minor edits to the Charter language to include, "LACERA" as opposed to the general term, "organization." Mr. Kelly presented a motion to approve the Internal Audit Charter with Mr. Wentzel's proposed edits. A second was provided by Mr. Green. The motion was unanimously approved.

## IV. REPORTS

- A. **Brown Armstrong Presentation of the Reports – June 30, 2016**

Agenda and Reports from Brown Armstrong et. al.

- *Report on Internal Control Over Financial Reporting and on Compliance*
- *Required Communications to the Audit Committee*
- *Agreed Upon Conditions Report*

Alaina C. Sanchez, CPA

Ms. Sanchez presented the work performed by Brown Armstrong to audit LACERA's financial statements for the fiscal year-ended June 30, 2016. LACERA's financial statements were given an "unmodified" or "clean opinion"; there were no material weaknesses or significant deficiencies reported. Mr. Kelly thanked Ms. Sanchez and LACERA staff for their significant efforts in support of the external audit.

- B. **Internal Audit Staffing Report**

Richard Bendall, *Chief Audit Executive*

*(Verbal Presentation)*

Mr. Bendall thanked his staff especially Mr. Nguyen and Ms. Collins for their coverage in his absence during the July meeting as well as Ms. Vidger's efforts in support of the Association of Public Pension Fund Auditor Conference in November 2016. Mr. Kelly also thanked staff for their efforts.

## MINUTES OF THE AUDIT COMMITTEE

DECEMBER 14, 2016

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C. **Audit Plan Status Report**

Richard Bendall, *Chief Audit Executive*  
(Report Dated: December 1, 2016)

There were no comments provided on this section.

D. **Goal Status Report**

Richard Bendall, *Chief Audit Executive*  
(Memo Dated: December 1, 2016)  
(Supplemental Policy Dated: December 1, 2016 submitted by Richard Bendall)

There were no comments provided in this section.

E. **CAE Perspective on LACERA Governance Issues**

Richard Bendall, *Chief Audit Executive*  
(Memo Dated: December 1, 2016)

There were no comments provided in this section.

F. **Recommendation Follow-Up Report**

Quoc Nguyen, *Principal Internal Auditor*  
Gabriel Tafoya, *Senior Internal Auditor*  
(Memo Dated: December 1, 2016)

There were no comments provided in this section.

G. **Privacy Audit Recommendation Follow-Up**

Steven Rice, *Chief Legal Counsel*  
Richard Bendall, *Chief Audit Executive*  
(Memo Dated: December 1, 2016)

There were no comments provided in this section.

H. **Attorney-Client Privilege/Confidential Memo  
Human Resources Compliance Audit [by Liebert Cassidy Whitmore]  
Recommendation Follow-Up**

Steven Rice, *Chief Legal Counsel*  
Richard Bendall, *Chief Audit Executive*  
(Memo Dated: December 1, 2016)

There were no comments provided in this section.

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

Richard Bendall, *Chief Audit Executive*  
(Oral Presentation Only)

There were no comments provided in this section.

## MINUTES OF THE AUDIT COMMITTEE

DECEMBER 14, 2016

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### V. AUDIT REPORTS

- A. **IRS Section 415b Adjustments Audit**  
David Redman, *Senior Internal Auditor*  
(Report Issued: January 8, 2016)
- B. **Member Data File Exception Processing**  
George Lunde, *Senior Internal Auditor*  
(Report Issued: March 24, 2016)
- C. **Duplicate Vendor Payments Audit**  
Gabriel Tafoya, *Senior Internal Auditor*  
(Report Issued: March 29, 2016)
- D. **Office Renovations Audit**  
Christina Logan, *Senior Internal Auditor*  
(Report Issued: April 12, 2016)
- E. **Minor Survivor Eligibility Audit**  
Nathan Amick, *Internal Auditor*  
(Report Issued: June 29, 2016)
- F. **Education & Travel Policy Compliance Audit**  
Christina Logan, *Senior Internal Auditor*  
(Report Issued: September 20, 2016)
- G. **Los Angeles County Rehired Retirees Audit**  
Nathan Amick, *Internal Auditor*  
(Report Issued: November 2, 2016)
- H. **Pensionable Cap Compliance**  
Nathan Amick, *Internal Auditor*  
(Report Issued: November 3, 2016)
- I. **Audit Report Questions**  
Richard Bendall, *Chief Audit Executive*  
(Memo Dated: December 1, 2016)

Mr. Kelly made a motion to receive and file the Audit Reports. Mr. Green provided a second for the motion. The motion was approved unanimously.

### VI. CONSULTANT COMMENTS

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

Mr. Wentzel did not have any additional comments.



**MINUTES OF THE AUDIT COMMITTEE**

DECEMBER 14, 2016

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**VII. GOOD OF THE ORDER**

*(For Information Purposes Only)*

There were no additional comments.

**VIII. EXECUTIVE SESSION**

**A. Performance Evaluation**

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

Title: Chief Audit Executive

**IX. ADJOURNMENT**

The meeting adjourned at 2:45 p.m.

DV/dv



March 8, 2017

TO: Each Member  
2017 Audit Committee  
  
Audit Committee Consultant  
Rick Wentzel

FROM: Richard Bendall   
Chief Audit Executive

FOR: March 22, 2017 | Audit Committee Meeting

SUBJECT: **AUDIT COMMITTEE MEETING DATES**

## RECOMMENDATION

**It is recommended that the Audit Committee review the proposed Audit Committee Meeting Schedule for the remaining two meetings of 2017 and provide direction to staff.**

## BACKGROUND

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

For the 2017 calendar, some Committee members and the CAE expressed that they were unable to attend some of the scheduled meetings. Staff would like your Committee to provide direction on the proposed dates for the remaining meetings this year. Based on the survey that was sent to your Committee, the most convenient date for the Summer Meeting was determined to be August 16 at 9:00 a.m. No changes have been requested for the regularly scheduled meeting in December.

### SUMMER AUDIT COMMITTEE MEETING

**Proposed Date: August 16 at 9:00 a.m.**

#### Agenda Highlights

- *Status of Audit Plan for the Fiscal Year completed*
- *Request for the Committee's approval of the new Fiscal Year Audit Plan*
- *Presentation of completed audit work (since the March meeting)*
- *Recommendation Follow-up status*
- *CAE Fiscal Year End Performance Evaluation*

### WINTER AUDIT COMMITTEE MEETING

**Regular Date: December 7 at 9:00 a.m.**

#### Agenda Highlights

- *Presentation of the LACERA External Financial Audit Report*
- *Presentation of completed audit work (since the Summer meeting)*
- *Recommendation Follow-up status*
- *CAE Goal Update*

RB:dv  
Attachments





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

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

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

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

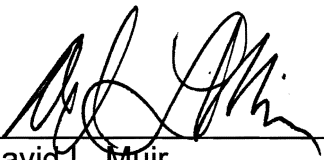
Time: 9:00am on the third Wednesday of February, July and November


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

Adopted March 16, 2004, by:

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

Approved as to Form

  
\_\_\_\_\_  
David L. Muir  
Chief Counsel

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



DATE: November 15, 2011

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

Audit Committee Consultant  
Timothy O'Brien

FROM: Sarah Marks   
Principal Internal Auditor

**SUBJECT: AUDIT COMMITTEE MEETING DATES**

**Recommendation**

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

**Background**

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

**Reviewed and Concur:**



**Richard Bendall**  
Chief Audit Executive


11-16-2011

**Date**



March 8, 2017

TO: Each Member  
2017 Audit Committee  
  
Audit Committee Consultant  
Rick Wentzel

FROM: Richard Bendall   
Chief Audit Executive

FOR: March 22, 2017 | Audit Committee Meeting

SUBJECT: **AUDIT REPORTS**

## RECOMMENDATION

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

1. accept and file report and/or,
2. instruct staff to forward report to Boards or Committees and/or,
3. provide further instruction to staff.

## ENGAGEMENT REPORTS

- a. **Duplicate Special Payments**  
Gabriel Tafoya, Senior Internal Auditor  
*(Report Issued: January 19, 2017)*
- b. **External Penetration Test**  
George Lunde, Senior Internal Auditor  
*(Report Issued: February 28, 2017)*
- c. **Tuition Reimbursement Audit**  
Christina Logan, Senior Internal Auditor  
*(Report Issued: March 8, 2017)*

RB:dv  
Attachments



**LACERA INTERNAL AUDIT SERVICES**

**Duplicate Special Payments**

January 19, 2017

**AUDIT PERFORMED BY:**

Gabriel Tafoya, CISA  
*Senior Internal Auditor*

## EXECUTIVE SUMMARY

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As part of our fiscal year 2016-2017 audit plan, we performed data analytics testing on "special payments". This type of audit test is a component our Continuous Auditing Program which leverages technology such as Audit Command Language (or "ACL") software to perform our testing. ACL allows us to analyze large sets of data relatively quickly using algorithmic formulas.

Our testing was limited in scope, specifically designed to identify duplicate payments issued within the "special payments" process. Special payments are initiated by the Benefits Division and are one-time payments issued to members and beneficiaries outside of the normal monthly payroll process. Examples of special payments are:

- (1) payouts for terminated employees who withdraw their funds before retirement
- (2) payouts of death and retro-active benefits
- (3) re-issuance of monthly benefit checks that had been cancelled through stop payments, outlaw checks, or voids

LACERA could be at risk of issuing duplicate payments or other types of payment errors if proper controls are not in place. Although our testing was primarily data-driven, we also performed a limited review of the internal controls related to issuing special payments. We have two recommendations for management related to the special payments process as discussed further below.

To perform our data testing, we used ACL to conduct analytics on the 6,677 (100%) special payments initiated in calendar year 2015 which totaled \$45,289,095. Using our analytics, we identified 1,154 (17%) potential duplicate payments. We then performed detailed testing on a sample of the potential duplicates. Our testing did not result in any exceptions. We found that the special payments in our sample were generally void and re-issued payments, where only one legitimate payment was actually made. Additionally, each payment tested was accompanied by the required supporting documentation and approvals. Based on our testing, the Benefits Division had adequate controls to prevent duplicate payments within the special payments process.

However, in our limited process review, we identified two opportunities for improving the current system of controls related to issuing special payments. First, Benefits Management should update their written procedures to require staff to check for duplicate payments at each stage of the review and approval process.



Secondly, the Benefits Division should work with the Systems Division to automate "payment approvals" for all disbursements paid through the special payments process. Currently, approximately 90 percent of disbursements issued through the special payment process are approved manually, meaning that the review and approval sign-offs are paper-based versus an automated electronic workflow. Manual approvals increase the risk of duplicate payments, payment errors, or fraudulent payments. While we commend the Systems Division for automating "member contribution withdrawals", which makes up approximately 10 percent of special payment transactions, we believe continuing the automation efforts for all special payments will greatly improve processing efficiencies and internal controls.

Overall, Benefits Management and staff are to be congratulated on the effectiveness and consistency of their procedures. Internal Audit thanks the Benefits and Systems Division Management and staff for their assistance in this review.

## Duplicate Member Payments

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## INTRODUCTION

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As part of our fiscal year 2016-2017 audit plan, we performed data analytics testing on "special payments". This type of audit test is a component our Continuous Auditing Program which leverages technology such as Audit Command Language (or "ACL") software to perform our testing. ACL allows us to analyze large sets of data relatively quickly using algorithmic formulas.

This was a limited scope set of data tests, specifically designed to identify duplicate payments issued within the "special payments" process. Special payments are one-time payments issued to members and beneficiaries and are issued outside of the normal monthly payroll process. Without proper controls in place, LACERA could be at risk of issuing duplicate payments or other types of payment errors. The primary purpose of this test was to determine whether duplicate special payments exist. However, we also performed a limited review of the internal controls related to issuing special payments.

## BACKGROUND

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### ***Special Payments***

The Benefits Division issues approximately 6,700 special payments annually totaling over \$45 million. The payment amounts have ranged from less than two dollars to over \$500,000 per member payment. The reasons for issuing special payments include, but are not limited to:

- (1) retirees non-receipt of regular monthly payments;
- (2) the reissuance of monthly benefit checks that had been cancelled through stop payments, outlaw checks or voids;
- (3) first payments to new retirees;
- (4) terminated employees who withdrew their funds before retirement;
- (5) payouts of member death benefits;
- (6) payouts of retro-active disability benefits; and
- (7) non-routine distributions of funds, such as divorce-related legal splits.

Initiating and processing a special payment is performed within Workspace (LACERA's member application and database) and requires Benefits staff to perform multiple level reviews and approvals to ensure that supporting documentation, calculations, and required approvals, are appropriate. A Special Payment Control Form (paper-based) is used to formally document the above process through each level of review and approval. The number of required approval levels depends on the dollar amount of the payment. Additionally, a Benefits staff-person independent of the review and approval processes must verify that the required approvals exist prior to releasing each payment.

## AUDIT OBJECTIVE(S)

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- Determine if duplicate special payments exist.
- Perform a limited review of the internal controls related to the special payments process.

## AUDIT SCOPE

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- Our test work population **included** all special payments initiated through LACERA's special payment system for calendar year 2015.
- Our test work **excluded** testing payments to members that were part of the regular monthly payroll process.

## AUDIT METHODOLOGY

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### **Objective 1:**

Our data analytics testing was performed by extracting all special payments transactions for calendar year 2015 from the special payments system. This amounted to 6,677 payment transactions valued at \$45,289,095. We then analyzed 100% of the transactions using Audit Command Language (ACL) to identify potential duplicate special payments to members. To accomplish our test objectives, we used ACL to perform the six tests listed below.

Provide results for member/beneficiary special payments that have the:

1. Same SSN numbers, check dates, check amounts.
2. Same SSN numbers, check dates.
3. Same SSN numbers, check amounts.
4. Same SSN numbers, member names, check dates, payment types, check amounts.
5. Same SSN numbers, member names, check dates, payment types.
6. Same SSN numbers, member names, payment types, check amounts.

The six tests described above are typical data analytics practices for identifying potential duplicate payments and are also published within Information Systems Audit and Control Association (ISACA) White Paper that address duplicate payment testing.

Once we obtained our potential duplicates population using ACL, we performed detailed testing on a sample of the potential duplicates to determine whether the transactions were actual exceptions or false positives. False positives would be reported exceptions that are not true duplicates but end up in our testing results for various reasons.

**Objective 2:**

In our limited process review, we interviewed the Benefits Division and Systems Division Management and staff to obtain an understanding of the existing controls related to preventing duplicate payments, payment errors, and/or fraudulent payments.

## AUDIT RESULTS

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Overall, Internal Audit's data analytics and testing uncovered no duplicate special payments. We found that Benefits Management had adequate controls to prevent duplicate special payments. However, based on our limited review of special payment process controls, we identified two opportunities for Management to further improve the controls related to preventing duplicate payments and other possible payment errors. Detailed results of our review are discussed below.

### SPECIAL PAYMENTS DATA TESTING

The six data analytics tests we performed, as mentioned in the audit methodology section, resulted in 1,154 potential duplicate special payment records. To determine whether the 1,154 records we identified were false positives or in-fact duplicate special payments, we performed additional test work by sampling and testing 40 records (and planned to increase the sample size if we found any true duplicates or control exceptions). The 40 records (valued at \$1,823,235 in total) were selected on a judgmental basis consisting of high dollar values within the payment types and transactions that represented a higher risk. We then obtained supporting documentation from Workspace to determine whether each of the 40 payment transactions were legitimate.

Based on our testing, each of the 40 records turned out to be a false positive and was the result of a voided payment that had to be re-issued at a later date. We worked with Benefits staff to confirm the reasons for each voided payment and noted that they were due to normal business activities. Specifically, the reasons were:

- The member did not supply their correct address when the original check was issued.
- The member changed their payout request (cash-out versus rollover into a tax-deferred account) which resulted in LACERA needing to include or exclude taxes from the original check.
- The member never cashed the original check before the cashing period expired.

We found that each payment was legitimate and accompanied by the required staff and/or manager review and approval. Further, staff documented in Workspace the need for voiding the original payment before reissuing the replacement check.

Since the records in our targeted sample were all voided and reissued checks, we performed additional testing to verify whether staff actually voided all original checks before reissuing replacement checks. We did this by comparing all checks in LACERA's special payment system labeled as "void" to LACERA's custodian bank's voided payment records (State Street Bank). We confirmed that all these checks were in fact voided through State Street Bank.

We did not identify duplicate payments or control exceptions in our test work and also verified that the voided checks in LACERA's records were voided at State Street Bank. As a result, we gained comfort that the existing controls related to preventing duplicate special payments were functioning as intended and therefore we limited our test work to 40 transactions.

### **LIMITED REVIEW OF SPECIAL PAYMENT CONTROLS**

In our limited review of the internal controls related to the special payment process, we identified two opportunities for management to improve their existing controls which are discussed below.

#### ***Update Special Payment Procedures***

We noted in our interviews that staff, during their payment review process, verifies that each special payment is not a duplicate of a previous payment already made to a member. However, we noted this verification step is not documented in staff's written procedures. The special payment procedures should be updated to include this requirement. This will reinforce management's existing controls of preventing duplicate special payments.

### **RECOMMENDATION**

- 1. Update the existing special payment procedures to include additional instructions that require staff to verify that there are no duplicate requests in process by reviewing the special payment log and the Events Comments.**

#### ***Management Response***

*Benefits Management agreed and has updated the existing "Special Payment Request Form" to include additional instructions that require the initiator and releaser of payments to verify that there are no duplicate payment requests in process or previously paid based on their review of the special payments log and the Workspace events comments. Benefits Management completed the addition of instructions to the Special Payment Request Form on October 31, 2016.*

### ***Expand the Automation of Special Payment Approvals***

A long-term goal of the Systems Division has been to automate the special payment approval process, where each required approval electronically work-flows from one approver to the next to certify the validity of the payment. Automation adds efficiency to the review and approval process and also enhances internal controls to ensure that appropriate segregation of duties exists, business rules are strictly followed, and sufficient data trails are left behind for the use of management, exception, and audit reports.

We commend the Systems Division for automating the payment approvals for the "member contribution withdrawal" process; this is when members withdraw contributions from their account. However, we noted the member withdrawal process accounts for approximately 10% and 28% of all annual special payment transactions and dollars issued, respectively. The remaining special payment transaction types are approved manually which requires staff to pass along a "Special Payment Control Form" (paper-based) from one approver to the next, depending on the required number of approvers for each payment. While we did not identify any payment errors or control break-downs in our test work from payments that were approved manually, there is still a higher risk of payment errors with a manual approval versus an automated process, especially given the sheer volume of special payments issued annually.

To enhance the efficiency and effectiveness of the special payment approval process, we recommend that the Benefits Division work with the Systems Division to automate the remaining special payments processes that are currently approved manually. We also recommend that the Benefits and Systems Divisions work with Internal Audit during its development to help ensure that proper internal controls are designed into the automation process and that necessary data points are captured that will assist with post-transaction analytics and reporting.

#### **RECOMMENDATION**

- 2. Benefits Division work with the Systems Division to automate the approval of those special payments processes where approvals are currently performed manually.**
- 3. Benefits and Systems Divisions work with Internal Audit during its development to help ensure proper controls are designed into the automation process and that proper data points are captured that will assist with post-transaction analytics and reporting.**

#### ***Management Response***

*Automating the approval process for special payments is feasible; however, special payments are initiated from multiple sources in Workspace. Each source will need to be analyzed and then specifications developed and tailored to each individual source.*

*As such, the approval process would need to be implemented in a phased approach. Internal Audit will be included in the implementation process to ensure proper controls and reporting. There are some significant organizational goals that need to be completed before this modification can be addressed. It is estimated that determining the requirements and the level of effort can begin in the next fiscal year, July, 2017. The results of the requirement gathering will be reported to management by December 31, 2017, so that the project can be prioritized.*

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

In designing this test, we set-up the test scripts in ACL so we could easily test for duplicate special payments in the future. We will continue to assess the effectiveness of Benefits Division's duplicate special payment controls on a periodic basis as part of the Continuous Auditing Program.

**NOTED AND APPROVED**



Richard Bendall  
Chief Audit Executive

Date: **January 19, 2017**

**REPORT DISTRIBUTION**

2017 Audit Committee  
Audit Committee Consultant  
Internal Audit Staff

Gregg Rademacher  
Robert Hill  
JJ Popowich

Bernie Buenaflor  
Mary Phillips  
James Pu  
Steven Rice






February 28, 2017

TO: Each Member  
2017 Audit Committee

Audit Committee Consultant  
Rick Wentzel

FROM: George Lunde  
Senior Internal Auditor

Richard Bendall   
Chief Audit Executive

FOR: March 22, 2017 | Audit Committee Meeting

**SUBJECT: 2016 EXTERNAL PENETRATION TEST**

In October 2016, Internal Audit contracted with Accudata System Inc. (Accudata), an information technology audit consultant specializing in both penetration testing and application assessments, to assess security over LACERA's internet perimeter and the member portal MyLACERA web application. MyLACERA is a JAVA-based internet application which interfaces to LACERA's mission critical core membership Workspace application.

The results of Accudata's review are summarized in their attached executive summary report. The detailed full report is highly technical and contains information that would compromise LACERA's security if made public.

Internal Audit periodically and randomly schedules these types of security tests, the last of which was performed in October 2014. We have used a number of firms over the last 20 years to perform these types of security reviews and commonly we use each firm at least twice. This is the first time that we have employed the services of Accudata.

Systems Division staff was not informed of the scheduled audit in advance of Accudata initiating their initial penetration tests. These tests are most often done on a surprise basis in order to replicate real world attacker scenarios and to measure the efficacy of operational safeguards. In this case, staff detected the suspicious internet activity generated by Accudata shortly after Accudata began their penetration attempts. LACERA's Chief Information Officer informed Internal Audit that his staff had identified the threat. In accordance with our usual protocols,

the Systems Division then provided Accudata with authorization credentials and allowed them to continue their testing without restriction.

We are pleased to report that as indicated in the executive summary segment of Accudata's report, that with the exception of a very minor issue identified, they concluded that LACERA be graded an A (Excellent) for the current state of security from outside penetration.

Internal Audit commends the Systems Division for their continued vigilance in ensuring network and application security is continually updated to protect LACERA's critical data from ever changing vulnerabilities.

**MEMO DISTRIBUTION**

2017 Audit Committee	Gregg Rademacher	James Pu
Audit Committee Consultant	Robert Hill	Mary Phillips
Internal Audit Staff	JJ Popowich	Steven Rice

# PENETRATION TEST

SECURITY VULNERABILITY FINDINGS AND RECOMMENDATIONS

Document 501-10367\_2

CONFIDENTIALLY PREPARED FOR:

## LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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Internal Audit Division

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FEBRUARY 7, 2017

## SECTION B: EXECUTIVE SUMMARY

LACERA ("LACERA") engaged Accudata to perform a Penetration Test of their network systems from an external perspective. The objective of this Penetration Test was to identify penetrable vulnerabilities and determine if exploitation of those vulnerabilities could affect the security of the members.lacera.com environment. The Penetration Test was conducted between November 21, 2016, and December 12, 2016. Accudata performed external network-layer penetration testing and external application testing. This report documents the outcome of the assessment activities.

Accudata determined that LACERA has strong configuration management processes and access controls that minimize exposure of systems and devices with respect to the members.lacera.com site. Accudata was not able to exploit any systems or applications.

Accudata recommends LACERA continue to include security processes and procedures within its software development life-cycle, as well as consider performing penetration testing from an internal perspective. System breaches are commonly initiated by internal system exploitation through phishing attacks and drive-by malware downloads.

### Conclusion

Accudata's Penetration Test confirmed that the current state of security for LACERA is graded as **A - Excellent**

Low risk of security controls being compromised with measurable negative impacts as a result. The security of the observed environment exceeds industry accepted practices. The overall posture was found to be excellent with limited low-risk findings. Accudata was unsuccessful in obtaining unauthorized access to sensitive data, systems, or networks.

Accudata observed a minor functional level access control issue within the application that could expose internal pages to differing role types. Meaning, if a user knows a link to a given page, they can directly access it even though the selection is not shown within the menu tree. This finding is informational and offers no risk at this time as Accudata did not observe the existence of data on pages that were directly accessed.

Overall, the Penetration Test results indicated that unmitigated access to the members.lacera.com environment was not available from an external perspective. Systems were found to have appropriate patches, and applications offered minimal attack vectors.



**LACERA INTERNAL AUDIT DIVISION**

## **Tuition Reimbursement Audit**

**March 8, 2017**

**Audit Conducted By:**

Christina Logan, CPA, CFE

*Senior Internal Auditor*

## EXECUTIVE SUMMARY

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In July 2002, LACERA established the Tuition Reimbursement Program (Program) to reimburse employees for all or part of continuing education tuition and related school fees. The Program's objectives are to provide LACERA management with additional tools to enhance the scientific, technical, professional, and managerial skills of their employees and to implement an organization-wide program for career development to attract and retain qualified employees.

Permanent full-time employees are eligible to participate in the Program, provided they receive a "Competent" or better on their most current Performance Evaluation. An employee is eligible for reimbursement for any course completed with a passing grade of "C" or better at an accredited university or college. An employee may request reimbursement for the cost of the course and related expenses, including textbooks, lab fees, etc.

Prior to fiscal year 2014-2015, employees could receive a maximum of \$3,000 per year for tuition reimbursement depending on the number of Program participants. Due to the cap on the reimbursement, and low employee participation, the actual costs paid out of the Program never reached the \$75,000 budgeted amount. Beginning with fiscal year 2014-2015, Human Resources (HR) with the Executive Office's approval began to reimburse tuition costs over \$3,000 if funds remained in the budget after all Program participants' claims were reimbursed up to the \$3,000 cap. The Program's actual employee reimbursements were \$30,544 for fiscal year 2013-2014, \$72,684 for fiscal year 2014-2015, and \$75,000 for fiscal year 2015-2016.

During HR's review of fiscal year 2015-2016 reimbursement claims, HR identified a claim that appeared to be out of compliance with the Program's Policy (Policy). HR worked with the employee, Executive Office, and the Legal Office to resolve the situation. The Executive Office and HR management requested Internal Audit review the Program due to concerns that arose because of this employee issue. The aforementioned matter was resolved as a personnel matter and was not included in the scope of this audit. Specifically, Management asked Internal Audit to review the Program in entirety to assess if the required supporting documentation for tuition claims is adequate, employees are only reimbursed for valid expenses, and the Policy aligns with industry standards and best practices.

Internal Audit found HR controls related to the Tuition Reimbursement process are generally effective. However, we identified the following specific areas where Management could further strengthen controls:

- 1. Revise the Program Design to Better Utilize the Budget**
- 2. Revise Program Guidelines to Clarify Program Benefits, Limitations, and Eligibility**

Internal Audit would like to thank HR and Legal Office management and staff for their cooperation and assistance in facilitating this audit.

# TUITION REIMBURSEMENT

EXECUTIVE SUMMARY .....2

BACKGROUND.....4

AUDIT OBJECTIVE(S).....4

AUDIT SCOPE .....5

AUDIT METHODOLOGY .....5

AUDIT RESULTS .....5

## BACKGROUND

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In July 2002, LACERA established the Tuition Reimbursement Program (Program) to reimburse employees for all or part of continuing education tuition and related school fees. With Executive Office's approval, Human Resources (HR) designed and also manages the Program. The Program's objectives are to provide LACERA management with additional tools to enhance the scientific, technical, professional, and managerial skills of their employees and to implement an organization-wide program for career development to attract and retain qualified employees.

Permanent full-time employees are eligible to participate in the Program, provided they receive a "Competent" or better on their most current Performance Evaluation. An employee is eligible for reimbursement for any course completed with a passing grade, at an accredited university or college. An employee may request reimbursement for the cost of the course and related expenses, including textbooks, lab fees, etc.

Prior to fiscal year 2014-2015, eligible employees could receive a maximum of \$3,000 per year for tuition reimbursement depending on the number of Program participants. Due to the cap on the reimbursement, and low employee participation, the actual costs paid out of the Program never reached the \$75,000 budgeted amount. Beginning with fiscal year 2014-2015, HR with the Executive Office's approval began to reimburse tuition costs over \$3,000 if funds remained in the budget after all Program participants' claims were reimbursed up to the \$3,000 cap. The Program's actual employee reimbursements were \$30,544 for fiscal year 2013-2014, \$72,684 for fiscal year 2014-2015, and \$75,000 for fiscal year 2015-2016.

## AUDIT OBJECTIVE(S)

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The objectives of this audit were to assess if HR has established effective controls, policies, and procedures designed to ensure:

- Staff's reimbursement requests are in compliance with the Program Policy (Policy)
- HR's review of the reimbursement requests is effective and efficient
- The review of claim and processing of payment has adequate segregation of duties
- The Policy, guidelines, and process design are adequate and align with industry standards and best practices



## AUDIT SCOPE

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The scope of this audit included 100% of Tuition Reimbursement Claims from fiscal years 2013 – 2016.

- **Fiscal Year 2013-2014:** 14 employees received Education Reimbursements, totaling \$30,544. Reimbursements ranged from approximately \$196 to \$3,000.
  - **Fiscal Year 2014-2015:** 18 employees received Education Reimbursements, totaling \$72,684. Reimbursements ranged from approximately \$196 to \$18,000.
  - **Fiscal Year 2015-2016:** 18 employees received Education Reimbursements, totaling \$75,000. Reimbursements ranged from approximately \$238 to \$20,600.
- As indicated in the Executive Summary, Internal Audit’s review was conducted after a questionable reimbursement claim was submitted by the employee and the reimbursement was properly declined. Since the issue was addressed as a personnel issue, Internal Audit did not include the original reimbursement claim in its scope.

## AUDIT METHODOLOGY

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### **Audit work included, but was not limited to:**

- Reviewed the current Tuition Reimbursement Program Guidelines, revised 2016
- Interviewed relevant HR staff
- Researched the Society for Human Resource Management (SHRM)’s best practices and templates for Tuition Reimbursement Programs
- Reviewed two other governmental agencies and two corporate organizations to benchmark LACERA’s Tuition Reimbursement Program
- Tested 100% of Education Reimbursement Claims from FY 2013 - 2016, to verify claims were in compliance with the Policy, and properly reviewed and approved.

## AUDIT RESULTS

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Internal Audit found HR’s controls related to the Tuition Reimbursement process are generally effective, provide reasonable assurance risks are managed, and objectives are met.

### **Internal Audit noted the following best practices in use:**

- HR staff regularly reviews and updates the Policy as needed.
- HR staff verifies required documentation and receipts comply with the Program Guidelines. Staff documents questions and concerns about certain expenditures on the claim. HR staff recalculates amounts requested for reimbursement to ensure accuracy.
- HR staff ensures the processes for reviewing the claims and reimbursing employees, has adequate separation of duties.

## AUDIT RESULTS (continued)

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Further, we compared LACERA's Program Guidelines with five external program guidelines. Staff noted some key differences between LACERA's Program requirements and the programs we benchmarked. HR management and Internal Audit discussed these differences and concluded either the differences did not pose an additional risk to the Program or mitigating controls exist to address the risk.

Specifically, we noted the following:

- **Courses eligible for reimbursement** - Of the five program guidelines reviewed, all of them required the courses be relevant to the employee's current job assignment, the organization, or a specific business-related degree, to be reimbursable.

LACERA's Program does not limit the courses eligible for reimbursement. HR management explained the Program is designed to enhance employee satisfaction and to encourage learning.

- **Participation in the Program does not require management's approval** – Many of the programs reviewed require the employee's direct manager to pre-approve participation in the program and reimbursement requests.

LACERA's Program purposefully provides employees unhindered access to participate in the program. HR Management stated the only requirement is that the permanent employee has at least a competent evaluation rating while participating in the Program. LACERA also offers specific job-related training, which requires manager pre-approval to participate.

- **Reimbursement amount is pre-determined** – All of the programs had reimbursement amounts that were pre-determined and fixed. Two programs set the maximum reimbursement amount for all employees at \$5,250 to align with the amount the IRS allows to be tax-free. Another program set two maximum reimbursement rates – \$5,250 for eligible courses applied to a graduate degree program and \$3,000 for all other eligible course work. Another program reimbursed a maximum of \$400 per credit hour per quarter and \$600 per credit per semester. The last program provided for 75% of costs with a maximum reimbursement amount of \$10,000.

LACERA's current reimbursement calculation is dependent on the number of employees who participate in the Program and the total amount each employee requests. Since the reimbursement amount is not a set amount and is based on factors outside the employee's control, the methodology makes it a financial risk for employees who rely on this benefit to help offset the costs of education.

## AUDIT RESULTS (continued)

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

### 1. Revise the Program Design to Better Utilize the Budget

Prior to fiscal year 2014-2015, employees could receive a maximum of \$3,000 per year for tuition reimbursement depending on the number of Program participants. Due to the cap on the reimbursement and low employee participation, the actual costs paid out never reached the \$75,000 budgeted amount. At one or more Board Meetings, a Member(s) voiced concern that the Program budget should be better utilized by covering a larger portion of tuition expenses.

Based on these concerns, HR with the Executive Office's approval decided the Program's funds would be used to reimburse as much of the employee's tuition costs, as the funds would cover after first covering the initial \$3,000 reimbursement for all qualifying participants. The amount of the budget remaining after the initial \$3,000 reimbursement would be allocated on a pro-rata basis. This method went into effect beginning with the reimbursement claims for fiscal year 2014-2015.

#### The total allocations were as follows:

- **FY2014-2015:** 19 employees submitted claims totaling \$72,684, of which seven claims exceeded \$3,000. Since the claims totaled less than the \$75,000 budgeted, all participants received 100% of their claim regardless of the amount over \$3,000.
- **FY2015-2016:** 18 employees submitted claims totaling \$83,283 and seven claims exceeded \$3,000. Since the claims totaled exceeded the \$75,000 budget, HR management allocated the remaining budgeted amount to the seven employees using the following method:
  - a. **Capped Total = \$35,181** sum of 18 reimbursement requests capped at \$3,000 applied to the 18 reimbursement requests
  - b. **Remaining Budget = \$39,819** is Capped Total less the annual budget (\$75,000 - \$35,181)
  - c. **Excess Total = \$48,101** sum of seven claims that exceeded the \$3,000 cap. The lowest amount exceeded cap by \$313, and the highest amount by \$21,296.
  - d. Allocated the **Remaining Budget of \$39,819** to the seven participants with claims over \$3,000, based on a ratio of the excess request to the **Excess Total of \$48,101**. For example:

## AUDIT RESULTS (continued)

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- (1) The employee who submitted \$313 over the \$3,000, received an additional \$259 reimbursement ( $\$313/\$48,101 = .65\% \times \$39,819 = \$259$ )
- (2) The employee who submitted \$21,296 over the \$3,000, received an additional \$17,629 reimbursement ( $\$21,296/\$48,101 = 44.27\% \times \$39,819 = \$17,629$ )

The IRS requires reimbursements over \$5,250 be reported as income to the employee unless there are job-related educational expenses that are considered “working condition fringe benefit” as defined by IRS section 127. For the participants who received a reimbursement over \$5,250 in years 2014-2016, external tax counsel concluded the expenses met the IRS criteria and LACERA need not report them as income.

This required, however, a fact-specific analysis and often depends on an individual's specific circumstances. For this reason, if LACERA intends to continue reimbursing tuition expenses over the IRS maximum exclusion (currently \$5,250), tax counsel “recommend(s) that the excess expenses generally be reported as wages by LACERA.”

While Internal Audit agrees the Program’s budget should be significantly utilized, it does not believe this allocation method is the best for a Tuition Reimbursement Program. HR should examine what hinders staff from participating in the Program and if changes can be made to the Program to encourage additional participation. To address the Board concern that a larger portion of tuition costs be reimbursed, Internal Audit recommends HR consider alternatives to the current approach, including consideration of increasing the Program maximum amount to \$5,250, the IRS maximum exclusion, and having the reimbursement amount be a pre-determined amount.

### RECOMMENDATIONS:

1. HR management should examine what hinders staff from participating in the Program and if changes can be made to the Program to encourage additional participation.
2. HR management should consider alternative approaches to more fully utilizing the Program budget, including consideration of increasing the Program maximum reimbursable amount to \$5,250, the IRS maximum exclusion, and having the reimbursement amount be a pre-determined amount.

#### **Management Response:**

***HR will review the recommendations with Legal and Executive Office, and refine LACERA's Tuition Reimbursement Program to advance LACERA's commitment to its employees' education and development while meeting all Internal Revenue requirements. Changes to refine the program shall be completed by June 30, 2017.***

## AUDIT RESULTS (continued)

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### **2. Revise Program Guidelines to Clarify Program Benefits, Limitations, and Eligibility**

In our review of the Program Guidelines (Guidelines) governing the program administered by HR we noted the following three areas for improvement:

- a. The Guidelines should include a clear explanation of the reimbursable amount(s) the participants may be eligible to receive for the qualified tuition expenses they incur. Currently there is an explanation of the monetary benefit included on the Tuition Reimbursement Claim Form attached to the Policy but the Guidelines do not include any information about the reimbursable amount(s).
- b. The Eligibility section of the Guidelines states that an employee, if a veteran, is not eligible until they have exhausted their eligibility for tuition reimbursement from the Federal Government and from the State of California. However, the Guidelines do not address limits on the amount of monetary benefits the employee receives if the employee is a recipient of a scholarship, grant, or any other financial assistance outside of the organization. Based on Internal Audit's research, it is a best practice to clearly define and document what items will limit LACERA's monetary benefit to ensure all employees are aware of the limitations and restrictions to the benefits they may receive as participants of the Program. The Society of Human Resource Management's sample policy documents the limits as, "Eligible employees who receive assistance from outside sources (scholarships, grants, GI Bill, fellowships, and other stipends) are eligible for tuition reimbursement only if the cost of the tuition exceeds the amount of tuition received."
- c. The Program Guidelines state, "Probationary employees are eligible to participate in the Program after satisfactory performance for their initial period of six months as determined by management." However, our test work determined that, after satisfactorily concluding their probationary period, HR permits employees to obtain reimbursement under the Program for tuition expenses incurred during their probationary period. Internal Audit recommends HR clarify in the Program Guidelines when new employees are eligible to participate in the Program to ensure all employees have a fair and equal opportunity to participate in the Program.

To ensure that all employees have a complete understanding of the Program and benefits available to them, HR should revise the Guidelines to provide clarity in each of the areas discussed above.

## AUDIT RESULTS (continued)

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### RECOMMENDATION:

3. HR should update and revise the Tuition Reimbursement Program Guidelines to ensure that they clearly articulate the participants' eligibility requirements, Program benefits and expenses eligible for reimbursement.

***Management Response:***

*HR will review the recommendation with Legal and Executive Office, and refine LACERA's Tuition Reimbursement Program to advance LACERA's commitment to its employees' education and development while meeting all Internal Revenue requirements. Changes to refine the program shall be completed by June 30, 2017.*

## NOTED AND APPROVED

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Richard Bendall  
Chief Audit Executive

Date: March 8, 2017

### REPORT DISTRIBUTION

2017 Audit Committee  
Rick Wentzel  
Internal Audit Staff

Gregg Rademacher  
Robert Hill  
JJ Popowich


Steve Rice  
John Nogales  
Annette Cleary



March 8, 2017

TO: Each Member  
2017 Audit Committee

Audit Committee Consultant  
Rick Wentzel

FROM: Richard Bendall   
Chief Audit Executive

FOR: March 22, 2017 | Audit Committee Meeting

**SUBJECT: INTERNAL AUDIT RISK ASSESSMENT PROCESS**

Internal Audit performs a risk assessment in accordance with the Internal Audit Charter and Institute of Internal Auditors (IIA) Professional Standards to use in the development of the Annual Audit Plan. Our risk assessment approach begins with you, the Audit Committee at this meeting. The intent of the following presentation is to explain our approach and share with you the criteria and process we plan to use in evaluating risk.

We look forward to your feedback and input regarding risk at LACERA and our risk assessment process.

We will bring our completed risk assessment along with our Audit Plan for the Fiscal Year Ending June 30, 2018 to your Committee for approval at your next meeting.

# Risk Assessment Process

FYE 2018

March 22, 2017



# Audit Plan

Audit Plan Status Report February 28, 2017

## INTERNAL AUDIT PLAN FYE 2017

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

MANAGEMENT, GOVERNANCE & COMPLIANCE					
PROJECT	TYPE	FREQUENCY	EST. HOURS	ACTUAL HOURS	
1. Actuarial Experience Study – RFP	RFP	Periodic	300	197	
2. Actuarial Audit – RFP	RFP	Periodic	300	197	
3. Internal Audit Operations Manual Update (formerly known as IA Guidebook)	Admin	Planned	600	109	
4. Compliance Monitoring – Administration	Consulting	Planned	400	132	
5. Continuous Auditing Program	Audit	Ongoing	750	-	
• Fraud Testing – Duplicate Member Payments*	Audit	Periodic	-	366	
6. New Payees Testing	Audit	Ongoing	300	135	
7. County Medical Reimbursements*	Audit	Planned	400	-	
8. Felony Convictions Plan Sponsor Reporting*	Audit	Periodic	300	-	
9. Internal Audit Contractor Pool – RFP*	RFP	Planned	200	265	
10. Internal Audit Websites Update	Admin	Planned	200	-	
11. PEPPA Employer Compliance Testing*	Audit	Periodic	600	-	
• Program Administration			-	74	
• 980 Hours Testing	Audit	Periodic	-	145	
• Pensionable Cap Compliance	Audit	Periodic	-	313	
12. Privacy Audit Reco. Coordination	Consulting	Planned	500	391	
13. Quality Assurance Improvement Program	Admin	Planned	550	20	
14. Risk Assessment – FYE 2018	Admin	Annual	550	-	
15. Travel & Education Policy Compliance*	Audit	Planned	200	163	
BENEFITS ADMINISTRATION					
16. Active Death Process*	Audit	Planned	500	-	
17. Certificates Processing Audit*	Audit	Planned	500	324	
18. Member Death Verification Process	Audit	Planned	450	258	
19. Member High Risk Verification	Audit	Planned	450	237	
20. New Benefits Tier Plan*	Audit	Planned	400	-	
21. Member Accounts Settlement Process*	Audit	Planned	500	-	
22. Physician Selection and Compensation	Audit	Planned	400	-	
INFORMATION SYSTEMS					
23. Business Continuity/Disaster Recovery	Consulting	Planned	300	-	
24. Data Backup/Retention Testing*	Audit	Planned	200	222	
25. Member Applications Change Control*	Audit	Planned	600	-	
26. Systems Penetration Testing*	External Audit	Periodic	200	237	
27. IT Risk Assessment	External Audit	Planned	300	-	

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

In Process     Ongoing     Completed Project

Audit Plan Status Report February 28, 2017

## FINANCIAL & INVESTMENT OPERATIONS

PROJECT	TYPE	FREQUENCY	EST. HOURS	ACTUAL HOURS	
28. FYE 2017 – External Financial Audit Facilitation & RFP	External Audit	Annual	300	446	
29. Audit of Actuarial Consulting Services	External Audit	Periodic	200	-	
30. Compliance Monitoring (Investments)	Consulting	Planned	400	90	
31. Investment Fee Reporting & Validation*	Audit	Planned	200	196	
32. Princeton TNC Audit & Tax Service – RFP	RFP	Periodic	300	58	
33. Real Estate Financial Audit & Tax Service	External Audit	Annual	250	123	
34. Real Estate Investment Operations*	External Audit	Planned	100	-	
35. Real Estate Advisor Review (EMMES)*	External Audit	Periodic	100	-	
36. Real Estate Advisor Review (Comerstone)*	External Audit	Periodic	100	-	
37. Securities Lending*	External Audit	Planned	50	-	
38. Real Estate Debt Program Review*	External Audit	Planned	50	-	
UNPLANNED PROJECTS					
39. Tuition Reimbursement	Audit	Unplanned	-	190	
40. APFPA Fall Conference 2016	Admin	Unplanned	-	171	
41. Retiree Health Care Consultant – RFP	Consult	Unplanned	-	153	
42. Private Equity Audit Monitoring	Consult	Unplanned	-	135	
43. 401(a) Salary Contributions Limit	Audit	Unplanned	-	92	

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

In Process     Ongoing     Completed Project

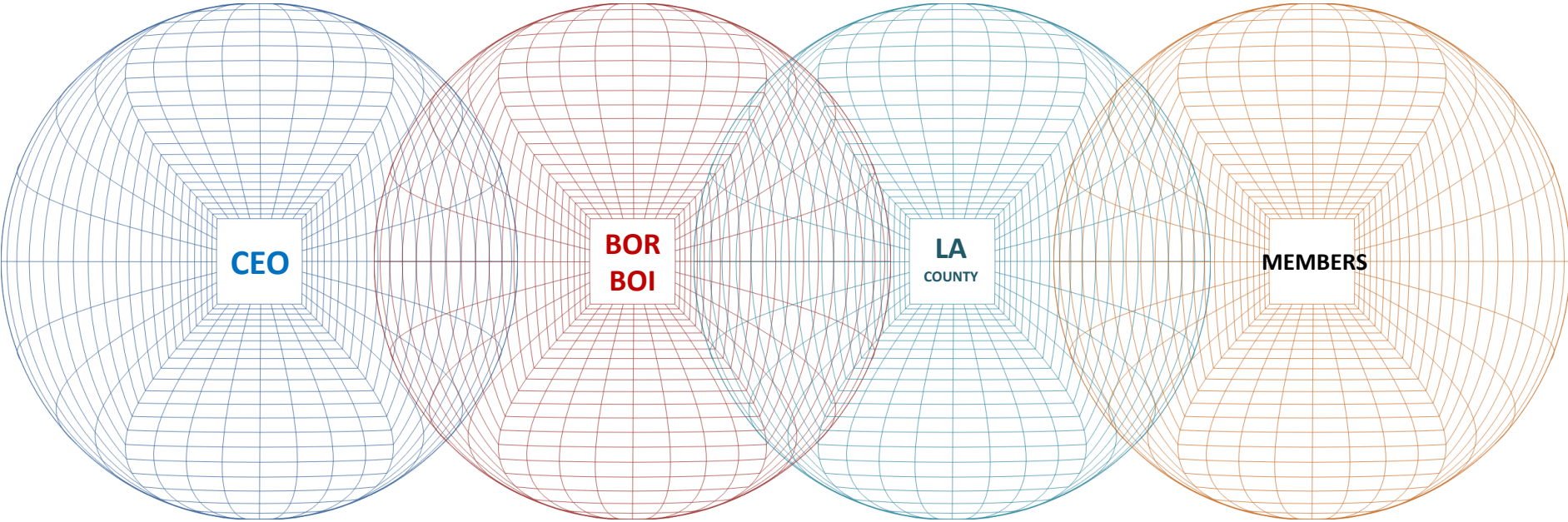
# Risk Perspectives



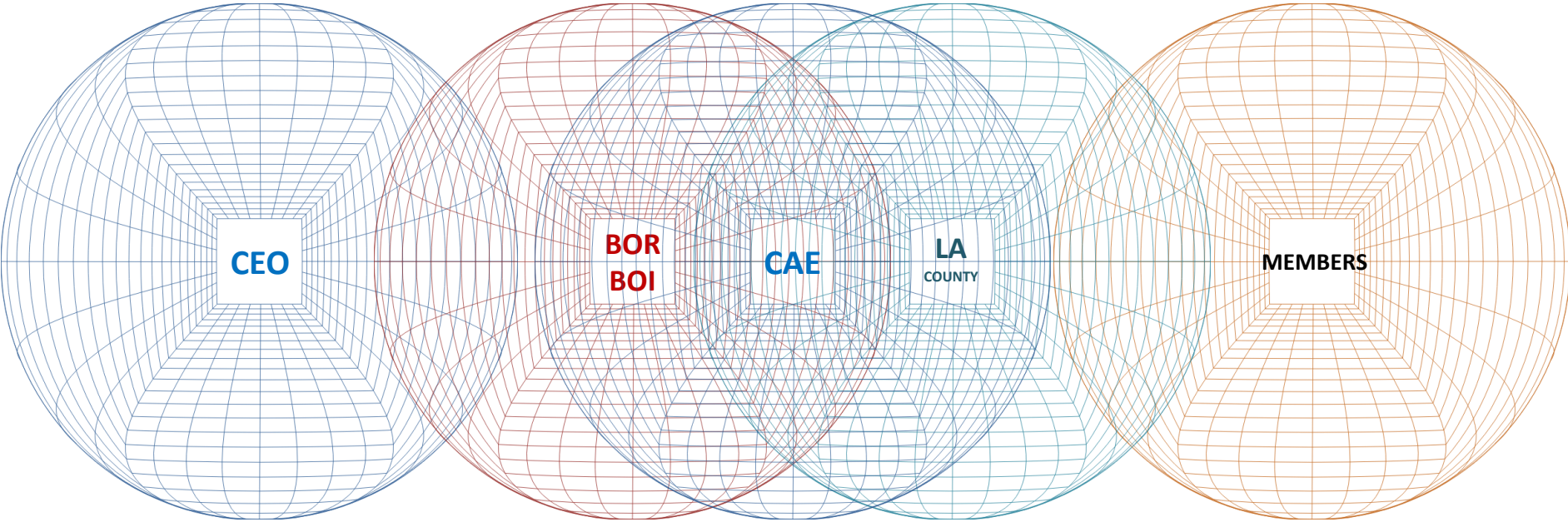
# Risk Perspectives



# Risk Perspectives



# CAE Risk Perspective



# Risk Perspectives

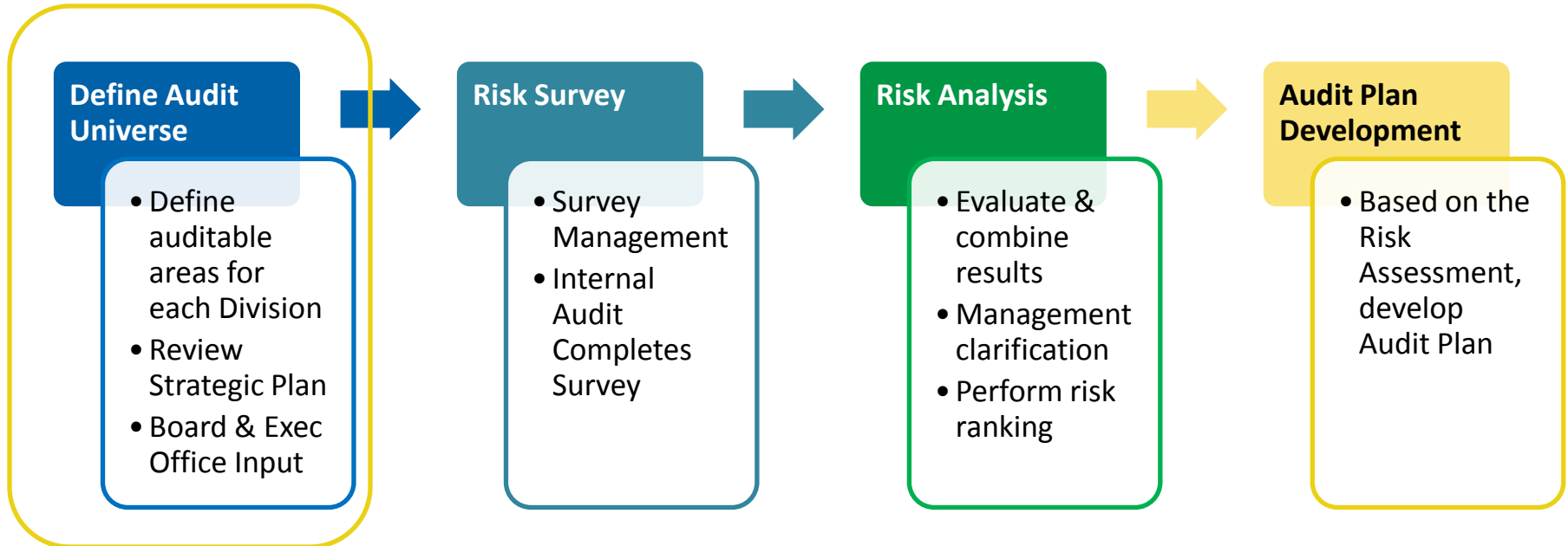
**Known Risks**

**Unknown Risks**

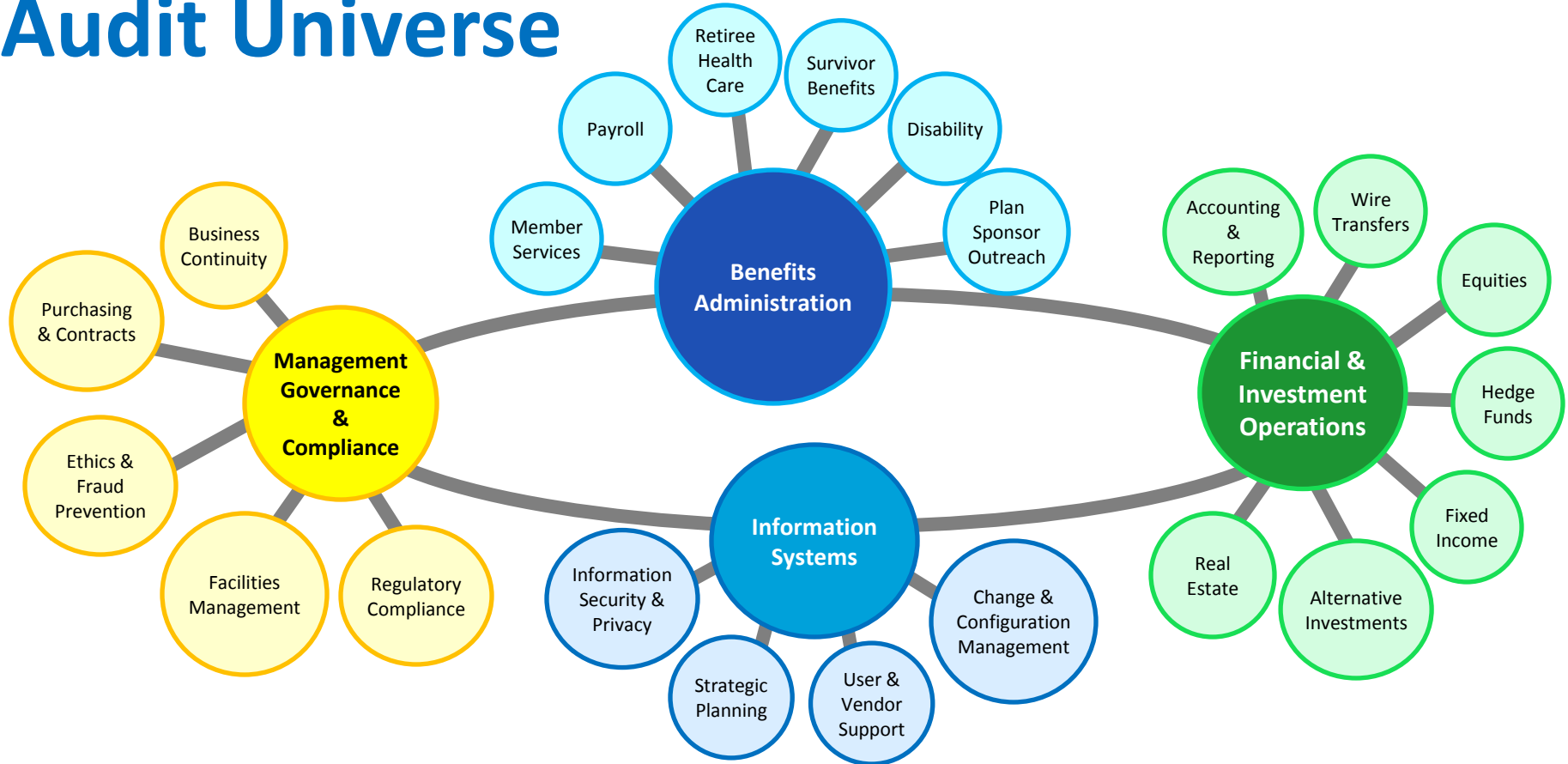


# Risk Assessment Process

The diagram here represents our Risk Assessment Process to be discussed in detail in the following section.



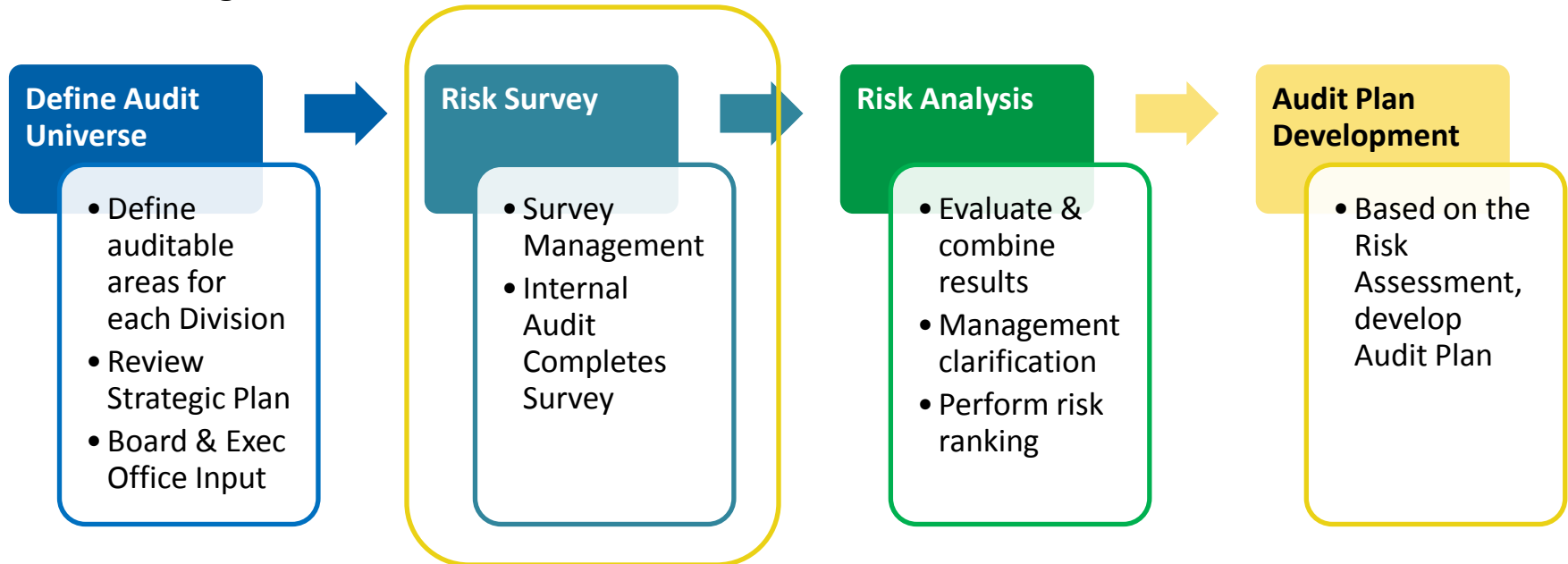
# Audit Universe





# Risk Assessment Process

The diagram here represents our Risk Assessment Process to be discussed in detail in the following section.



# Risk Assessment Survey

## Internal Audit Risk Assessment Survey |



Division: \_\_\_\_\_ Survey Completed By: \_\_\_\_\_ Date: \_\_\_\_\_

**Instructions:** Please answer the following questions to the best of your ability. You may use a separate sheet of paper if you require additional space for your answers. Thank you!

1. What are the key objectives/goals of your division?	
2. What are the most significant hurdles that will prevent your division from accomplishing goals? <i>Describe at a high level.</i>	
3. Have there been any significant staffing changes in the	



# Risk Assessment Survey

## Manager Survey Page 3

Risk Criteria	Definition
<b>Materiality</b>	Significant issue(s) that could negatively affect the system of internal controls OR result in a material financial loss
<b>Privacy</b>	Risk to member data privacy or business critical information
<b>Change</b>	Recent or imminent changes to regulatory environment, staffing, business process, etc.
<b>Focus</b>	Board, Executive or Division Management and/or Strategic Plan area of focus
<b>Headline</b>	Reputational risk
<b>Other</b>	Other risk or mitigating control



# Questions?

2017

**LACERA**

Los Angeles County Employees Retirement Association

# Audit Plan Status Report

FYE 2017 Plan Status as of February 28, 2017

Submitted to the Audit Committee  
March 22, 2017

## In This Report

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Los Angeles County Employees Retirement Association

## **AUDIT COMMITTEE**

of the Board of Retirement & Board of Investments

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**Rick Wentzel**, CPA



**EXECUTIVE SUMMARY**

On behalf of the Internal Audit team, I am pleased to submit the **Internal Audit Work In Progress Report (Report)** of the Los Angeles County Employees Retirement Association (LACERA) for the period of July 1, 2016 to February 28, 2017. This Report provides information on the FYE 2017 Audit Plan, the assurance, consulting, and advisory projects completed as well as other Internal Audit activities.

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

As of July 1, 2016, the FYE 2017 Audit Plan consisted of thirty-eight (38) projects. As the year progressed five (5) unplanned projects were added to the audit plan, for a total of forty-three (43) audit projects for the FYE 2017 Audit Plan. Of the forty-three (43) total projects on the current Audit Plan, thirty (30) projects have been tackled during the year with nine (9) completed and fifteen (15) in progress or ongoing.

As of July 1, 2016 to February 28, 2017, there were 7,335 staff hours available. A total of 5,441 staff hours were applied to audit projects, and 319 hours staff hours to general consulting for a total of 5760 staff audit hours (79%). While 1,575 staff hours (19%) were applied to administrative projects.

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

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

Sincerely,



Richard Bendall, CPA, CISA  
Chief Audit Executive

**INTERNAL AUDIT PLAN FYE 2017**

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

<b>MANAGEMENT, GOVERNANCE &amp; COMPLIANCE</b>				
<b>PROJECT</b>	<b>TYPE</b>	<b>FREQUENCY</b>	<b>EST. HOURS</b>	<b>ACTUAL HOURS</b>
1. Actuarial Experience Study – RFP	RFP	Periodic	300	197
2. Actuarial Audit – RFP	RFP	Periodic	300	197
3. Internal Audit Operations Manual Update <i>(formerly known as IA Guidebook)</i>	Admin	Planned	600	109
4. Compliance Monitoring – Administration	Consulting	Planned	400	132
5. Continuous Auditing Program	Audit	Ongoing	750	
• Fraud Testing – Duplicate Member Payments*	Audit	Periodic	-	366
6. New Payees Testing	Audit	Ongoing	300	135
7. County Medical Reimbursements*	Audit	Planned	400	-
8. Felony Convictions Plan Sponsor Reporting*	Audit	Periodic	300	-
9. Internal Audit Contractor Pool – RFP*	RFP	Planned	200	265
10. Internal Audit Websites Update	Admin	Planned	200	-
11. PEPPRA Employer Compliance Testing*	Audit	Periodic	600	
• Program Administration			-	74
• 960 Hours Testing	Audit	Periodic	-	145
• Pensionable Cap Compliance	Audit	Periodic	-	313
12. Privacy Audit Reco. Coordination	Consulting	Planned	500	391
13. Quality Assurance Improvement Program	Admin	Planned	550	20
14. Risk Assessment – FYE 2018	Admin	Annual	550	-
15. Travel & Education Policy Compliance*	Audit	Planned	200	163
<b>BENEFITS ADMINISTRATION</b>				
16. Active Death Process*	Audit	Planned	500	-
17. Certificates Processing Audit*	Audit	Planned	500	324
18. Member Death Verification Process	Audit	Planned	450	258
19. Member High Risk Verification	Audit	Planned	450	237
20. New Benefits Tier Plan*	Audit	Planned	400	-
21. Member Accounts Settlement Process*	Audit	Planned	500	-
22. Physician Selection and Compensation	Audit	Planned	400	-
<b>INFORMATION SYSTEMS</b>				
23. Business Continuity/Disaster Recovery	Consulting	Planned	300	-
24. Data Backup/Retention Testing*	Audit	Planned	200	222
25. Member Applications Change Control*	Audit	Planned	600	-
26. Systems Penetration Testing*	External Audit	Periodic	200	237
27. IT Risk Assessment	External Audit	Planned	300	-

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

In Process
  Ongoing
  Completed Project

FINANCIAL & INVESTMENT OPERATIONS				
PROJECT	TYPE	FREQUENCY	EST. HOURS	ACTUAL HOURS
28. FYE 2017 – External Financial Audit Facilitation & RFP	External Audit	Annual	300	446
29. Audit of Actuarial Consulting Services	External Audit	Periodic	200	
30. Compliance Monitoring (Investments)	Consulting	Planned	400	90
31. Investment Fee Reporting & Validation*	Audit	Planned	200	196
32. Princeville THC Audit & Tax Service – RFP	RFP	Periodic	300	58
33. Real Estate Financial Audit & Tax Service	External Audit	Annual	250	123
34. Real Estate Investment Operations*	External Audit	Planned	100	
35. Real Estate Advisor Review (EMMES)*	External Audit	Periodic	100	
36. Real Estate Advisor Review (Cornerstone)*	External Audit	Periodic	100	
37. Securities Lending*	External Audit	Planned	50	
38. Real Estate Debt Program Review*	External Audit	Planned	50	
UNPLANNED PROJECTS				
39. Tuition Reimbursement	Audit	Unplanned	-	190
40. APPFA Fall Conference 2016	Admin	Unplanned	-	171
41. Retiree Health Care Consultant - RFP	Consult	Unplanned	-	153
42. Private Equity Audit Monitoring	Consult	Unplanned	-	135
43. 401(a) Salary Contributions Limit	Audit	Unplanned	-	92

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

In Process
  Ongoing
  Completed Project

**WORK COMPLETED & IN PROGRESS**

The following provides a more detailed narrative of both the planned and unplanned Internal Audit projects that have been completed thus far for the **fiscal year ending June 30, 2017**. The projects are ordered by Division. Project detail includes the objective, rationale, and a brief synopsis of the project’s conclusion or status as of October 31, 2016.

**BENEFITS**

**Duplicate Member Payments**

DIVISION(S)	BENEFITS	REPORT DATE	JAN 19,2017
<b>OBJECTIVE</b>	To determine whether the Benefits Division was paying duplicate special payments and to assess the effectiveness of its internal controls to detect duplicate member payments and avoid unnecessary member payments.		
<b>RATIONALE</b>	This audit is a component of our fraud and compliance testing program which leverages data analytics using audit software such as Audit Command Language (ACL). ACL allows us to analyze large sets of data relatively quickly using algorithmic formulas. As such, we determined this type of analytical testing would be appropriate to apply to an audit area such as duplicate member payments.		
<b>CONCLUSION</b>	Internal Audit has completed all fieldwork and has issued the report dated January 19, 2017. It is included in the materials for the March 22, 2017 Audit Committee meeting for action.		

**Certificates Processing Audit**

DIVISION(S)	BENEFITS, MEMBER SERVICES, RHC, & ADMIN SERVICES	REPORT DATE	TBD
<b>OBJECTIVE</b>	To assess the adequacy and effectiveness of the governance, risk management and controls for inputting and validating member certificate information. This assessment will include a review of: <ol style="list-style-type: none"> <li>1. The accuracy of certificate data entry in LACERA’s information systems, and</li> <li>2. The process for authenticating and updating members' certificates received by LACERA.</li> <li>3. Additionally, we will assess whether the certificates used to validate members' eligibility for benefits are adequate based on established criteria.</li> </ol>		
<b>RATIONALE</b>	Based on Executive Office concerns regarding the accuracy of LACERA data derived from members’ certificates, as well as our risk assessment, we included this audit in our Audit Plan.		
<b>PROGRESS</b>	The audit was placed on hold last year pending updates that were made by management to the certificates processing function. We re-initiated the fieldwork portion of the audit in January 2017 and performed significant follow-up fieldwork and testing. We plan to complete the audit by April 30, 2017.		

**BENEFITS**

**Member Death Verification Process**

DIVISION(S)	Benefits	REPORT DATE	TBD
<b>OBJECTIVE</b>	<p>The primary purpose of our audit was to assess management's process for proactively identifying potentially deceased members that are receiving monthly benefits to prevent over-payments to deceased members. Specifically we assessed:</p> <ul style="list-style-type: none"> <li>• Controls surrounding the member death verification process have been designed to detect unreported deaths and prevent overpayments to deceased members.</li> <li>• Policies and procedures exist that address the member death verification process and determine if those policies and procedures are adequate and comprehensive.</li> <li>• If there are any other products / technology available but not currently being used that would improve LACERA's process of detecting/preventing/reducing payments to deceased members.</li> </ul>		
<b>RATIONALE</b>	<p>The audit is part of our fiscal year 2016-2017 audit plan as a result of Internal Audit's Benefits Division risk assessment and also based on the newly developed Benefits Protection Unit (BPU) that was created back in early 2016 to coordinate LACERA's efforts in the detection, prevention, and reduction of payments to deceased members. The BPU process has never been reviewed since its inception. The Member Death Verification Process is the process in which LACERA detects, prevents, and reduces improper payments resulting when a member's death is not reported or detected. The BPU has since added value to the organization by looking out for LACERA's members, and preventing as well as identifying overpayments to potentially deceased members.</p>		
<b>PROGRESS</b>	<p>Internal Audit has currently completed all fieldwork and is anticipating finalizing the report by March 31, 2017.</p>		

**EXECUTIVE OFFICE**

**Compliance Monitoring (Administration)**

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

**PEPRA Employer Compliance Testing**

<b>DIVISION(S)</b>	EXECUTIVE OFFICE	<b>REPORT DATE</b>	TBD
<b>OBJECTIVE</b>	Determine the full effect of LACERA responsibility for compliance with the employer audit provisions (audit of the County) included in the Public Employees Pension Reform Act (PEPRA) which became effective January 1, 2013. In addition, develop Employer Audit procedures based on LACERA's new audit authority and responsibility.		
<b>RATIONALE</b>	PEPRA provisions allow retirement systems (LACERA) to audit the employer (County) and assess fees to recover the cost of the audit if the retirement system determines that the employer failed to comply with specific reporting requirements included in PEPRA. PEPRA requires the employer to properly identify the pay period in which compensation was earned, to report compensation that does not exceed earnable compensation defined by PEPRA, and to report all instances of convicted felonies arising out of or in the performance of the employees' official duties.		
<b>PROGRESS</b>	<p>Internal Audit has contacted several 37 Act Counties to obtain information on their audit procedures. Internal Audit is working with the Executive Office and Systems Division to obtain an understanding of how compensation is reported to LACERA. Internal Audit has worked with County and LACERA executives to establish a felony conviction reporting process which is now in place. Internal Audit has attended a CalPERS Employer Audit Seminar and will work with Management to develop a process for auditing the County.</p> <p>Currently, Internal Audit is working with each LACERA division responsible for performing certain components of verifying the County's PEPRA compliance. Internal Audit will gather the procedures from each division related to their individual PEPRA compliance process. Ultimately, these procedures will be compiled into a centralized LACERA policy and procedures document. We anticipate completing the audit and issuing a report by May 2017.</p>		

**EXECUTIVE OFFICE**

**Actuarial Audit and Experience Study - RFP**

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

**FINANCIAL AND ACCOUNTING SERVICES**

**LACERA Annual Financial Audit Facilitation – FYE 2017**

DIVISION(S)	FASD	MEMO DATE	TBD
<b>OBJECTIVE</b>	Facilitate LACERA's annual external financial statement audit for FYE 2017.		
<b>RATIONALE</b>	External auditors require information data and documentation; also advice, direction, assistance; and with regard to inquiries, timely responsiveness from LACERA staff and management in order to complete their work satisfactorily in a suitable fashion.		
<b>PROGRESS</b>	Internal Audit and FASD are currently working with Plante Moran to facilitate a smooth and timely transition of external, financial auditors, preparing for the 2017 year-end audit.		

**HUMAN RESOURCES**

**Tuition Reimbursement**

<b>DIVISION(S)</b>	HUMAN RESOURCES	<b>REPORT DATE</b>	MAR 1, 2017
<b>UNPLANNED PROJECT JUSTIFICATION</b>	The Executive Office and Human Resources (“HR”) management requested Internal Audit (“IA”) to review the Tuition Reimbursement Program (Program) due to concerns over reimbursement claims submitted during fiscal year 2016-2017. Internal Audit determined that an audit of the Program was necessary to ensure that adequate controls have been established to address risks associated with this program.		
<b>OBJECTIVE</b>	To determine if LACERA’s Tuition Reimbursement Policy, procedures, and process are aligned with industry standards and best practices, effective, and efficient. To determine if staff is in compliance with the Policy.		
<b>RATIONALE</b>	The Executive Office and Human Resources management requested Internal Audit (“IA”) review the Tuition Reimbursement Program due to concerns over reimbursement claims submitted during fiscal year 2016-2017.		
<b>CONCLUSION</b>	We completed the audit and issued the report on March 8, 2017. It is included with the materials for the March 22, 2017 Audit Committee Meeting for action.		



**INTERNAL AUDIT**

**Audit Committee Charter & Internal Audit Charter Updates**

<b>DIVISION(S)</b>	INTERNAL AUDIT	<b>MEMO DATE</b>	JAN 24, 2017
<b>OBJECTIVE</b>	To review and update the Audit Committee and Internal Audit Charters.		
<b>RATIONALE</b>	<p>The Institute of Internal Auditors (IIA) and Association of Public Pension Fund Auditors (APPFA) advise the Audit Committee Charter be reviewed and updated periodically. Internal Audit reviewed the templates provided by the IIA and APPFA, and several peer pension funds, and compared these against the Audit Committee Charter dated December 9, 2009. Based on these comparisons, Internal Audit identified some of the Audit Committee's responsibilities were no longer aligned with industry standards and were not consistent with the Audit Committee's fiduciary duties. Internal Audit's revisions included formatting and substantive updates to better align LACERA's Audit Committee Charter with the IIA and APPFA's best practices.</p> <p>The IIA and APPFA advise the Internal Audit Charter be reviewed and updated periodically. Internal Audit reviewed the IIA's mandated Standards, which all internal audit functions must comply with, the templates provided by the IIA and APPFA, and several peer pension funds, and compared these against LACERA's Internal Audit Charter dated November 17, 2010. Based on this comparison, Internal Audit determined several of the mandated Standards were no longer aligned with IIA's requirements and needed to be revised. Internal Audit's revisions included formatting and substantive updates to ensure adherence to the IIA's mandated Standards and to better align with industry standards.</p> <p><i>*This project began in Fiscal Year Ending 2016. As such, it is not listed as one of the projects on this year's Fiscal Year Ending 2017 Audit Plan.</i></p>		
<b>CONCLUSION</b>	The Internal Audit Charter was approved by the Audit Committee at the December meeting. The Audit Committee Charter was approved by both Boards in January and both Charters were signed on January 24, 2017.		

**Internal Audit Operations Manual**

<b>DIVISION(S)</b>	INTERNAL AUDIT	<b>REPORT DATE</b>	N/A
<b>OBJECTIVE</b>	To review and update the Internal Audit Policy and Process Manual (Manual).		
<b>RATIONALE</b>	The Institute of Internal Auditors (IIA) advises the Manual be reviewed and updated on a regular basis. The Manual defines the policies and procedures that guide LACERA's Internal Audit division with regard to its operations, and the planning, performing, and reporting of internal audit engagements. The manual contributes to consistency and the quality of work Internal Audit does, and supports its Quality Assurance and Improvement program.		
<b>CONCLUSION</b>	Staff is in process of updating the manual with a goal of completion by June 30, 2017.		

**INTERNAL AUDIT**

**Internal Audit Consultant Pool RFP**

<b>DIVISION(S)</b>	INTERNAL AUDIT	<b>MEMO DATE</b>	TBD
<b>OBJECTIVE</b>	Internal Audit will issue an RFP to hire a pool of audit consultants to perform audit services on an on-going basis.		
<b>RATIONALE</b>	Internal Audit will use the consultants on an as needed basis to ensure appropriate resources are available to complete audits and projects included in the Audit Plan.		
<b>PROGRESS</b>	Staff is in the process of completing the RFP and anticipates issuing the RFP by March 31, 2017.		

**Request for Proposal – External Financial Auditor**

<b>DIVISION(S)</b>	INTERNAL AUDIT	<b>MEMO DATE</b>	N/A
<b>OBJECTIVE</b>	Solicit bids from qualified firms to perform the annual financial audit of LACERA's financial statements, which include the OPEB Trust and the OPEB Agency Fund. The final objective is to have an auditor under contract by January 1, 2017.		
<b>RATIONALE</b>	The current financial external auditor contract with Brown Armstrong expires with the completion of LACERA's June 30, 2016, financial statements. LACERA must hire an external financial statement auditor for 2017 and the immediately subsequent years.		
<b>CONCLUSION</b>	At the Audit Committee Meeting of July 2016, the Committee interviewed 3 finalist CPA firms and selected Plante & Moran PLLC alone to be recommended for hire by the Board of Retirement. At the Board of Retirement Meeting of August 11, 2016, the Board unanimously accepted the recommendation and directed staff to commence negotiations with Plante Moran. A contract has been completed and signed and Plant Moran has begun work as LACERA's external audit firm.		

**INVESTMENTS**

**Private Equity Audit Monitoring**

DIVISION(S)	INVESTMENTS DIVISION	REPORT DATE	TBD
<b>UNPLANNED PROJECT JUSTIFICATION</b>	When LACERA retained Kreischer Miller (KM) to perform the audit engagement, Internal Audit determined it would be appropriate that IA oversee the engagement to help maintain independence over audit process.		
<b>OBJECTIVE</b>	Oversee the contract signed with Kreischer Miller (KM) on August 22, 2016 to retrospectively audit private equity fees for a sample of funds within LACERA's private equity portfolio.		
<b>RATIONALE</b>	<p>The Board of Investments directed Staff to hire a firm(s) to provide LACERA with private equity fee verification services. In September 2015, Staff issued a Request for Proposals ("RFP") for two separate engagements:</p> <ol style="list-style-type: none"> <li>1) A retrospective audit of private equity management fees and carried interest, and</li> <li>2) On-going private equity management fees and carried interest verification services</li> </ol> <p>Subsequently, KM was hired to perform the retrospective audit. Internal Audit, being an independent body of LACERA, will be overseeing the engagement to help maintain independence of the audit. Investments office and FASD are monitoring and overseeing the on-going engagement.</p>		
<b>PROGRESS</b>	KM has begun the audit process and is approximately 50% complete. Internal Audit is receiving monthly updates from KM on their progress. KM estimates completion by June 2017.		

**Compliance Monitoring (Investments)**

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

**INVESTMENTS**

**Investment Fee Reporting and Validation**

DIVISION(S)	INVESTMENTS DIVISION	REPORT DATE	TBD
<b>OBJECTIVE</b>	Assess LACERA's controls over reporting and validating investment fees paid to investment managers. Perform test work to verify that LACERA is accurately paying investment fees in accordance with the investment managers' contracts.		
<b>RATIONALE</b>	As part of Internal Audit's FY 2016-17 approved audit plan, Internal Audit will be performing an audit of LACERA's investment fees. According the LACERA's fiscal year 2014-15 Comprehensive Annual Financial Report, LACERA paid approximately \$161 million in investment management fees. This audit was added to our audit plan to verify that LACERA has adequate controls to report and validate investment management fees paid to the investment managers of all asset classes except for private equity. LACERA has already hired a third party to audit private equity investment fees.		
<b>PROGRESS</b>	Internal Audit has completed its test work and a draft audit report. The draft report is currently in the review process. We anticipate issuing the report by April 15, 2017.		

**RETIREE HEALTHCARE**

**Retiree Healthcare Consultant-RFP**

DIVISION(S)	RETIREE HEALTHCARE	MEMO DATE	N/A
<b>UNPLANNED PROJECT JUSTIFICATION</b>	The Retiree Healthcare Division (RHC) requested Internal Audit's participation in their search for the RHC consultant due to Internal Audit staffs' extensive years of experience consulting RHC and background in the RFP process.		
<b>OBJECTIVE</b>	To support the Retiree Healthcare Division in its solicitation to obtain and evaluate proposals from qualified firms to provide comprehensive benefit consulting services related to the administration of the Retiree Healthcare Benefits (OPEB) Program. The current consultant's contract with LACERA expires June 30, 2017.		
<b>RATIONALE</b>	Retiree Healthcare Benefits (OPEB) is an extremely complicated, sensitive & dynamic area. LACERA administers the County's OPEB program, which includes audits of retiree healthcare claims adjudicated by the insurance carriers. Neither the County nor LACERA has the resources or the expertise to fully administer the program either. As a result they need a qualified consultant to assure that LACERA and County receive the best possible service from the carriers.		
<b>CONCLUSION</b>	The IBL Committee approved the RFP for issue at its August 2016 Meeting. A staff Proposal Evaluation Committee subsequently reviewed all proposals received; and the bidders made presentations to the Evaluation Committee in late October 2016. The IBL Committee had the finalist bidders' presentations made to it on December 15, 2016, and recommended to the Board of Retirement that Segal Consulting be selected. The Board concurred unanimously with that recommendation at its January 12, 2017 meeting. Contract negotiations between RHC and Segal are currently underway. Internal Audit's role is essentially concluded.		

**RETIREE HEALTHCARE**

**Member High Risk Verification**

DIVISION(S)	RETIREE HEALTHCARE	REPORT DATE	TBD
<b>OBJECTIVE</b>	<ul style="list-style-type: none"> <li>Review the internal controls for Retiree Healthcare's member verification process for both directly incoming and transferred member calls.</li> <li>Ensure member calls taken by Retiree Health Care are properly verified.</li> </ul>		
<b>RATIONALE</b>	Federal regulations (32 CFR 701.115) require the safeguarding of "Protected Personal Information" (PPI). Access to and disclosure of PPI such as SSN, date of birth, home address, home telephone number, etc., must be strictly limited to individuals with an official need to know. LACERA must take action to protect PPI from being widely disseminated. The Member Verification Process is used by staff to determine to whom they are speaking with and what information they are allowed to discuss with the caller.		
<b>PROGRESS</b>	Internal Audit has completed its fieldwork and is in the process of drafting a report. We anticipate issuing the report by March 31, 2017.		

**SYSTEMS**

**Data Backup & Retention**

DIVISION(S)	SYSTEMS	REPORT DATE	TBD
<b>OBJECTIVE</b>	To determine whether the retention period for audit records and logs complies with applicable good practice guidance and to assess written policies and procedures for backing up and transporting files. Review the contingency plan including the priority of service provisions		
<b>RATIONALE</b>	In order to minimize the probability and impact on key business functions and processes, of a major Systems service interruption there is a need to ensure Systems management of backup arrangements and availability of business-critical information are adequately in effect. Systems, applications, data, and documentation all need to be backed up according to a defined schedule, considering Data types (e.g., voice, optical), Critical end-user computing data (e.g., spreadsheets), Physical and logical location of data sources, Security and access rights, and Encryption.		
<b>PROGRESS</b>	Internal Audit is currently performing fieldwork and testing, and anticipates completing the audit by June 2017. Upcoming technology upgrades and changes will be both significant and impactful to this review.		

**SYSTEMS**

**Systems Penetration Testing**

DIVISION(S)	SYSTEMS	REPORT DATE	FEB 28,2017
<b>OBJECTIVE</b>	To evaluate the controls preventing vulnerabilities on the internet accessible Web Portal which could be used to gain access to the LACERA internal network, view sensitive LACERA data, or potentially corrupt data that legitimate users may access. To determine if good practice standards and program code conventions are in effect for portal access authentication and authorization code.		
<b>RATIONALE</b>	Prior reviews have found network and application environments exhibit many strong security practices that provided a very robust security framework. However, gaps were noted that could impact the security of the systems and member data maintained by LACERA. Systems Division Management welcomes independent assessment and acknowledges the potential risk significance of vulnerable internet member services due to ever changing technologies.		
<b>PROGRESS</b>	<p>A technology consultant specializing in both penetration testing and application assessments was retained. A Statement-Of-Work agreement addressing the objectives noted above was executed and incorporated with a recently completed Master Service Agreement. Fieldwork and testing was completed in December, 2016. The consultant completed their audit and reported the state of security from outside penetration for LACERA was excellent.</p> <p>We issued the report to the Audit Committee on February 28, 2017 and it is included in the materials for the March 22, 2017 Audit Committee meeting for action.</p>		

**ONGOING TESTING, MONITORING & CONSULTING**

The following provides a brief narrative of ongoing Internal Audit projects for the **Fiscal Year Ended 2016**. These recurring projects include testing, monitoring, and consulting assignments performed on an ongoing basis to prevent fraud and ensure compliance throughout LACERA’s business units. Project detail includes the objective, rationale, and a brief synopsis of the project’s status. All ongoing Internal Audit projects will be concluded, as of June 30, 2017, for Fiscal Year End 2017. All projects will resume July 1, 2017 for Fiscal Year End 2018.

**BENEFITS**

**New Payee Validation Continued Process Test (CPT)**

<b>DIVISION(S)</b>	BENEFITS
<b>OBJECTIVE</b>	To confirm by reviewing supporting file documentation that benefits were only paid to eligible former Los Angeles County employees or their beneficiaries. Internal Audit examines 100% of the new benefit payees using computer assisted audit techniques. Internal Audit tests all new payees on a monthly basis.
<b>RATIONALE</b>	In some instances, Internal Audit performs process-monitoring activities for LACERA. One of these monitoring activities is the continuous process testing of scheduled benefit payments to new service and disability retirees and also new survivor payees.
<b>PROGRESS</b>	Internal Audit has tested 100 percent of all new benefit payees from July 2016 through February 2017. Internal Audit found no exceptions to the scheduled new benefit payees.

**INTERNAL AUDIT**

**Recommendation Follow-up**

<b>DIVISION(S)</b>	INTERNAL AUDIT
<b>OBJECTIVE</b>	In compliance with the Institute of Internal Auditors' <i>International Professional Practices Framework</i> , the Chief Audit Executive must establish and maintain a system to monitor the disposition of audit results communicated to management.
<b>RATIONALE</b>	Internal Audit monitors the implementation status of prior audit recommendations made to LACERA Management to ensure that Management action plans have been effectively implemented or that Senior and Executive Management have accepted the risk of not taking action.
<b>PROGRESS</b>	The status of all, audit recommendation related, management action plans are reported to the Audit Committee regularly. The most recent review cycle was completed through February 28, 2017. This is an ongoing monitoring that will conclude June 30, 2017.

**INTERNAL AUDIT****Board and Committee Monitoring**

<b>DIVISION(S)</b>	INTERNAL AUDIT
<b>OBJECTIVE</b>	To monitor all LACERA board and committee meetings, to ensure interaction and reporting is accurate and adequate.
<b>RATIONALE</b>	Internal Audit's scope of work includes the monitoring of LACERA's network of risk management, control, and governance processes, as designed and represented by Management. Monitoring is done to ensure the various LACERA governance groups/management are communicating and to ensure information is accurately and adequately conveyed to the necessary parties.
<b>PROGRESS</b>	This is an ongoing monitoring that will conclude June 30, 2017.

**General Consulting (< 2 hours)**

<b>DIVISION(S)</b>	INTERNAL AUDIT
<b>OBJECTIVE</b>	Assist LACERA Management with advice and/or resources.
<b>RATIONALE</b>	Internal Audit is often consulted for advice or additional information on organizational processes, projects, and issues. Any consulting project requiring two hours or less of an auditor's time is placed in this category. Consulting projects requiring an excess of two hours time are typically documented and reported as individual projects. The 289 hours spent this fiscal year to date, represents auditors providing consulting/advice in many different areas on various topics.
<b>PROGRESS</b>	Internal Audit maintains an open door policy for general consulting purposes. This is ongoing consulting that will conclude June 30, 2017.



**INVESTMENTS**

**Real Estate External Financial Audit and Tax Services – FYE 2017**


<b>DIVISION(S)</b>	INVESTMENTS
<b>OBJECTIVE</b>	<ul style="list-style-type: none"> <li>▪ To ensure annual audited financial statements are completed for each of LACERA’s wholly owned real estate entities and are provided to LACERA Financial Accounting and Services Division for inclusion in LACERA’s Annual Audited Financial Statement.</li> <li>▪ In conjunction with the Legal Office, to contract and monitor tax services for wholly owned real estate properties.</li> <li>▪ Review and coordinate real estate audit and tax invoice payments with the Investment Office.</li> </ul>
<b>RATIONALE</b>	<p>It is common industry practice that external financial audit firms are selected and contractually managed by the real estate investment advisers who manage wholly owned real estate assets on behalf of clients. However, LACERA believes an inherent conflict of interest exists when an investment adviser selects the auditors and administers the external, real estate audits of the assets the adviser manages for its clients. Internal Audit acts as the contract manager and primary point of contact for the audits of LACERA’s wholly owned real estate assets. Internal Audit selects the external financial auditors and administers the associated audit contracts for all wholly owned real property investments.</p>
<b>PROGRESS</b>	<p>Financial statements for fiscal year ending June 30, 2017 will be completed by September 15, 2017.</p>




March 8, 2017

TO: Each Member  
2017 Audit Committee Members

Audit Committee Consultant  
Rick Wentzel

FROM: Quoc Nguyen   
Principal Internal Auditor

Gabriel Tafoya   
Senior Internal Auditor

FOR: March 22, 2017 | Audit Committee Meeting

SUBJECT: **RECOMMENDATION FOLLOW-UP REPORT**

#### **AUDIT RECOMMENDATION IMPLEMENTATION SUMMARY**

From November 1, 2016 through February 28, 2017, the following audit recommendation activity occurred:

- Two (2) new recommendations were made during this reporting period. These recommendations resulted from the Duplicate Special Payments audit.
- Five (5) recommendations were implemented:
  - Two (2) were implemented by the Benefits Division.
  - Two (2) were implemented by the Investments Office.
  - One (1) was implemented by the Systems Division.

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

**AUDIT RECOMMENDATIONS STATUS**  
**November 1, 2016 – February 28, 2017**

Division	New Recommendations	Implemented/ Closed	Management Accepts Risk	Pending
Administrative Services:				10
Benefits Division:	2	2		11
Communications:				
Disability Litigation:				
Disability Retirement:				
Executive-Org. level:				
FASD:				3
Human Resources:				
Internal Audit:				1
Investments:		2		2
Legal:				
Member Services:				
Quality Assurance:				
Retiree Health Care:				
Systems:		1		
Actuary:				
<b>Total:</b>	<b>2</b>	<b>5</b>	<b>0</b>	<b>27</b>

**AUDIT RECOMMENDATIONS AGING REPORT**

Internal Audit included an aging report to provide additional transparency into the amount of time it takes LACERA to fully implement audit recommendations. Audit recommendations made to address higher risk issues are most often implemented immediately or certainly within the first year whenever possible. As requested by the Audit Committee, Internal Audit has also included a status from Management for those recommendations that have been outstanding for longer than two years (see page 5).

To better understand any particular number, please refer to **Attachment A** and review the **Implemented** and **Pending** recommendations. Significantly more detail can be made available on each recommendation. Should you require such additional information, please contact me (qnguyen@lacera.com) or Mr. Bendall (rbendall@lacera.com) and we will be pleased to assist you.

## **BACKGROUND**

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

During the audit process, Internal Audit, as well as external auditors (financial, fiduciary, actuarial, and IT), regularly identify areas where LACERA Management may implement changes to improve risk controls in its processes and Management provides action plans indicating how and when planned improvements will be made. These recommendations and action plans are included in each formal audit report. Additionally, Internal Audit makes recommendations and management identifies improvement plans during Internal Audit consulting assignments. All recommendations and management action plans are documented in Internal Audit's *Recommendation Follow-Up* database for tracking, monitoring, and follow-up reporting.

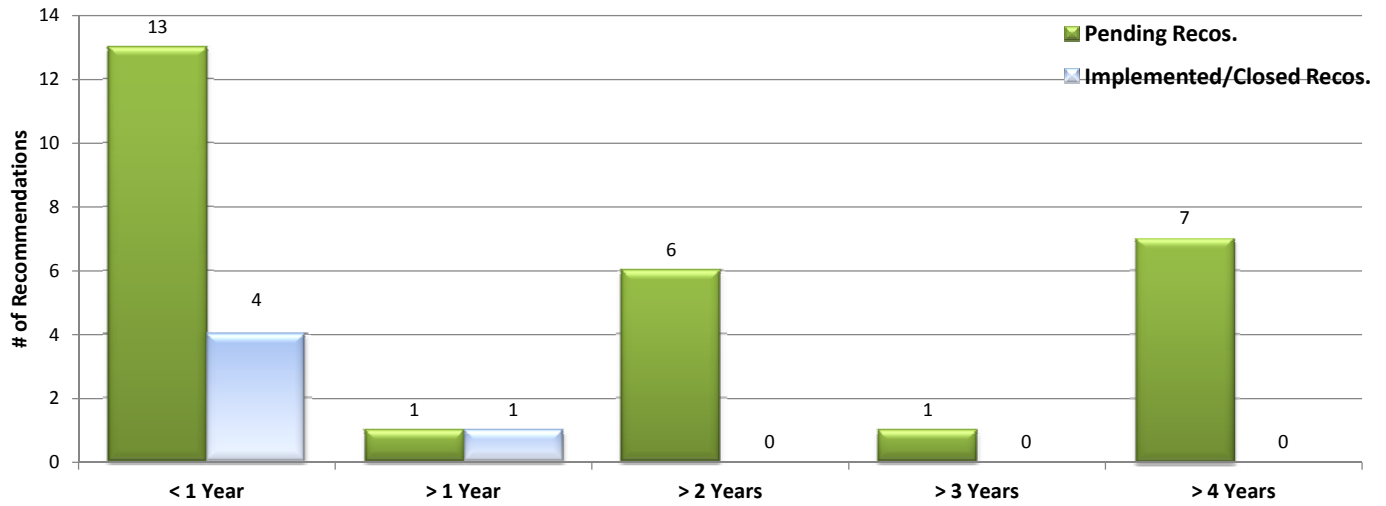
It is Internal Audit's responsibility to ensure that Management's action plans have been effectively implemented, or in the case of action plans that have yet to be implemented, to ensure that Management remains aware of the risks it has accepted by not taking action. In certain situations, if reported observations and recommendations are significant enough to require immediate action by Management, Internal Audit persistently monitors actions taken by Management until the observed risk is corrected and the recommendation implemented.

It is not the responsibility of the Chief Audit Executive to resolve the risks identified during audit work. However, in accordance with IIA Performance Standard #2600, it is Internal Audit's responsibility to communicate the acceptance of risks when the Chief Audit Executive concludes that Management has accepted a level of risk that may be unacceptable to the organization. As a result of this responsibility, Internal Audit communicates all pending *Management Action Plans* to LACERA's Executive Management for resolution. In this manner, Internal Audit escalates unsatisfactory responses or lack of Management actions - including the assumption of risk - to the appropriate levels of Executive Management.

QN/gt

# Audit Recommendation Aged Report

November 1, 2016 through February 28, 2017



Pending Recos.	< 1 Year	> 1 Year	> 2 Years	> 3 Years	> 4 Years
Administrative Services	3		2		6
Benefits Division	6		4	1	
FASD	3				
Human Resources					
Internal Audit					1
Investments	1	1			
Legal					
Systems Division					

11

<b>Pending Total:</b>	<b>13</b>	<b>1</b>	<b>6</b>	<b>1</b>	<b>7</b>
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28

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

<b>Implemented/Closed Total:</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>
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5

## Status of Recommendations Outstanding For More Than Two Years

Division	Issue	Recommendation	Aging (years)	Revised Est. Implementation	Current status of implementation (Management's response)
Admin Services	Greater clarity & expansion needed in Purchasing Policy & the related Admin Manual	Admin Services Division should modify & expand both the Purchasing Policy and the related Admin Manual	5	6/30/2017	The Policy draft is complete and has been presented to the Executive Office for review. The Executive Office is currently considering potential modifications to proposed draft rules.
	Daily operating procedures ("desk procedures") need enhancement re control procedures	Procurement Unit should update & expand its written, daily operating procedures	5	6/30/2017	The Policy draft is complete and has been presented to the Executive Office for review. The Executive Office is currently considering potential modifications to proposed draft rules.
	"Sole-source" or bidding documentation not found	(1) Promulgate requirements to other Divisions (2) Update desk procedures & (3) Contact FASD & agree upon document retention	5	6/30/2017	The Policy draft is complete and has been presented to the Executive Office for review. The Executive Office is currently considering potential modifications to proposed draft rules.
	Reception area in Administrative Services is not keycard controlled	# 8 - Install barrier to entry.	5	4/15/2017	The Administrative Services renovation began on November 18, 2016. Included as part of the construction, a key carded entrance into the division from the reception area is included. The renovation and relocation of staff back to the 6th floor will be complete by April 15, 2017.
	All LACERA staff have access to the DPC	#5 DPC should be physically separated	5	4/15/2017	The Administrative Services renovation began on November 18, 2016. Included as part of the construction is building a wall to include a separate entrance between the DPC and the rest of the division. No one other than DPC staff and division management will have access to the area. We are doing this also in response to some privacy concerns regarding PI and PHI type of documents. The renovation and relocation of staff back to the 6th floor will be complete by April 15, 2017.
	Employees must pass through the mail room to gain access to the copy center	#7 Secure Mail Room	5	4/15/2017	The Administrative Services renovation began on November 18, 2016. As part of the construction, the mail room will be located behind the copy room so that staff would not need to walk through the mail room to get to the copy center. The renovation and relocation of staff back to the 6th floor will be complete by April 15, 2017.
	Record Retention Training - Division Manager Education	Management Education	2	3/30/2017	Training for all managers and records coordinators will be completed by March 30, 2017.
Internal Audit	Quality assurance and improvement programs are required	#4 - Improve quality assurance program	5	6/30/2017	Internal Audit has included in its calendar year 2016 goals to develop a formal quality assurance and improvement program (QAIP) as required by Institute of Internal Auditing (IIA) Standards. Currently, Internal Audit has developed a completed draft on the QAIP Policy. Internal Audit is continuing its efforts in refining the procedures on how the QAIP procedures will be implemented.

<b>Benefits</b>	<i>1st Payment - Separation of Duties</i>	<i>Implement secondary review</i>	3	12/31/2017	<i>The action plan for this recommendation is still in progress. In the meantime, independent audits of Agenda cases by QA and close monitoring of cases by Supervisors throughout the first payment process help mitigate this risk.</i>
	<i>Potential for input errors</i>	<i>Develop field for logging first payment and monthly payment data</i>	2	12/31/2017	<i>The action plan for this recommendation is still in progress. In the meantime, independent audits of Agenda cases by QA and close monitoring of cases by Supervisors throughout the first payment process help mitigate this risk.</i>
	<i>Need to review non-CIB transactions</i>	<i>Forward non-CIB cases to QA for review</i>	2	12/31/2017	<i>Until a Systems solution is available, Benefits Staff continue to work with QA to manually review selected non-CIB transactions.</i>
	<i>Recreating Timelines</i>	<i>Certify Member Timelines</i>	2	6/30/2018	<i>The ACE training program is currently being developed by a team made up of QA, Benefits, and the former QA Division Manager.</i>
	<i>Two Different Disability Databases</i>	<i>Eliminate Double Entry and Continue Reconciling Disability Status</i>	2	6/30/2018	<i>The action plan for this recommendation is still in progress. In the meantime, independent audits of Agenda cases by QA and close monitoring of cases by Supervisors throughout the first payment process help mitigate this risk.</i>
	<i>Survivor Direct Deposit Set-up</i>	<i>Direct Deposit Confirmation</i>	2	6/30/2017	<i>The Systems Division is re-writing the Seamless Survivor workflow in the near future. Benefits will work with the Systems Division to improve and streamline the process for updating survivors' direct deposit accounts, when necessary.</i>

# Audit Recommendation Follow Up

## Administrative Services

Status: **Pending**

### Audit Project: **Office Renovation Projects (April 24, 2016)**

Issue:	Recommendation	Actual	Estimated	Revised
Vendor Justification Not Included in Master Project File or Addressed in Written Procedures	Update written procedures and process to include documenting vendor selection		12/31/2016	6/1/2017
Inconsistent levels of participation from key stakeholders	Improve Planning and communication of Office Renovation projects		12/31/2016	6/1/2017
Change Orders are not adequately documented or addressed in written procedures	Develop and codify process for managing Change Orders		12/31/2016	6/1/2017

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

Issue:	Recommendation	Actual	Estimated	Revised
All LACERA staff have access to the DPC	#5 - DPC should be physically separated.		12/31/2011	4/15/2017
Reception area in Administrative Services is not keycard controlled	# 8 - Install barrier to entry.		12/31/2011	4/15/2017
Employees must pass through the mail room to gain access to the copy centre	#7 Secure Mail Room		12/31/2011	4/15/2017

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

Issue:	Recommendation	Actual	Estimated	Revised
Daily operating procedures ("desk procedures") need enhancement re control procedures	Procurement Unit should update & expand its written, daily operating procedures		12/31/2011	6/30/2017
"Sole-source" or bidding documentation not found	(1) Promulgate requirements to other Divisions (2) Update desk procedures & (3) Contact FASD & agree upon document retention		12/31/2011	6/30/2017



# Audit Recommendation Follow Up

## Administrative Services

Status: **Pending**

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

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

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

Issue:	Recommendation	Actual	Estimated	Revised
Record Retention Training - Division Manager Education	Management Education		6/30/2014	3/30/2017

# Audit Recommendation Follow Up

## Benefits

Status: **Closed - Verified**

Audit Project: **Duplicate Special Payments (January 19, 2017)**

Issue:	Recommendation	Actual	Estimated	Revised
Update Special Payment Procedures	Update Special Payment Procedures With Additional Instructions	11/1/2016	11/1/2016	

Status: **Implemented**

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

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

Status: **New**

Audit Project: **Duplicate Special Payments (January 19, 2017)**

Issue:	Recommendation	Actual	Estimated	Revised
Expand the Automation of Special Payment Approvals	Automate the Special Payments Approval Process and Collaborate With Internal Audit During Control Design Development		12/31/2017	

Status: **Pending**

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

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

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

Issue:	Recommendation	Actual	Estimated	Revised
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# Audit Recommendation Follow Up

## Benefits

Status: **Pending**

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

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

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

Issue:	Recommendation	Actual	Estimated	Revised
Incomplete Documentation	Develop a Procedure Manual, Provide Training, and Improve the Review and Approval Process		6/30/2017	
Potential Unclaimed Minor Survivor Benefits	Create Policy and Procedures to Follow-Up With Minor Survivor Beneficiaries that Have Unclaimed Benefits		6/30/2017	

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

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

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

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

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

Issue:	Recommendation	Actual	Estimated	Revised
ADR Open Holds	ADR Open Holds - Member Verification		6/30/2016	6/30/2017
ADR Open Holds	ADR Open Holds - Health Care Benefits Reinstatement		6/30/2016	6/30/2017

# Audit Recommendation Follow Up

## Benefits

Status: **Pending**

Audit Project: <b>Returned ADR Process Review (November 24, 2015)</b>				
Issue:	Recommendation	Actual	Estimated	Revised
Documented Procedures	Need for Documented Procedures		6/30/2016	9/30/2017

Audit Project: <b>SCD Tax Indicator (July 3, 2012)</b>				
Issue:	Recommendation	Actual	Estimated	Revised
Two Different Disability Databases	Eliminate Double Entry and Continue Reconciling Disability Status		6/30/2014	6/30/2018

# Audit Recommendation Follow Up

FASD

Status: **Pending**

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

Issue:	Recommendation	Actual	Estimated	Revised
Ensure Travel Expenses and Supporting Documentation Are Adequately Reviewed	Ensure Travel Expenses and Supporting Documentation Are Adequately Reviewed		12/31/2016	4/1/2017
Written Justification of Meal Requests if Pre-Paid Meal Was Available	Update the Policy to Require Written Justification of Meal Reimbursement If a Pre-Paid Meal Was Available		12/31/2016	3/31/2017
Training on Policy	Reinforce Policies and Procedures		1/30/2017	4/15/2017

# Audit Recommendation Follow Up

## Internal Audit

Status: **Pending**

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

Issue:	Recommendation	Actual	Estimated	Revised
Quality assurance and improvement programs are required	#4 - Improve quality assurance program		6/30/2011	6/30/2017

# Audit Recommendation Follow Up

## Investments

Status: **Implemented**

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

Issue:	Recommendation	Actual	Estimated	Revised
Limited back office due diligence performed	Include manager back-office review as part of due diligence	12/5/2016	12/31/2015	6/30/2017
Private Equity Staffing and Consulting Services Levels	Evaluate Private Equity Staffing and Consultant Service Levels	12/16/2016	3/31/2016	12/31/2016

Status: **Pending**

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

Issue:	Recommendation	Actual	Estimated	Revised
No formal Information Management System or CRM System to manage information	Consider implementing CRM System		6/30/2016	6/30/2017
Due Diligence Checklists	Include guidelines for checklists and sign-off on checklists		12/31/2015	6/30/2017

# Audit Recommendation Follow Up

## Systems

Status: **Implemented**

Audit Project: <b>Software License Compliance (November 24, 2015)</b>				
Issue:	Recommendation	Actual	Estimated	Revised
Software License Compliance Monitoring Guidelines Needed	Develop software licensing compliance guidelines.	12/30/2016	6/30/2016	12/31/2016






March 8, 2017

TO: Each Member  
2017 Audit Committee

Audit Committee Consultant  
Rick Wentzel

FROM: Richard Bendall   
Chief Audit Executive

FOR: March 22, 2017 | Audit Committee Meeting

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

At the October 2016 Board of Investments and Board of Retirement meetings, your Boards were presented with the results of the 2016 Privacy Audit performed by Alston & Bird and their subcontractor, Stroz Friedberg. The final audit report, findings and conclusions presented at these meetings provided a clear understanding of privacy practices at LACERA as well as recommendations.

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

Due to the confidential nature of the report, Internal Audit will report the status of these recommendations separately from the standard Recommendation Follow-Up Report. At future meetings, we will provide you with detailed updates on the status of recommendations in a confidential attorney-client communication. With each detailed update, we will also provide a high level public summary to track the general categories of recommendations as included in Alston & Bird's public presentation in October 2016.

At this point in the process, we want to assure your Committee that staff has met to prioritize and plan an approach toward addressing the recommendations in a logical sequence. First and foremost, given the importance of LACERA's compliance obligations as they relate to the Health Insurance Portability and Accountability Act (HIPAA), the Legal Office has begun the process of ensuring that LACERA comply with Alston & Bird's recommendations made in that regard. In addition, the Executive Office has assigned each of the other recommendations to specific divisions, and each division is preparing a schedule for completion of their assignments, with projected due dates.

To address the recommendations made by Alston & Bird, other efforts by staff will be reflected in the possible addition of staff or services in the near future. Information on these matters will be provided to the Boards on an ongoing basis and we will provide your Committee with more specific follow-up to the recommendations at subsequent Audit Committee meetings.

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



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


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



March 3, 2017

TO: Each Member  
2017 Audit Committee

Audit Committee Consultant  
Rick Wentzel

FROM: Richard Bendall   
Chief Audit Executive

FOR: March 22, 2017 | Audit Committee Meeting

SUBJECT: **INTERNAL AUDIT GOAL REPORT**

In past years, Internal Audit has provided the Committee with new calendar year goals at the first meeting of the year and a final goal report during the last meeting of the year. However, beginning this year, the LACERA Internal Audit Goals will now coincide with the fiscal year and the LACERA Strategic Plan Goals. Hence, the 2016 Internal Audit Goals will conclude on June 30, 2017 and will be presented to the Audit Committee at the fiscal year-end meeting.

The following Internal Audit Goal Report includes a status update on the 2016 Internal Audit Goals.

Following the brief presentation of these goals, we welcome the opportunity for any discussion, clarification, or feedback from your Committee.


RB:lc:dv  
Attachment



March 7, 2017

TO: Each Member  
2017 Audit Committee Members

Audit Committee Consultant  
Rick Wentzel

FROM: Richard Bendall   
Chief Audit Executive

FOR: March 22, 2017 | Audit Committee Meeting

SUBJECT: **INTERNAL AUDIT GOALS – FYE 2017**

The following details the statuses of Internal Audit's goals for the six month period ending June 30 2017:

## Goal 1: Manage the completion of the FYE 17 Audit Plan and develop a realistic risk based Audit Plan for FYE 18.

### Performance Measure:

- *Presentation of the FYE 17 Audit Plan final status to the Audit Committee at the Summer 2017 meeting.*
- *Presentation of the FYE 18 Audit Plan to the Audit Committee for approval at the Summer 2017 meeting.*

### Status:

**In Progress.** Staff will present the FYE 17 Audit Plan status to the Audit Committee at the March 22, 2017 meeting. Staff will also provide the Audit Committee with a risk presentation initiating the risk assessment and Audit Plan development process for the FYE 18 Plan at the March 22, 2017 meeting.

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

### Performance Measure:

*Internal Audit provided the Audit Committee with the formal framework for the QAIP at the December 2016 meeting. We anticipate completing the first QAIP by June 30, 2017 and presenting the results to the Audit Committee at the Summer 2017 meeting.*

### Status:

**In Progress.** Staff is currently initiating QAIP process within Internal Audit.

### Goal 3: Develop & Implement an Internal Audit Operations Guide

**Performance Measure:**

*Internal Audit will complete a comprehensive update of the Internal Audit Operations Guide by June 30, 2017.*

**Status:**

**In Progress.** Staff has begun working on updating the Internal Audit Operations Guide and anticipates completing it by June 30, 2017.

### Goal 4: Update Internal Audit Websites

**Performance Measure:**

*Internal Audit will complete a comprehensive update of the Internal Audit Internet and Intranet website Guide by June 30, 2017.*

**Status:**

**In Progress.** Staff has prepared revisions to update the format and content of the websites. Staff is working with the Communications Division to complete this goal. We anticipate completing this goal by June 30, 2017.

### Goal 5: Update the Internal Audit Divisions Disaster Recovery Plan (New annual goal)

**Performance Measures:**

*Internal Audit will ensure that the Division section of the LACERA Disaster Recovery Plan is updated and current.*

**Status:**

**Ongoing.** Staff revises and updates the Division section of the LACERA Disaster Recovery Plan when presented with our section of the plan for updates by the Administrative Services Division. The plan is current as of March 22, 2017.



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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**