

LIVE VIRTUAL COMMITTEE MEETING



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

You may submit a request to speak during Public Comment or provide a written comment by emailing PublicComment@lacera.com. If you are requesting to speak, please include your contact information, agenda item, and meeting date in your request.

Attention: Public comment requests must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting.

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

AGENDA

A SPECIAL MEETING OF THE AUDIT COMMITTEE

AND BOARD OF RETIREMENT AND BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, AUGUST 19, 2020

This meeting will be conducted by the Audit Committee under the Governor's Executive Order No. N-29-20.

Any person may view the meeting online at
https://members.lacera.com/lmpublic/live_stream.xhtml

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

2020 AUDIT COMMITTEE MEMBERS

Gina V. Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

AUDIT COMMITTEE CONSULTANT

Rick Wentzel

I. CALL TO ORDER

II. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Special Audit Committee Meeting of June 25, 2020

III. PUBLIC COMMENT

(**You may submit written public comments by email to PublicComment@lacera.com. Please include the agenda number and meeting date in your correspondence. Correspondence will be made part of the official record of the meeting. Please submit your written public comments or documentation as soon as possible and up to the close of the meeting.

You may also request to address the Committee. A request to speak must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting. Please include your contact information, agenda item, and meeting date so that we may contact you with information and instructions as to how to access the Committee meeting as a speaker.)

IV. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Leisha Collins, Principal Internal Auditor and Christina Logan, Senior Internal Auditor: That the Committee approve Fiscal Year 2020-2021 Internal Audit Plan.
(Memo dated July 30, 2020)

- B. Recommendation as submitted by Gina Sanchez, Chair Audit Committee: That the Committee approve KPMG LLP as Consultant to Conduct External Assessment of Internal Audit Recommendation Follow-Up Areas.
(Memo dated July 30, 2020)

- C. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Nathan Amick, Internal Auditor: That the Committee review and discuss the Audit of Los Angeles County's Compliance with Requirements for Rehired Retirees and provide the following action(s):
 - 1. Accept and file report;
 - 2. Instruct staff to forward report to Boards or Committees;
 - 3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or
 - 4. Provide further instruction to staff.
(Memo dated July 30, 2020)

August 19, 2020

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V. REPORTS

- A. Proposed Revisions to the Audit Committee Composition
Richard Bendall, Chief Audit Executive
Leisha Collins, Principal Internal Auditor
Christina Logan, Senior Internal Auditor
(Memo dated August 11, 2020)
- B. FY 2020-2021 Internal Audit Goals
Richard Bendall, Chief Audit Executive
Leisha Collins, Principal Internal Auditor
(Memo dated July 30, 2020)
- C. Recommendation Follow-Up for Sensitive Information Technology Areas
Richard Bendall, Chief Audit Executive
Gabriel Tafoya, Senior Internal Auditor
Christina Logan, Senior Internal Auditor
(Memo dated July 30, 2020)
- D. Internal Audit Staffing Report
Richard Bendall, Chief Audit Executive
(Verbal Presentation)

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].

***Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.*

MINUTES OF THE SPECIAL MEETING OF THE AUDIT COMMITTEE OF THE

BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

8:00 A.M., THURSDAY, JUNE 25, 2020

This meeting was conducted by teleconference pursuant to the Governor's Executive Order N-29-20. The public may attend the meeting at LACERA's offices.

PRESENT: Gina V. Sanchez, Chair

Keith Knox, Vice Chair

Herman B. Santos, Secretary

Vivian H. Gray

David Green (Left the meeting at 9:00 a.m.)

MEMBERS AT LARGE

JP Harris

Les Robbins

STAFF, ADVISORS, PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer

Richard Bendall, Chief Audit Executive

Steven P. Rice, Chief Counsel

Leisha Collins, Principal Internal Auditor

STAFF, ADVISORS, PARTICIPANTS (Continued)

Christina Logan, Senior Internal Auditor

Summy Voong, Senior Internal Auditor

Kathryn Ton, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Kristina Sun, Senior Internal Auditor

Nathan Amick, Internal Auditor

James Brekk, Information Systems Manager

Bernie Buenaflor, Benefits Manager

Rick Wentzel, Audit Committee Consultant

I. CALL TO ORDER

The meeting was called to order at 8:00 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF THE MINUTES

A. Approval of the Minutes of the Special Audit Committee Meeting of May 8, 2020.

Mr. Green made a motion, Mr. Knox seconded, to approve the minutes of the Special Audit Committee meeting of May 8, 2020. The motion passed (roll call) with Messrs. Green, Knox, Santos, Ms. Gray and Ms. Sanchez voting yes.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Christina Logan, Senior Internal Auditor: That the Committee approve the Revisions to Internal Audit Charter.
(Memo dated June 16, 2020)

Mr. Green made a motion, Mr. Knox seconded, to approve staff's recommendations. The motion passed (roll call) with Messrs. Green, Knox, Santos, Ms. Gray and Ms. Sanchez voting yes.

- B. Recommendation as submitted by Gina Sanchez, Chair Audit Committee: That the Committee authorize the issuance of a Request for Proposal for External Assessment of Internal Audit Recommendation Follow-Up Process.
(Memo dated June 16, 2020)

Mr. Santos made a motion, Mr. Green seconded, to approve an RFP. The motion passed (roll call) with Messrs. Green, Knox, Santos, Ms. Gray and Ms. Sanchez voting yes.

- C. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Summy Voong, Senior Internal Auditor: That the Committee review and discuss the Mobile Device Management Controls Audit and provide the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees; and/or
3. Provide further instruction to staff.
(Memo dated June 16, 2020)

IV. NON-CONSENT ITEMS (Continued)

Mr. Green made a motion, Mr. Knox seconded, to accept and file the report and direct staff to work with Executive Office to incorporate applicable recommendations into the revised MDM Policy. The motion passed (roll call) with Messrs. Green, Knox, Santos, Ms. Gray and Ms. Sanchez voting yes.

- D. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Kathryn Ton, Senior Internal Auditor: That the Committee review and discuss the Contract Management System (CMS) Audit and provide the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees; and/or
3. Provide further instruction to staff.
(Memo dated June 16, 2020)

Mr. Green made a motion, Mr. Santos seconded, to accept and file the report.

- E. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Summy Voong, Senior Internal Auditor: That the Committee review and discuss the Clear Skies Penetration Test and Veracode Static Code Analysis and provide the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees; and/or
3. Provide further instruction to staff.
(Memo dated June 16, 2020)

IV. NON-CONSENT ITEMS (Continued)

Mr. Santos made a motion, Mr. Green seconded, to accept and file the report.

F. Recommendation, as submitted by Richard Bendall, Chief Audit Executive and Nathan Amick, Internal Auditor: That the Committee review and discuss the Foreign Payees Audit and provide the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees; and/or
3. Provide further instruction to staff.
(Memo dated June 16, 2020)

Mr. Knox made a motion, Mrs. Gray seconded to accept and file the report.

V. REPORTS

A. Final Audit Plan Status Report - FYE June 30, 2020
Richard Bendall, Chief Audit Executive
Leisha Collins, Principal Internal Auditor
(Memo dated June 16, 2020)

Mrs. Collins was present and answered questions from the Committee.

This Report was received and filed.

B. FYE 2021 Risk Assessment and Audit Plan Development
Richard Bendall, Chief Audit Executive
Leisha Collins, Principal Internal Auditor
(Memo dated June 16, 2020)

Mr. Bendall was present and answered questions from the Committee.

This Report was received and filed.

V. REPORTS (Continued)

- C. Internal Audit's Quality Assurance and Improvement Program (QAIP)
Richard Bendall, Chief Audit Executive
Christina Logan, Senior Internal Auditor
(Memo dated June 16, 2020)

Ms. Logan was present and answered questions from the Committee.

This Report was received and filed.

- D. Internal Audit Goals Report
Richard Bendall, Chief Audit Executive
Leisha Collins, Principal Internal Auditor
(Memo dated June 16, 2020)

Mrs. Collins was present and answered questions from the Committee.

This Report was received and filed.

- E. Recommendation Follow-Up Report
Richard Bendall, Chief Audit Executive
Gabriel Tafoya, Senior Internal Auditor
(Memo dated June 16, 2020)

Messrs. Bendall and Tafoya were present and answered questions from the Committee. This Report was received and filed.

- F. **Attorney-Client Privilege/Confidential Memo**
2016 Privacy Audit (By Alston & Bird) – June 2020 Follow Up
Richard Bendall, Chief Audit Executive
Kristina Sun, Senior Internal Auditor
(Memo dated June 16, 2020)

Mr. Bendall and Ms. Sun were present and answered questions from the Committee. This Report was received and filed.

V. REPORTS (Continued)

- G. Real Estate Manager Compliance Reviews
Richard Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated June 16, 2020)

This Report was received and filed.

- H. Continuous Auditing Program (CAP)
Richard Bendall, Chief Audit Executive
Gabriel Tafoya, Senior Internal Auditor
Nathan Amick, Internal Auditor
(For Information Only) (Memo dated June 16, 2020)

This Report was received and filed.

- I. Ethics Hotline Status Report
Richard Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated June 16, 2020)

This Report was received and filed.

VI. CONSULTANT COMMENTS

Rick Wentzel, Audit Committee Consultant
(Verbal Presentation)

Mr. Wentzel thanked staff for their hard work.

VII. GOOD OF THE ORDER
(For Information Purposes Only)

Mr. Harris recommended staff to provide headphones and microphones for
Committee members.

VIII. ADJOURNMENT


There being no further business to come before the Committee, the meeting was
adjourned at 9:47 a.m.




July 30, 2020

TO: 2020 Audit Committee
Gina Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

Audit Committee Consultant
Rick Wentzel

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Senior Internal Auditor

FOR: August 19, 2020 Audit Committee Meeting

SUBJECT Fiscal Year 2020-2021 Internal Audit Plan

RECOMMENDATION

Approve the proposed Internal Audit Plan for Fiscal Year (FY) 2020-2021.

BACKGROUND

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional practice of Internal Auditing (Standards)*, the Chief Audit Executive (CAE) must establish risk based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. To remain in compliance with the *Standards*, as well as the Audit Committee Charter, Internal Audit has developed the attached Internal Audit Plan (*Audit Plan*) for FY 2020-2021.

The projects included in our Audit Plan are primarily identified through our on-going risk assessment. This process includes keeping abreast of the concerns of the Audit Committee and Boards throughout the year, discussions with Executive Management, review of LACERA's Strategic Plan, risk meetings with division managers, and identifying risk areas from prior internal and external audits. Furthermore, as recommended by the IIA, the Audit Plan includes assurance, consulting, and advisory engagements. We have also provided time in our plan for Internal Audit Administration projects and for Unplanned Work.

In considering the Audit Plan, we remind the Committee that the Audit Plan is intended as a living document. Changes to the Audit Plan will occur from time to time due to changes in business risks, timing of initiatives, and staff availability. Any amendments to the Audit Plan will be submitted to the Committee for approval during the fiscal year.

The presentation, Attachment 2, provides an overview of the Audit Plan process and allocation of audit resources. Staff will make a presentation of the plan to the Audit Committee at the August 19th meeting.

RECOMMENDATION

Approve the proposed Internal Audit Plan for Fiscal Year 2020-2021

RPB:lec:cl

Attachments

1: Audit Plan for Fiscal Year 2020-2021

2: Audit Plan presentation

INTERNAL AUDIT PLAN FY 2020-2021

	Audit Projects	Division	Service Type	Quarter Assigned
EXECUTIVE / LEGAL / ORGANIZATION				
1	Audit Committee Composition		Advisory	Q1
2	LA County Audit - Recommendations		Consulting	Q1
3	Systems & Organization Change -1 Type 2 (SOC) (External)		Assurance	Q1
4	Form 700 Compliance Audit		Assurance	Q2
5	Fiduciary Review (Year 1 of 2) Planning		Advisory	Q3
6	Governance, Risk, Ethics, Fraud, Compliance & Controls		Consulting	Q3
7	Business Continuity / Disaster Recovery		Assurance	Q4
8	Ethical Cultural Assessment		Consulting	Q4
9	Ethics Hotline & Investigations		Consulting	Continuous
Total Estimated Hours				3000
ADMINISTRATION				
10	IT End-User Manual	Systems	Advisory	Q1
11	Penetration Tests (External)	Systems	Assurance	Q1
12	Contract Compliance / Third Party Data Security Review	Admin Services	Assurance	Q2
13	Security Incident Event Management (SIEM) Review (External)	Systems	Assurance	Q2
14	Privilege Access Review / Privilege Access Review	Systems	Assurance	Q2
15	Updated Inventory Process	Admin Serv	Consulting	Q3
16	Bonuses	HR	Assurance	Q4
17	Continous Auditing Program	ADMINISTRATION	Assurance	Continuous
Total Estimated Hours				1450
INVESTMENTS & FASD				
18	Accounts Payables	FASD	Assurance	Q1
19	Corporate Credit Cards	FASD	Assurance	Q1
20	Investments Due Diligence	Investments	Assurance	Q2
21	Oversight of Actuarial Services (External)	FASD	Assurance	Continuous
22	Oversight of Financial Audit (External)	FASD	Assurance	Continuous
23	Oversight of THC RE Financial Audits	FASD / Invest	Assurance	Continuous
24	Real Estate Manager Reviews	FASD / Invest	Assurance	Continuous
25	Custodial Bank Services	Investments	Advisory	Continuous
26	Updated Wire Transfer Process	FASD / Invest	Advisory	Continuous
Total Estimated Hours				2050
OPERATIONS				
27	Death Legal Process Audit	Benefits	Assurance	Q1
28	LA County Rehired Retirees	Benefits	Assurance	Q2
29	Member Benefits Calculation Audit / Database Review	Benefits	Assurance	Q2
30	Quality Assurance Operations Review	QA	Consulting	Q2
31	Foreign Payee Audit	Benefits	Assurance	Q3
32	Governance, Risk, and Controls - Benefits	Benefits	Consulting	Q3
33	Governance, Risk, and Controls - RHC	RHC	Consulting	Q3
34	Account Settlement Collections (ASC)	Benefits	Advisory	Q4
35	Continous Audit Program	OPERATIONS	Assurance	Continuous
Total Estimated Hours				2300



Audit Plan Development

The Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget.

As recommended by the Institute of Internal Auditors (IIA) and consistent with our Internal Audit Charter, the Audit Plan includes assurance, consulting, and advisory engagements to ensure we provide a mix of compliance reporting and strategic advice to Management. We have also, included time for Internal Audit Administration projects to continue our own improvement and time for Unplanned Work.

Internal Audit completed a risk assessment for the purpose of developing this Audit Plan of LACERA's operations as required by the IIA Standards.

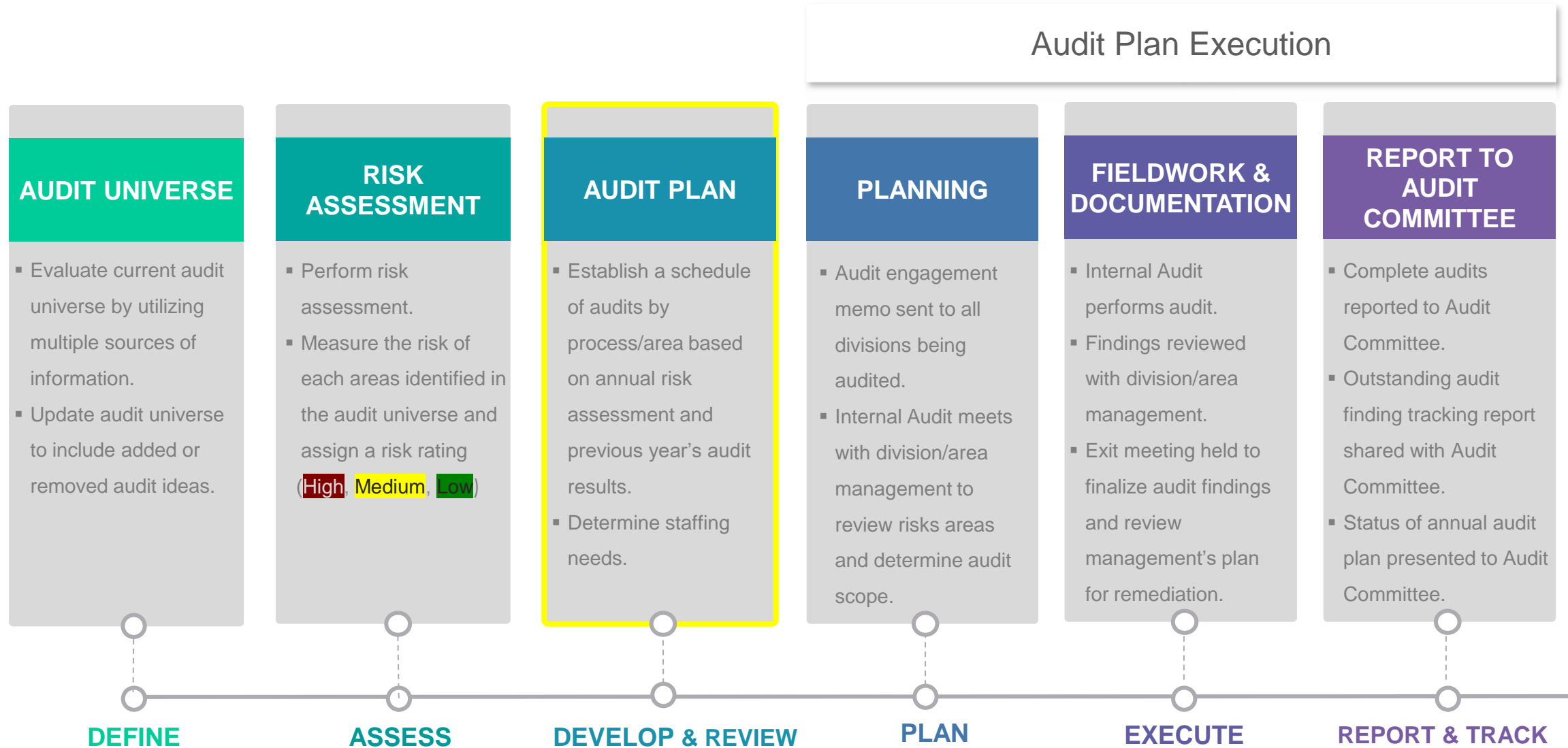
Scope Limitations

Although this Audit Plan contemplates a wide-ranging scope of activities, it does not provide coverage for all operations or systems. Internal Audit Services has tried to maximize the limited resources to provide reasonable coverage to the activities believed to require the most attention based on the risk assessment results.

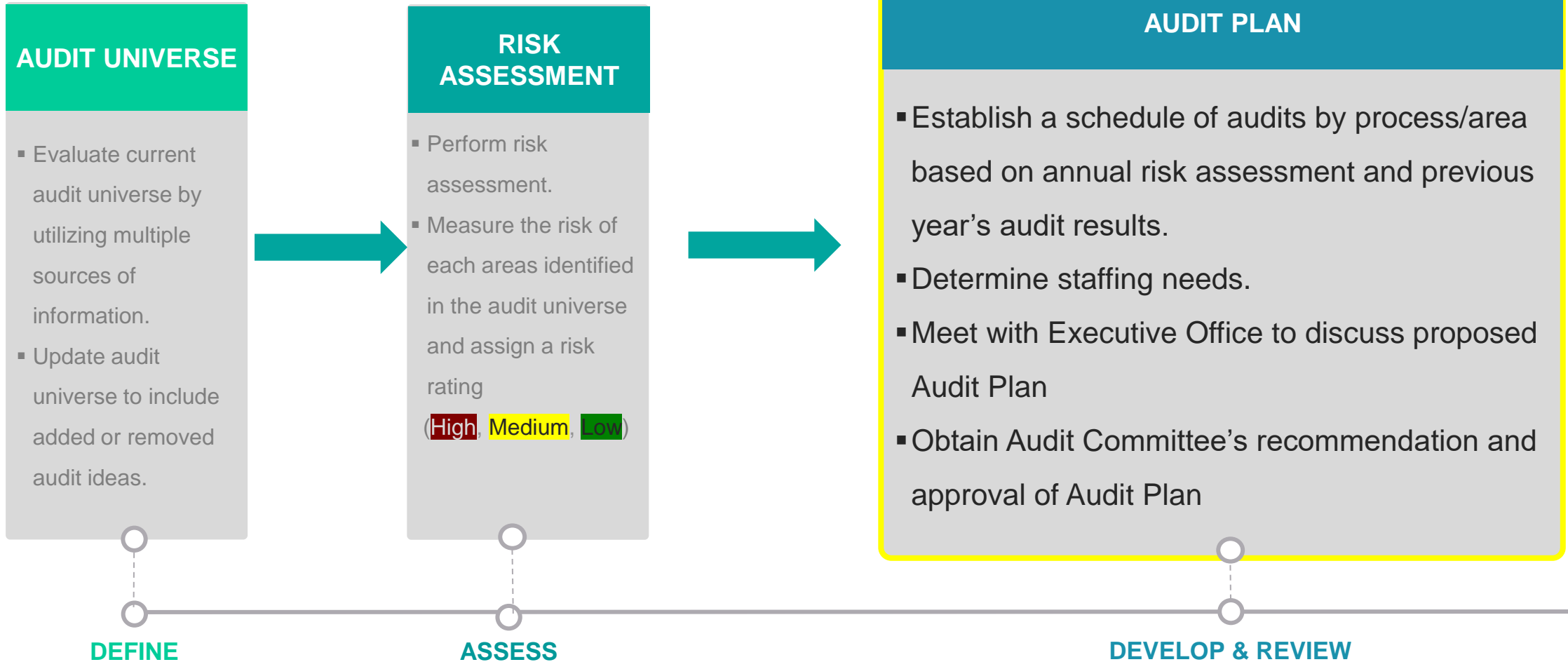
Audit Plan Modification

Interim changes to the Audit Plan will occur from time to time due to changes in business risks, timing of initiatives, and staff availability. Amendments to the approved Audit Plan will be submitted to the Audit Committee for approval in advance.

Internal Audit Process



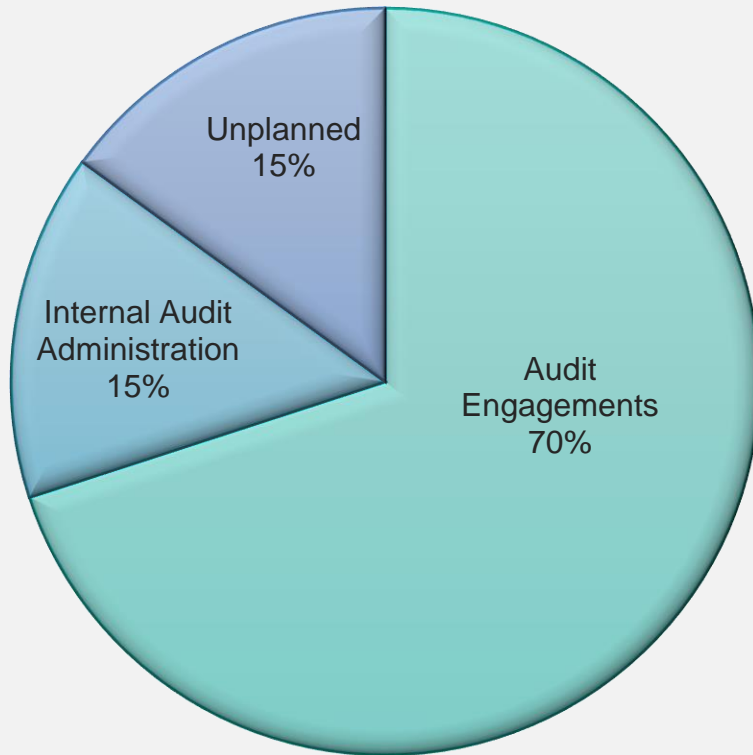
Annual Audit Planning Process



Developing the FY 2020-2021 Audit Plan



Breakdown of
Total Available Staff Hours



Types of Audit Engagements:

Assurance: Provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA.

Consulting: Provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Advisory: Provide Management with informal advice.

Audit Engagements – Executive / Legal / Organizational



Audit Engagement Name	Audit Engagement Overview	Engagement Type	Quarter Assigned
Audit Committee Composition	Review AC best practices and industry trends. Suggest and facilitate changes.	Advisory	Q1
LA County Audit – Recommendation Follow-Up	Internal Audit provided oversight of the LA County audit and currently tracks and reports to the Exec Office the status of recommendations.	Consulting	Q1
Systems & Organization Change -1 Type 2 (SOC)	Plante Moran (PM) will perform a SOC audit over the controls related to OPEB data. Due to the complexity of this project and coordination among several divisions, IA has taken on the role of project manager.	Assurance	Q1
Form 700 Compliance	Audit of Form 700s to assess Board and Staff compliance.	Assurance	Q2
Fiduciary Review (Year 1 of 2)	Planning of the Review. The purpose of the Review is to assess the effectiveness of LACERA governance and operations.	Advisory	Q3
Governance, Risk, Ethics, Fraud, Compliance	Working with Executive Management to assess and guide LACERA's development of formalized governance, risks, ethics, fraud, and compliance programs.	Consulting	Q3
Business Continuity / Disaster Recovery	Audit of BC plans to ensure they are complete, have been reviewed and approved, and staff trained on them. Participation in DR testing.	Assurance	Q4
Ethical Cultural Assessment	External vendor will assess LACERA's ethical culture. Benefits include the early prevention and detection of problems, improved management of workforce and processes, and enhanced communication.	Consulting	Q4
Ethics Hotline & Investigations	Monitor and administer the Ethics Hotline. Provide a summary on all incidents reported.	Consulting	Continuous
Total Estimated Hours		3,000	

Audit Engagements – Administration



Audit Engagement Name	Audit Engagement Overview	Engagement Type	Quarter Assigned
IT End-User Manual	Systems: Facilitate the group meetings and discussion in the development of the IT End-User Manual.	Advisory	Q1
Penetration Tests	Systems: The objective of the engagement is to evaluate the information security of the network from an external perspective to determine any risks posed from an uncredentialed attacker.	Assurance	Q1
Contract Compliance / Third Party Data Security Review	LACERA: Follow up on CMS audit performed in FY 2019-2020, perform compliance testing of a broad sample of contracts and include a review of third-party data security.	Assurance	Q2
Privilege Access Review / Segregation of Duties	Systems: Review the creation, monitoring, and maintenance of privileged access credentials for compliance with best practice guidelines	Assurance	Q2
Security Information Event Management (SIEM) Review	Systems: Review SIEM processes to ensure good practices exist for analyzing log-event data used to monitor threats and facilitate timely incident response.	Assurance	Q2
Updated Inventory Process	Admin Services: Review the updated inventory control process for completeness and efficiency.	Consulting	Q3
Bonuses	HR: Audit of employee bonuses since Management recently revised its process for based on recommendations from LA County's Audit.	Assurance	Q4
Continuous Auditing Program	Automated testing of LACERA's transactions and information systems. CAP provides continuous assurance in key areas of compliance and includes fraud detection audits.	Assurance	Continuous
	Total Estimated Hours	1,450	

Audit Engagements – Financial & Investments Operations



Audit Engagement Name	Audit Engagement Overview	Engagement Type	Quarter Assigned
Accounts Payable	Audit of accounts payables, including payment vouchers and ACH transactions for accuracy.	Assurance	Q1
Corporate Credit Cards	Audit credit card usage to verify compliance with LACERA's Corporate Credit Card Policy.	Assurance	Q1
Investments Due Diligence	Review due diligence practices relating to all asset classes for efficiency and effectiveness.	Assurance	Q2
Oversight of Actuarial Services	Internal Audit manages the relationship with the Actuarial Consultant and Auditor for services relating to actuarial projects.	Assurance	Continuous
Oversight of External Financial Audit	Internal Audit manages the relationship with LACERA's external financial auditors for the annual financial statement audit	Assurance	Continuous
Oversight of the THC Real Estate Financial Audits	Internal Audit manages the relationship with the Real Estate external auditors who perform the real estate THC financial audits.	Assurance	Continuous
Real Estate Manager Reviews	External audit firms conduct Real Estate Manager contract compliance and operational reviews on an as-needed basis	Assurance	Continuous
Custodial Bank Services	Participating on a consulting basis with the Investments Office and FASD in operational improvements of custodial bank services.	Advisory	Continuous
Updated Wire Transfer Process	Participating on a consulting basis with the Investments Office and FASD in operational updates and improvements to Wire Transfer Process.	Advisory	Continuous
	Total Estimated Hours	2,050	

Audit Engagements – Operations



Audit Engagement Name	Audit Engagement Overview	Engagement Type	Quarter Assigned
Death Legal Process Audit	Benefits: Review Benefits, Member Services, and Legal divisions' processes for tracking and processing member death and legal split cases.	Assurance	Q1
LA County Rehired Retirees	Benefits: Audit of LA County's Rehired Retirees to ensure compliance with PEPRA.	Assurance	Q2
Member Benefits Calculation Audit / Database Review	Benefits: Audit member benefit calculations (on a risk basis) for accuracy and completeness.	Assurance	Q2
Quality Assurance Operations Review	QA: Review QA operations for auditing benefit transactions and reporting audit results	Consulting	Q2
Foreign Payee Audit	Benefits: Periodic audit that confirms the living status of retirees living abroad.	Assurance	Q3
Governance, Risk, and Controls - Benefits	Benefits: Working with Division to gain a deeper understanding of its governance, risks, and controls.	Consulting	Q3
Governance, Risk, and Controls - RHC	RHC: Working with Division to gain a deeper understanding of its governance, risks, and controls.	Consulting	Q3
Account Settlement Collections (ASC)	Benefits: The audit will serve as follow-up of management's progress in addressing areas of concern and deficiency from the FY 2019 review.	Advisory	Q4
Continuous Audit Program	Automated testing of LACERA's transactions and information systems. CAP provides continuous assurance in key areas of compliance and includes fraud detection audits.	Assurance	Continuous
Total Estimated Hours		2,300	

Internal Audit Administration Projects



Project Name	Project Overview	Quarter Assigned
Audit Pool – RFP	RFP for audit firms to assist with specialized audit work .	Q1
TeamMate Optimization	Working and training to re-configure TeamMate for improved efficiency and effectiveness.	Q1
Annual Risk Assessment & Audit Plan	Updating Audit Universe, analyzing Risk Assessments, and developing Audit Plan.	Q3
External Quality Assessment Review	Working with an external independent reviewer for the required Quality Assessment Review.	Q3
Audit Committee Support	Preparation of Audit Committee materials, and attendance at meetings.	Continuous
Professional Development	Annual self-assessment, developing self-development program, minimum required 30 hours of training per staff.	Continuous
Quality Assurance & Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA performance through periodic and on-going internal self-assessments, client surveys, and communication of results to key stakeholders.	Continuous
Recommendation Follow-Up	Quarterly review of outstanding recommendations.	Continuous
	Total Estimated Hours	1900

August 11, 2020

TO: 2020 Audit Committee
Gina V. Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

Audit Committee Consultant
Rick Wentzel

FROM: Gina V. Sanchez
Chair, Audit Committee

Santos H. Kreimann
Chief Executive Officer

Steven P. Rice *SPR*
Chief Counsel

FOR: August 19, 2020 Audit Committee Meeting

SUBJECT: Approval of KPMG LLP as Consultant to Conduct External Assessment of Internal Audit Recommendation Follow-Up Process

RECOMMENDATION

That the Audit Committee approve engagement of KPMG LLP to perform an external quality assessment of the Internal Audit Division's recommendation follow-up process for compliance with the *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics issued by the Institute of Internal Auditors (IIA).

LEGAL AUTHORITY

Under Sections IV.2 of the Audit Committee Charter, the Committee has the authority to "Approve the appointment, compensation, and work of other Professional Service Providers to perform non-financial statement audits, reviews, or investigations, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit." This authority is repeated as one of the Committee's responsibilities under Section VII.B.2. Under Section VII.A.3., the Committee has the responsibility for Standards Conformance of Internal Audit's activities, which includes the recommendation follow-up process under Section VII.A.2. Under Section VII.A.3, the Committee will "Ensure the Internal Audit Division conforms with the IIA's International Standards for the Professional Practice of Internal Audit, particularly the independence of Internal Audit and its organizational structure."

For these reasons, engagement of a consultant to perform an external assessment of Internal Audit's recommendation follow-up process falls directly within the Committee's authority under its Charter.

VENDOR SELECTION PROCESS

At its June 25, 2020 meeting, the Committee authorized an external quality assessment of Internal Audit's recommendation follow-up process. The Committee directed that the assessment be conducted with the day-to-day oversight of the Audit Committee Chair, with staff-level assistance from the Chief Executive Officer (CEO) and Chief Counsel to manage the assessment and assist the selected vendor. The Committee further decided that a proposed vendor will be brought forward for Committee approval before the assessment begins. A copy of the memo provided to the Committee for the June 25, 2020 meeting is attached as Attachment A.

The Committee Chair, CEO, and Chief Counsel worked together to issue a Request for Proposals (RFP) to identify a vendor for recommendation to the Committee. The RFP was posted on July 1, 2020, and a copy is attached as Attachment B. Questions were received from interested parties; answers were prepared by the selection team and posted. A copy of the answers to questions is attached as Attachment C. Five responses were received: Crowe LLP; IIA Quality Services, LLC; KPMG LLP; Mitchell & Titus, LLP; and TAP International. Inc.

Based on the written proposals, three highly qualified vendors were selected as finalists for interviews: KPMG LLP; Mitchell & Titus, LLP; and TAP International. Inc. Following the interviews, all three firms were given the opportunity to submit additional information with regard to the scope of work, team, and fees. To manage costs, the revised proposals included quality assessment, findings, and recommendations as Phase I; root cause analysis with respect to any findings will be reserved for a later Phase II, if warranted and approved by the Committee.

The selection team evaluated and discussed all information provided by the three finalists in several virtual meetings. The evaluation criteria were: depth and breadth of expertise and experience to perform a comprehensive assessment; quality and cohesiveness of the proposed staff; sample reports; and fees.

BASIS FOR RECOMMENDATION OF KPMG

While each of the vendors has ample experience and demonstrated expertise in performing external quality assessments, based on their evaluation, the selection team recommends that the Committee approve KPMG LLP. KPMG is one of the major international accounting firms, with a deep bench. Beyond its reputation, the selection team focused on the specific individual staff who would work on LACERA's assessment. This proved to be the primary differentiator between the three finalists, as all presented generally comparable levels of IIA assessment expertise and experience, sample reports, and fees.

The proposed KPMG team includes:

Primary Core Team

Debbie Biddle-Castillo will be the lead managing director responsible for this project. In this role, she will oversee the activities and participate with the team through the engagement. Debbie is a managing director in KPMG's Advisory Services practice, with 16 years of internal controls experience, including operational, strategic, financial, IT, and compliance audits in both the USA and UK. Debbie currently serves as the Head of Internal Audit for seven companies, where she is responsible for all activities of the Internal Audit department. Debbie has extensive experience in audit finding follow-up protocols, including communicating and collaborating with process owners concerning the need for change and the associated risk of not taking remediation actions, ongoing guidance during remediation, tracking, reporting, and validation testing for both internal and external audit findings across a variety of subject areas.

Douglas Farrow will be the lead State and Local Government and quality partner for this project. In this role, he will be responsible for the overall quality of service and in providing guidance to the Audit Committee. Douglas is a partner in KPMG's Forensic Practice and has over 30 years of experience assisting clients with a wide spectrum of financial, economic, and accounting matters.

Sami Salam will be the lead engagement director on the project. Sami will be responsible for day to day activities, staff oversight, communication, and deliverables. Sami is a director in KPMG's Advisory Services practice, with over 15 years of internal audit and risk management experience. She has a strong background in performing internal audit and information technology reviews to help mitigate operational, financial, and technology risks through remediation and risk mitigate processes for public and private sector clients. In addition to internal audit and technology risk experience, Sami has experience in system implementation, segregation of duties program development, and shared services. Sami is the Southwest Internal Audit Data Analytics lead.

Primary Subject Matter Professionals

Patty Basti will be a Subject Matter Professional on the engagement. She will provide guidance to the team and LACERA as needed throughout the engagement. Patty is KPMG's national leader for Internal Audit Quality Assessment services. Additionally, she leads the Internal Audit and Enterprise Risk practice for Cincinnati, Ohio. In this role, she advises her clients on best practices, and provides guidance on improvement opportunities within their Internal Audit programs.

Jacob Schotz is a quality assurance Subject Matter Professional. Jacob will work with the core team as needed, including attendance at interviews, deliverables, and recommendation reviews. Jacob is a director in KPMG's Internal Audit and Enterprise Risk practice, with over nine years of professional experience and has served clients primarily in the Financial Services industry. Jacob specializes in

internal audits, control assessments, and process improvements across Financial Services areas, including home loans, consumer credit, retail banking, commercial lending, investment management, and capital markets. He has an extensive knowledge of financial controls and regulatory compliance frameworks.

In addition to these five professional, KPMG will support its work for LACERA with additional staff as needed across auditing standards, best practices, and analytics.

The team will implement an approach that focuses on three elements:

Positioning Does the positioning of the Internal Audit function within LACERA enable it to contribute to business performance through its recommendation follow-up process?

People Does the Internal Audit function have the right people and skills to fulfill its follow-up role and meets its objectives?

Process Do Internal Audit recommendation follow-up processes enable Internal Audit to fulfill its role and be dynamic in response to changing needs?

KPMG has laid out a detailed four-step phasing and activities plan, which is briefly summarized as follows:

1. Planning
2. Document collection, interviews, working practices review, and technology and tools review
3. Comparative analytics to IIA Standards and Code of Ethics, and best practices
4. Report preparation

Based on the findings and recommendations of the above work plan as Phase I, the Audit Committee will have the option of pursuing root cause analysis as Phase II.

The expected timeframe for Phase I is 8-10 weeks. The cost for Phase I will be \$50,000-\$70,000. Phase I fees for the three finalist were between \$38,000 and \$70,000, with the low end proposals including reduction in the number of quality metrics to be evaluated as part of the scope of work or a less developed work plan.

KPMG's proposal, with sample report, is attached as Attachment D.

SUMMMARY

KPMG offers a sophisticated work plan and team that will provide the Audit Committee with insight into the adequacy of Internal Audit's recommendation follow-up process under IIA Standards, the Code of Ethics, and best practices. For the reasons stated in this memo, the Audit Committee Chair, CEO, and Chief Counsel jointly recommend to the Audit Committee that KPMG be engaged for this project.

Approval of KPMG LLP as Consultant to Conduct External Assessment of Internal Audit
Recommendation Follow-Up Process
August 11, 2020
Page 5 of 5

Attachments

c: Jonathan Grabel
JJ Popowich

ATTACHMENT A
Memo in Support of June 25, 2020
Audit Committee Action

June 16, 2020

TO: 2020 Audit Committee
Gina V. Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

FROM: Gina V. Sanchez
Chair, Audit Committee

FOR: June 25, 2020 Audit Committee Meeting

SUBJECT: External Assessment of Internal Audit Recommendation Follow-Up Process

RECOMMENDATION

That the Audit Committee authorize an external quality assessment to evaluate the Internal Audit Division's recommendation follow-up process for compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and Code of Ethics issued by the Institute of Internal Auditors (IIA). The assessment will be overseen on a day-to-day basis on behalf of the Committee by its Chair, with the assistance of LACERA's Chief Executive Officer and Chief Counsel. A vendor with the required minimum qualifications stated in the Standards and IIA's Implementation Guide will be brought to the Committee for approval before the assessment begins.

DISCUSSION

A. The IIA Standards for Recommendation Follow-Up and External Assessment

Under the Standards, the Chief Audit Executive must establish and maintain a follow-up process to monitor and ensure that recommendations have been effectively implemented or that senior management has accepted the risk of not taking action. The required follow-up process is a central activity of Internal Audit in evaluating the adequacy, effectiveness, and timeliness of management's response to audit recommendations, including those made by Internal Audit itself as well as by external auditors and others. The Implementation Guide for the Standards states that a compliant follow-up process typically includes:

1. Observations communicated to management and their relative risk rating.
2. The nature of the agreed corrective actions.
3. The timing, guidelines, and age of the corrective actions and changes in target dates.

4. The management or process owner responsible for each corrective action.
5. The current status of corrective actions, and whether Internal Audit has confirmed the status.

The Implementation Guide refers to use of a tool, mechanism, or system, such as a spreadsheet or database, to track, monitor, and report on such information. It is expected that information in the tracking system will be updated periodically and that the Chief Audit Executive will inquire of management on a set frequency, such as quarterly, as to the status of corrective actions. The Chief Audit Executive may also choose to confirm corrective actions through a future audit. The Implementation Guide states that reporting is determined based on the Chief Audit Executive's judgment and agreed expectations, and can have different forms and elements, including observations, risk rating and ranking, and statistics, such as percentage of corrective actions on track, overdue, and completed on time. As a leading practice, reporting should capture and measure positive improvement based on the execution of corrective actions.

The Standards recognize the importance of internal and external assessments as part of quality assurance and improvement for the internal audit function. The Chief Audit Executive must develop and maintain a Quality Assurance and Improvement Program (QAIP). The Standards require that an external assessment of the Internal Audit program be conducted at least once every five years to determine conformance with the Standards and the IIA's Code of Ethics. The external assessment report should include: the scope and frequency of the assessment; the qualifications and independence of the assessment team, including any potential conflicts of interest; the conclusions of the assessors; and corrective action plans.

Interpretation contained in the Standards state that a qualified external assessment team shall have the following minimum qualifications:

1. Demonstrate competence in the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a combination of years of experience and theoretical learning. Experience in similar organizations is more valuable than less relevant experience. The competencies of an assessment team are judged based on the team as a whole.
2. Independence, in that the assessment team does not have either an actual or potential conflict of interest and is not part of or under the control of the organization to which the internal audit activity belongs.

The IIA's Implementation Guide for external assessments recommends the following additional preferred qualifications:

1. That the team include a competent certified internal audit professional.
2. Current in-depth knowledge of the IIA's International Professional Practices Framework (IPPF) for the Standards.

3. Knowledge of leading internal auditing practices.
4. At least three years of recent experience in internal auditing at a management level that demonstrates a working knowledge and application of the IPPF.
5. That the assessment team leader have:
 - a. An additional level of competence and experience from previous external quality assessment work and/or completion of the IIA's quality assessment training or similar training.
 - b. Chief audit executive or comparable senior internal audit management experience.
 - c. Relevant technical expertise and industry experience, which in the case of this project would specifically include the recommendation follow-up process and pension, governmental, benefits, and/or financial experience.

B. LACERA's Practice

At LACERA, the Chief Audit Executive maintains a recommendation follow-up process under the Standards, and presents periodic reports to the Audit Committee. The follow-up process and the reporting format provided to the Committee have changed over time, including recent revisions intended to improve the process.

The Chief Audit Executive arranges for a periodic external peer review of the entire internal audit activity in compliance with the external assessment requirement of the Standards and Internal Audit's QAIP. The peer review includes the recommendation follow-up process, as part of overall divisional operations. Under the Internal Audit Charter, the peer review shall be conducted every five years. The last peer review was completed January 15, 2016. Internal Audit intends to arrange for a peer review in fiscal year 2020-2021. In the past, separate review of specific internal audit activities, such as the recommendation follow-up process, has not been conducted, but rather such review has been part of the overall divisional peer review.

C. The Audit Committee's Oversight

Under its Charter, the Audit Committee has a fiduciary oversight responsibility to oversee LACERA's internal audit function. The Committee ensures that the Internal Audit Division complies with IIA Standards. The Charter provides that the Committee shall monitor Internal Audit's recommendations and the effectiveness of the recommendation follow-up process. The Committee is required by the Charter to ensure that the Internal Audit Division has a QAIP, and that the results are presented to the Committee.

In its oversight of the Internal Audit Division, the Audit Committee is not limited to reliance upon the peer review process overseen by the division. Under the Charter, the Committee may select external consultants to conduct audits, reviews, or investigations, without limitation as to subject matter.

D. External Assessment of Internal Audit's Recommendation Follow-Up Process

Given the core importance of the recommendation follow-up process to the effectiveness of Internal Audit, it is reasonable for the Audit Committee to conduct an external assessment of that process for compliance with the IIA's Standards and Code of Ethics separate from the peer review. The assessment should be conducted as soon as possible so that findings may be reviewed by the Committee and any necessary changes made. The assessment should be conducted by the Committee, separate from Internal Audit and outside of Internal Audit's supervision and oversight, to ensure independence and avoid the appearance of conflicts.

The assessment team should have both the minimum and preferred qualifications stated in the Interpretation to the IIA Standards and the IIA's Implementation Guide, as set forth in Section A of the Discussion above.

It is recommended that the assessment be conducted with the day-to-day oversight, as needed, of the Audit Committee Chair to provide guidance, Committee-level perspective, and assistance. At the staff level, the Chief Executive Officer and Chief Counsel will manage the assessment and assist the selected vendor. This approach is needed to improve independence by placing oversight of the external assessment in the hands of the Committee. The first task of this group will be to solicit proposals for the scope of work and present a vendor for approval by the Committee before work begins. The cost of the assessment is proposed to be charged against Internal Audit's budget for external audits.

c: Santos H. Kreimann
Jonathan Grabel
Steven P. Rice
Richard Bendall
JJ Popowich

ATTACHMENT B
July 1, 2020 Request for Proposals

**Los Angeles County Employees Retirement Association
Audit Committee
Request for Proposals for External Quality Assessment of
Internal Audit Recommendation Follow-Up Process**

I. INTRODUCTION

The Los Angeles County Employees Retirement Association (LACERA) Audit Committee invites proposals from experienced professionals in response to this Request for Proposals (RFP) to provide the Committee with an external quality assessment of the Internal Audit Division's recommendation follow-up process for compliance with the *International Standards for the Professional Practice of Internal Auditing* (Standards) and the Code of Ethics issued by the Institute of Internal Auditors (IIA).

II. BACKGROUND

LACERA is a defined benefit public pension fund established to administer retirement benefits to employees of the County of Los Angeles and other participating agencies. LACERA operates as an independent governmental entity separate and distinct from Los Angeles County. LACERA has approximately 425 employees to administer pension benefits for active, deferred, and retired members, oversee the County's retiree health benefits program, and manage the fund's investments. As of fiscal year-end June 30, 2019, LACERA managed approximately \$58.3 billion in fund assets to support the pensions of over 174,000 members, including over 66,000 benefit recipients. LACERA's annual pension benefits payments to its retirees total approximately \$3 billion.

LACERA'S MISSION, VISION, AND VALUES

Mission: To Produce, Protect, and Provide the Promised Benefits

Vision: Excellence, Commitment, Trust, and Service

Values: Professionalism, Respect, Open Communication, Fairness, Integrity, and Teamwork (PROFIT)

LACERA'S GOVERNING BOARDS

Board of Retirement (BOR) – This nine-trustee Board, with two alternates, is responsible for the overall management of the retirement system. Under the policy guidance of the BOR, LACERA strives to create innovative ways to streamline and expedite retirement processes, integrate new technologies, and enhance member service.

Board of Investments (BOI) – This nine-trustee Board is responsible for establishing LACERA's investment policy and objectives, and overseeing the investment management of the fund. The BOI diversifies fund investments to maximize the rate of return and minimize the risk of loss. The Board also oversees actuarial services to assist in setting the rate of employer and employee contributions needed to assure the long-term security of LACERA's assets to pay the promised benefits.

ATTACHMENT C
Answers to RFP Questions

Audit Committee — The Boards' joint Audit Committee assists the Boards in fulfilling their fiduciary oversight responsibility for the Internal Audit activity, professional service provider activity, the financial reporting process, values and ethics, and organizational governance. The Audit Committee performs its role independently pursuant to the Audit Committee Charter approved by the Boards most recently on June 24, 2020. The Committee ensures that the Internal Audit Division complies with IIA Standards. The Committee Charter provides that the Committee shall monitor Internal Audit's recommendations and the effectiveness of the recommendation follow-up process. The Committee is required by its Charter to ensure that the Internal Audit Division has a Quality Assurance and Improvement Program (QAIP), and that the results are presented to the Committee.

INTERNAL AUDIT DIVISION

LACERA's Internal Audit Division has 11 staff members, headed by the Chief Audit Executive (CAE). The purpose, authority, and responsibilities of the Internal Audit Division are defined in its Internal Audit Charter. The Internal Audit Charter was most recently approved by the Audit Committee on June 25, 2020. The CAE reports administratively to LACERA's Chief Executive Officer and functionally to the Audit Committee.

III. IIA STANDARDS FOR RECOMMENDATION FOLLOW-UP AND EXTERNAL ASSESSMENT

Under the Standards, the CAE must establish and maintain a follow-up process to monitor and ensure that recommendations have been effectively implemented or that senior management has accepted the risk of not taking action. The required follow-up process is a central activity of Internal Audit in evaluating the adequacy, effectiveness, and timeliness of management's response to audit recommendations, including those made by Internal Audit as well as by external auditors and others. The Implementation Guide for the Standards states that a compliant follow-up process typically includes:

1. Observations communicated to management and their relative risk rating.
2. The nature of the agreed corrective actions.
3. The timing, guidelines, and age of the corrective actions and changes in target dates.
4. The management or process owner responsible for each corrective action.
5. The current status of corrective actions, and whether Internal Audit has confirmed the status.

The Implementation Guide for the Standards refers to the use of a tool, mechanism, or system, such as a spreadsheet or database, to track, monitor, and report on such information. It is expected that information in the tracking system will be updated periodically and that the CAE will inquire of management on a set frequency, such as quarterly, as to the status of corrective actions. The CAE may also choose to confirm corrective actions through a future audit. The Implementation Guide states that reporting is determined based on the CAE's judgment and agreed expectations, and can have different forms and elements, including observations, risk rating and ranking, and statistics, such as percentage of corrective actions on track, overdue, and completed on time. As a leading practice, reporting should capture and measure positive improvement based on the execution of corrective actions.

///

The Standards recognize the importance of internal and external assessments as part of quality assurance and improvement for the internal audit function. The CAE must develop and maintain a QAIP. The Standards require that an external assessment of the Internal Audit program be conducted at least once every five years to determine conformance with the Standards and the IIA's Code of Ethics. The external assessment report should include: the scope and frequency of the assessment; the qualifications and independence of the assessment team, including any potential conflicts of interest; the conclusions of the assessors; and corrective action plans.

IV. LACERA'S PRACTICE

At LACERA, the CAE maintains a recommendation follow-up process under the Standards, and presents periodic reports to the Audit Committee. The follow-up process and the reporting format provided to the Committee have changed over time, including recent revisions intended to improve the process.

The CAE arranges for a periodic external peer review of the entire internal audit activity in compliance with the external assessment requirement of the Standards and Internal Audit's QAIP. The peer review includes the recommendation follow-up process, as part of overall divisional operations. Under the Internal Audit Charter, the peer review shall be conducted every five years. The last peer review was completed January 15, 2016. Internal Audit intends to arrange for a peer review in fiscal year 2020-2021. In the past, separate review of specific internal audit activities, such as the recommendation follow-up process, was not conducted, but rather such review was part of the overall divisional peer review.

V. SCOPE OF THIS AUDIT

In its oversight of the Internal Audit Division, the Audit Committee is not limited to reliance upon the peer review process overseen by the division. Under its Charter, the Committee may select external consultants to conduct audits, reviews, or investigations, without limitation as to subject matter.

This RFP was authorized by the Audit Committee, acting within its Charter authority, at its meeting on June 25, 2020.

Given the core importance of the recommendation follow-up process to the effectiveness of Internal Audit, the Audit Committee determined to obtain an external assessment of the process for compliance with the IIA's Standards and Code of Ethics, to be conducted separately from the peer review. It is expected that, to gauge the effectiveness of the follow-up process, the assessment will include review or sampling of the process and records for some period of time in the past; the length of that period will be discussed and determined with the successful respondent in accordance with professional standards and the Committee's desire for a comprehensive review. The external assessment team will submit a report detailing its findings and recommendations. The assessment will be conducted as soon as reasonably possible so that findings may be reviewed by the Committee and any necessary changes made. The assessment will be overseen by the Committee, separate from Internal Audit and outside of the CAE or Internal Audit's supervision and oversight, to ensure independence and avoid the appearance of conflicts.

The Audit Committee directed that the vendor selected to provide the assessment will be approved by the Committee at a future meeting, as stated in the RFP Schedule. The Committee further directed that the RFP process and the assessment be conducted with the day-to-day oversight, as needed, of the Audit Committee Chair to provide guidance, Committee-level perspective, and assistance. At the staff level, LACERA's Chief Executive Officer and Chief Counsel will manage the assessment and assist the selected vendor.

VI. QUALIFICATIONS OF EXTERNAL ASSESSMENT TEAM

Interpretation contained in the Standards states that a qualified external assessment team shall have the following minimum qualifications:

1. Competence in the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a combination of years of experience and theoretical learning. Experience in similar organizations is more valuable than less relevant experience. The competencies of an assessment team are judged based on the team as a whole.
2. Independence, in that the assessment team does not have either an actual or potential conflict of interest and is not part of or under the control of the organization to which the internal audit activity belongs.

In addition, the IIA's Implementation Guide for external assessments recommends the following additional preferred qualifications:

1. The team includes a competent certified internal audit professional.
2. The team has current in depth knowledge of the IIA's International Professional Practices Framework (IPPF) for the Standards.
3. The team has knowledge of leading internal auditing practices.
4. Team members have at least three years of recent experience in internal auditing at a management level that demonstrates a working knowledge and application of the IPPF.
5. The assessment team leader has:
 - a. An additional level of competence and experience from previous external quality assessment work and/or completion of the IIA's quality assessment training or similar training.
 - b. Chief audit executive or comparable senior internal audit management experience.
 - c. Relevant technical expertise and industry experience, which in the case of this project would specifically include the recommendation follow-up process and pension, governmental, benefits, and/or financial experience.

In this RFP, the Audit Committee requires the minimum qualifications described above. The Audit Committee will also consider, but not necessarily require, the additional preferred qualifications stated above.

VII. RFP PROCESS

This RFP and other relevant information related to the RFP, including addenda, modifications, answers to questions, and other updates, will be posted on the RFPs page of LACERA.com. Additional background information and documents about LACERA, including the Committee's

Charter, meeting agendas, agenda materials, and minutes, may also be found on LACERA.com.

A. Schedule, Expected but Subject to Change

Issuance of RFP	July 1, 2020
Written Questions and Requests for Clarification Due	July 16, 2020
Responses to Questions Posted	July 20, 2020
Proposals Due	July 24, 2020
Finalist Interviews	July/August 2020 (exact dates to be determined)
Estimated Final Selection and Approval by the Audit Committee	August 19, 2020

B. Communication and Questions

Respondents are encouraged to submit any questions regarding this RFP by the deadline stated above in the RFP Schedule. Questions should be sent via email to Steven P. Rice, Chief Counsel, at srice@lacera.com. Questions and answers will be posted on LACERA.com by the date stated in the RFP Calendar.

C. Errors in the RFP

If a respondent discovers an ambiguity, conflict, discrepancy, omission, or other error in this RFP, notice should be immediately provided to srice@lacera.com. LACERA is not responsible for, and has no liability for or obligation to correct, any errors, or omissions.

D. Addenda

Modifications or clarifications of the RFP, if deemed necessary, will be made by addenda to the RFP and posted on LACERA.com.

E. Delivery of Submissions

Submissions must be delivered in PDF format via email to srice@lacera.com by the due date stated above in the RFP Schedule. In addition, respondents have the option to send hard copies of their submissions for delivery by the due date, addressed to:

LACERA
Attention: Steven P. Rice
Chief Counsel
300 North Lake Avenue, Suite 620
Pasadena, CA 91101

See the Notice Regarding the California Public Records Act and Brown Act in Section VIII.B of this RFP for information regarding redactions and disclosure.

F. Proposal Format and Content

All responses must follow the format described in Section VII.F. When requested, please provide details and state all qualifications or exceptions. All information provided should be concise and relevant to the qualifications as stated in this RFP.

Cover Letter

The cover letter must provide a statement affirming that the signatory is empowered and authorized to bind the respondent to an engagement agreement with LACERA's Audit Committee and represents and warrants that the information stated in the proposal is accurate and may be relied upon by the Audit Committee in considering, and potentially accepting, the proposal.

Executive Summary

In this section, an overview should be provided of the respondent's background, experience, and other qualifications to provide external assessment services, and respondent's approach to providing the services requested in this RFP to the Audit Committee.

Experience, Approach, and Proposed Schedule

The proposal must provide a detailed statement of the respondent's experience in providing external assessment services under the IIA Standards and Code of Ethics, including but not limited to experience in respect to assessment of the recommendation follow-up process. Experience with public and private sector member service and financial institutions should be highlighted, including, if applicable, other public pension systems. The response should address the qualifications stated in Section VI.

The proposal should explain respondent's approach to assessment of the Internal Audit Division's recommendation follow-up process, including information and records to be reviewed, interviews, the period of time to be evaluated in the assessment, and the final report format and content.

The proposal should contain a proposed schedule for the scope of work. The Audit Committee understands that the final schedule will be determined after the the successful candidate is selected, the scope further defined, and access to more information concerning the project is available.

LACERA encourages respondents to provide written samples of relevant work product, which may be redacted as appropriate.

Assigned Professionals

The proposal must state the name of the lead consultant and all other professional staff

expected to be assigned to the scope of work, including a detailed profile of each person's background and relevant individual experience, as well as the professionals' collective ability to function as a team and work effectively with LACERA's Audit Committee and staff in performing the scope of services. The proposal should include a commitment by the lead consultant to be reasonably available to the project on an ongoing basis.

Diversity is a core LACERA value, and therefore the proposal must specifically address the diversity of the proposed team members in meaningful roles across levels of seniority to support the firm's work.

The response must include a description of diversity policies, practices, and procedures maintained by the firm regarding equal employment opportunity, including the recruitment, development, retention, and promotion of a diverse and inclusive workforce, non-discrimination based on gender, race, ethnicity, sexual orientation, age, veteran's status, and other legally protected categories, and prohibition of sexual harassment in the workplace. If the respondent has written policies, a copy should be provided with the response to this RFP. The response should identify the oversight, monitoring, and other compliance processes for implementation and enforcement of the firm's diversity policies, practices, and procedures, including the name of the person responsible for measuring the effectiveness of the policies. Please describe any judicial, regulatory, or other legal finding, formal action, or claims related to equal employment opportunity, workplace discrimination, or sexual harassment during the past ten years.

References

In this section, the proposal must identify as references at least five public and private member service organizations, financial institutions, or other organizations, including, if available, public pension systems, for which the respondent provided external assessment services in the last five years. Each reference should include an individual point of contact, the length of time the respondent served as consultant, and a summary of the work performed and successes achieved.

Fees and Costs, Billing Practices, and Payment Terms

The respondent must explain the pricing proposal for the scope of work including pricing of fees and costs, billing practices, and payment terms that would apply. The respondent should represent that the pricing offered to the Audit Committee is, and will remain, equivalent to or better than that provided to other governmental clients, or should provide an explanation as to why this representation cannot be provided. All pricing proposals should be "best and final," although the Committee reserves the right to negotiate on pricing.

Conflicts of Interest

The proposal must identify all actual or potential conflicts of interest that the respondent may face in providing external assessment services to the Audit Committee. Specifically, and without limitation to other actual or potential conflicts, the proposal should identify any representation of the County of Los Angeles, Los Angeles County Office of Education, the South Coast Air Quality Management District, Little Lake Cemetery District, and Local Agency Formation Commission, and, to the respondent's knowledge, any of LACERA's members,

vendors, other contracting parties, investments or investment managers, and employees. The proposal should discuss the respondent's approach to conflicts of interest to ensure the independence of the work.

Claims

The proposal must identify all past, pending, or threatened litigation, including any claims against the firm and the personnel proposed to provide services to the Audit Committee.

Insurance

The proposal must explain the insurance that the respondent will provide with respect to the services to be provided and other acts or omission of the firm and its personnel in the representation of the Audit Committee. The limits of liability are a material term of any engagement letter with the firm and may be subject to negotiation.

Other Information

The proposal may contain any other information that the respondent deems relevant to LACERA's selection process, including samples of written work (redacted as needed).

G. Post-Proposal Request for Information

The Audit Committee reserves the right in its discretion to request additional information from any respondent, although such requests may not be made to all respondents.

H. Interviews and Personal Presentations

The Audit Committee Chair and participating staff intend to require one or more interviews with finalists. The lead consultant must attend the interviews, as well as other team members who will support the work.

I. Evaluation Criteria

Respondents will be evaluated at the discretion of LACERA based upon the following factors:

1. Experience providing external assessment services and knowledge of the IIA Standards and Code of Ethics, and particular expertise, judgment, and experience with regard to the recommendation follow-up process.
2. Quality of the team proposed to provide services to the Audit Committee based on all objective and subjective factors, including the minimum and preferred qualifications stated in Section VI.
3. Ability to provide focused, professional, and responsive external assessment services in a timely manner, including the immediate availability of the lead consultant and other team members when needed, and the approach and schedule for the project.
4. Information provided by references.

5. Written and oral communications skills, including any written materials.
6. Pricing and value.
7. Team work and professionalism
8. The organization, completeness, and quality of the proposal, including cohesiveness, conciseness, and clarity.

The factors will be considered as a whole, without a specific weighting. The balancing of the factors is in the Audit Committee's sole discretion. Factors other than those listed may be considered in making the selection.

J. Engagement Agreement

The Audit Committee will negotiate an engagement agreement with the successful respondent, which must contain such terms as the Committee in its sole discretion may require.

VIII. GENERAL CONDITIONS

This RFP is not an offer to contract. Acceptance of a proposal neither commits the Audit Committee to award a contract to any respondent even if all requirements stated in this RFP are met, nor does it limit the Committee's right to negotiate the terms of an engagement agreement in LACERA's best interest, including requirement of terms not mentioned in this RFP. The Committee reserves the right to contract with a vendor for reasons other than lowest price. Failure to comply with the requirements of this RFP may subject the proposal to disqualification. However, failure to meet a qualification or requirement will not necessarily subject a proposal to disqualification.

Publication of this RFP does not limit the Audit Committee's right to negotiate for the services described in this RFP. If deemed to be in LACERA's best interests, the Committee may negotiate for the services described in this RFP with a party that did not submit a proposal. The Committee reserves the right to choose to not enter into an agreement with any of the respondents to this RFP.

A. Quiet Period

To ensure that prospective service providers responding to this RFP have equal access to information regarding the RFP and that communications related to the RFP are consistent and accurate so that the selection process is efficient and fair, a quiet period will be in effect from the date of issuance of this RFP until the search has been completed. During the quiet period, respondents are not permitted to communicate with any LACERA staff member or Board member regarding this RFP except through the point of contact named herein. Respondents violating the quiet period may be disqualified at LACERA's discretion. Respondents who are existing LACERA service providers must limit their communications with LACERA staff and Board members to the subject of the current services.

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B. Notice Regarding the California Public Records Act and Brown Act

The information submitted in response to this RFP will be subject to public disclosure pursuant to the California Public Records Act (California Government Code Section 6250, et. seq.) and the Brown Act (California Government Code Section 54950, et seq.) (collectively, the Acts). The Acts provide generally that records relating to a public agency's business are open to public inspection and copying and that the subject matter of this RFP is a matter for public open session discussion by the Audit Committee, unless specifically exempted under one of several exemptions set forth in the Acts. If a respondent believes that any portion of its proposal is exempt from public disclosure or discussion under the Acts, the respondent must provide a full explanation and mark such portion "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY," and make it readily separable from the balance of the response. Proposals marked "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY" in their entirety will not be honored, and LACERA will not deny public disclosure of all or any portion of proposals so marked.

By submitting a proposal with material marked "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY," a respondent represents it has a good faith belief that the material is exempt from disclosure under the Acts; however, such designations will not necessarily be conclusive, and a respondent may be required to justify in writing why such material should not be disclosed by LACERA under the Acts.

LACERA will use reasonable means to ensure that material marked "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY" is safeguarded and held in confidence. LACERA will not be liable, however, for disclosure of such material if deemed appropriate in LACERA's sole discretion. LACERA retains the right to disclose all information provided by a respondent.

If LACERA denies public disclosure of any materials designated as "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY," the respondent agrees to reimburse LACERA for, and to indemnify, defend and hold harmless LACERA, its Boards, the Audit Committee, officers, fiduciaries, employees and agents from and against:

1. Any and all claims, damages, losses, liabilities, suits, judgments, fines, penalties, costs and expenses, including without limitation attorneys' fees, expenses and court costs of any nature whatsoever (collectively, Claims) arising from or relating to LACERA's non-disclosure of any such designated portions of a proposal; and
2. Any and all Claims arising from or relating to LACERA's public disclosure of any such designated portions of a proposal if LACERA reasonably determines disclosure is deemed required by law, or if disclosure is ordered by a court of competent jurisdiction.

If a respondent is recommended to the Audit Committee for hiring, such recommendation, the reasons for the recommendation, and the relevant proposal(s) will appear on a publicly posted agenda and in supporting materials for public meetings of the Committee.

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C. Reservations by LACERA

In addition to the other provisions of this RFP, LACERA reserves the right to:

1. Change or cancel this RFP, in whole or in part, at any time.
2. Make such investigation as it deems necessary to determine the respondent's ability to furnish the required services. The respondent agrees to furnish all such information for this purpose as LACERA may request.
3. Reject the proposal of any respondent who is not currently in a position to perform the contract, or who has previously failed to perform similar contracts properly, or in a timely manner, or for any other reason in the Audit Committee's sole discretion.
4. Waive irregularities, to negotiate in any manner necessary to best serve the public interest, and to make a whole award, multiple awards, a partial award, or no award.
5. Award a contract, if at all, to the firm which will provide the best match to the requirements of the RFP and the service needs of the Audit Committee, in its sole discretion, which may not be the proposal offering the lowest fees.
6. Reject any or all proposals submitted in response to this RFP.
7. Determine the extent, without limitation, to which the services of a successful respondent are or are not actually utilized.

D. Ownership of Proposals

The information that a respondent submits in response to this RFP becomes the exclusive property of LACERA. LACERA will not return any proposal or reimburse proposal preparation expenses.

E. Valid Period of Proposal

The pricing, terms, conditions, and other information stated in each proposal must remain valid for 120 days from the date of delivery of the proposal to LACERA.

F. Cost of Proposal

LACERA shall not be liable for any costs that respondents incur in connection with the preparation or submission of a proposal.



**Responses to Questions
Request for Proposals for External Quality Assessment of Internal Audit
Recommendation Follow-Up Process
July 20, 2020**

1. Do you require the work to be completed prior to the 2020-2021 comprehensive external quality assessment?

Response: The external assessment of the recommendation follow-up process as described in this RFP is separate from the 2020-2021 comprehensive external quality assessment. The schedules for the two projects are not related. The comprehensive external quality assessment will proceed on a separate track from the RFP work. LACERA will discuss the RFP work schedule in detail with the successful respondent. It is the intention for the RFP work to be completed as quickly as reasonably possible subject to completion of all necessary work and analysis.

2. Can you confirm that you expect the work to focus only on the follow-up process for internal audit recommendations, or will it expand to include other components of quality assessment, knowing that you plan a full QA in 2020-2021?

Response: This assessment will focus only on the Internal Audit Division's recommendation follow-up process. For clarity, the scope of work includes the Internal Audit Division's follow-up process for its own recommendations as well as for the recommendations of external audits.

3. In anticipation of LACERA's 2020-2021 comprehensive external quality assessment, has LACERA's Internal Audit Division completed a self-assessment? If so, can bidders or the selected vendor obtain copies if it addressed the audit follow-up process?

Response: The Internal Audit Division recently completed a self-assessment, The results were provided to the Audit Committee as part of the June 25, 2020 meeting materials, which are available at:

https://www.lacera.com/about_lacera/bor/meetings/audit/2020-06-25_audit-agnd.pdf

4. Can LACERA provide access to the current list of audit recommendations to the prospective bidders? If not, are the recommendations contained in LACERA's audit reports generally implemented? If they are not generally implemented, does LACERA desire identification of the root causes for its low implementation rate.

Response: The current list of audit recommendations, with implementation status, is attached to the materials for the June 25, 2020 Audit Committee meeting, which are available through the link stated in the Response to Question 3. If the assessment under this RFP makes findings with respect to the Internal Audit Division's recommendation follow-up process, the work should include identification of the root causes. A root cause analysis with respect to findings concerning the implementation rate, to the extent related to the Internal Audit

Division's follow-up process, should also be included. LACERA will discuss the root cause methodology with the successful respondent, which will include sampling of past audit reports, implementation, and follow-up.

5. What is the turn-over rate for the last 12 months of the Internal Audit Division?

Response: The Internal Audit Division states that its turnover rate is extremely low historically and is zero over the last 12 months.

6. How many internal audits are performed on an annual basis by the Internal Audit Division?

Response: The Internal Audit Division presented a final status report on its fiscal year 2019-2020 work plan to the Audit Committee as part of the June 25, 2020 meeting materials, which are available through the link stated in the Response to Question 3. The Internal Audit Division states that it performs approximately 8 to 12 internal audits per year and that it also annually oversees anywhere from 5 to 10 external audits, in addition to its role in LACERA's external financial audit and actuarial audit work, special projects, investigations, and other assignments.

7. What is the average exception rate on internal audits performed?

Response: The Internal Audit Division states that the exception rate for internal audit work ranges from about 3 to 10, sometimes more. The rate for external audits ranges from very low single digits to sometimes 30 or more, some of which are best practice recommendations, not necessarily exceptions.

8. Would a supplier be prohibited from utilizing off-shore resources, in the performance of the review?

Response: The Audit Committee is prepared to discuss use of such resources, although it cannot commit at this time as to whether they will be approved. Confidentiality and legal protections related to the use of such resources, as well as the project generally, will be part of contract negotiations with the successful respondent.

9. When is the last time this type of QAR was done?

Response: To the best of current staff's knowledge, a separate external quality assessment of the Internal Audit Division's recommendation follow-up process has not been conducted outside of the periodic comprehensive external quality assessment. The last comprehensive external quality assessment was completed in January 2016, with a new assessment to be conducted in the 2020-2021 fiscal year.

10. Would you be able to provide the most recent report completed?


Response: The January 2016 comprehensive external quality assessment report stated the Internal Audit Division generally conforms to applicable standards. A copy is attached.



March 23, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **QUALITY ASSURANCE REVIEW – 2016**

Internal Audit's Quality Assurance Review (QAR) was completed in January 2016. The QAR, which is conducted at least once every five years, is performed in accordance with the Institute of Internal Audit International *Standards for the Professional Practice of Internal Auditing*. The primary objectives of the QAR include:

- Assessing Internal Audit's conformance to the Institute of Internal Audit (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*,
- Evaluating Internal Audit's effectiveness in carrying out its mission
- Identifying leading practices and opportunities to enhance Internal Audit's management and work processes.

The consultant, George Shemo, found that Internal Audit **generally conforms** to the *Standards*. This opinion, which is the highest of three possible ratings, means that policies, procedures, and practices are in place to implement the *Standards* and other requirements necessary for ensuring a professional Internal Audit activity. As part of the QAR, Mr. Shemo also identified opportunities for improvement that will assist Internal Audit in more fully complying with the *Standards* and providing enhanced services to LACERA. Staff will discuss the QAR Report at the April 2016 meeting.

RB:lc

Attachment

G Shemo Consulting Inc.
George J. Shemo, CPA, CGMA
13 Pearce Lane
Ballston Lake, New York 12019

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Cell: 518-894-7477
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Certified: NYS
Member: AICPA
NYSSCPA
IIA

REPORT ON THE EXTERNAL QUALITY ASSESSMENT OF

LOS ANGELES COUNTY
EMPLOYEES RETIREMENT ASSOCIATION
OFFICE OF INTERNAL AUDIT

January 15, 2016

Overall Opinion on Conformance

January 15, 2016

Under a contractual agreement with the Los Angeles County Employees Retirement Association (LACERA), I have conducted an independent external Quality Assessment (QA) of LACERA Internal Audit (IA). Being recognized by the IIA as fully qualified to conduct this QA of LACERA IA, my review was made in accordance with the methodology prescribed within the Institute of Internal Auditors' (IIA) "Quality Assessment Manual" (Issued August 1, 2013), and the requirements of IIA *Standard 1312*. The QA was conducted during the period of January 7, 2016 to January 15, 2016 at the offices of LACERA in Pasadena, California.

As a result of my review, it is my opinion, as of January 15, 2016, LACERA IA "Generally Conforms" with the IIA "Definition of Internal Auditing", the *Standards*, and the Code of Ethics. Further, I have found LACERA IA to be effective in carrying out its mission, as set forth in its charter and expressed in the expectations of the LACERA Audit Committee and senior management.

The overall assessment of "Generally Conforms" is the highest of three possible ratings that can be determined through a Quality Assessment; the others being "Partially Conforms" and "Does Not Conform". Please see "Attachment A", which is an integral part of this report, for an assessment of conformance with individual IIA *Standards*. I have provided recommendations to increase conformance for those individual IIA *Standards* that have been rated as "Partial Conformance", and to enhance the IA efforts in adding value to LACERA.

George J Shemo, CPA, CGMA

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Executive Summary

Purpose

As requested by the LACERA Chief Audit Executive (CAE), G Shemo Consulting conducted an independent external QA of LACERA IA. The principal objectives of the QA were to:

- Assess IA conformance to The IIA “Definition of Internal Auditing”, *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Code of Ethics;
- Evaluate IA’s effectiveness in carrying out its mission, as set forth in its charter and expressed in the expectations of the LACERA Audit Committee and senior management;
- Identify opportunities to enhance IA management and work processes, as well as its ability to add value to LACERA.

Scope and Methodology

Prior to my onsite arrival at LACERA to conduct the QA, the CAE provided advance preparation documents to me, which contained detailed information about IA and LACERA. Additionally, I conducted a preliminary meeting with the CAE and his staff in order to gather additional background information, select executives and operating managers for interviews during my onsite field work, and to finalize planning and administrative arrangements for the QA. Onsite fieldwork commenced on January 7, 2016 and concluded on January 15, 2016.

During the onsite fieldwork I conducted extensive interviews with a current member of the Audit Committee, members of executive management, selected operating managers, a representative of the external CPA firm, and selected members of the IA staff. I also evaluated the IA risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA work papers and reports.

Executive Summary

Scope and Methodology (Continued)

The QA consisted of my assessing the following IA functions:

- CAE Reporting Lines and Quality Assurance
- Organization of LACERA IA
- Communications with the Audit Committee and Senior Management
- Risk Assessment and Engagement Planning
- Staff Professional Proficiency
- Information Technology Capabilities
- Productivity and Value Added to LACERA
- Audit Engagement Work Papers and Reports
- Audit Tools and Methodologies
- Engagement and Staff Management Processes

Summary of Recommendations

For Conformance

The following recommendations are provided to guide LACERA IA in achieving a level of general conformance with the individual *Standards* identified in Attachment A:

1. Strengthen and enhance Quality Assurance and Improvement
2. Implement procedures for audit engagement work programs

Executive Summary

Summary of Recommendations (Continued)

For Enhancement

The following recommendations are provided as suggestions for enhancing IA ability for adding value to LACERA operations and processes:

1. Review the IA Charter on a more frequent basis
2. Expand management and reporting of IA resource requirements
3. Update the “IA Operations Guide”
4. Enhance engagement audit reports
5. Increase operating management’s awareness of IA

Executive Summary

Commendations

During my review, I observed the LACERA IA environment to be well-structured and progressive, that the IIA *Standards* are appropriately understood, and IA management is endeavoring to provide useful audit tools and implement appropriate practices in order to add value to the operations of LACERA. It is appropriate to commend LACERA IA for the following:

- The CAE maintains a very strong relationship with the LACERA Audit Committee, while also being recognized as a well-respected member of senior management.
- IA is perceived as providing value added assurance and consulting services to their LACERA customers.
- IA staff viewed very positively for their professionalism, objectivity, business acumen, and their communication and collaboration skills.
- IA staff is well credentialed with multiple professional certifications
- IA audit engagements and reports are substantial and valuable.
- IA annual planning for excellent interaction with the Audit Committee and all levels of LACERA management
- IA is instrumental in LACERA risk management.

Recommendations for Conformance

1. Strengthen and enhance Quality Assurance and Improvement

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

References:

Standard 1311

Practice Advisory 1311-1

**Practice Guides - Measuring IA Effectiveness and Efficiency
- Quality Assurance and Improvement Program**

The CAE has implemented proper procedures that provide for the elements of a Quality Assurance and Improvement Program (QAIP) as it relates to the ongoing monitoring of the performance of the IA activity. Going forward, the CAE should develop procedures that provide for the required internal periodic self-assessment of IA activity conformance with the IIA *Definition of Internal Auditing*, the *Code of Ethics*, and the *Standards*.

The internal periodic self-assessments should be made by individual(s) having sufficient knowledge of internal audit practices and at least an understanding of the elements of the IIA *International Professional Practices Framework*, and could be performed by members of the IA staff or other qualified audit professionals assigned elsewhere within LACERA. The IIA *Quality Assessment Manual* can serve as the basis for periodic internal assessments.

As a means of further enhancing the ongoing monitoring of IA activity performance, the CAE could consider expanding the use of performance metrics. Expansion of metrics could focus on:

- Improvement in staff productivity
- Adequacy of engagement planning and supervision
- Increase in efficiency and effectiveness of the audit process
- Completion of audits timely and on budget

Recommendations for Conformance

1. Strengthen and enhance Quality Assurance and Improvement **(Continued)**

The CAE could also consider further enhancements to the QAIP by adding information regarding the QAIP within the formal written status reports provided periodically to the Audit Committee and senior management, and by updating the “IA Operations Guide” to include all elements of the QAIP.

2. Implement procedures for audit engagement work programs

Implementing Stakeholder: Internal Audit

Reference:

Standards 2240, 2240.A1

Work performed in conducting audit engagements is appropriately planned and properly supervised. However, only the preliminary planning and general audit procedures (planning memo) are documented within the engagement work papers. The detailed testing procedures, which are developed by the CAE, audit manager, and audit staff, are not formally documented within the work papers. The CAE should implement procedures to ensure that the detailed audit procedures are documented in the form of work programs. The written work programs should be in sufficient detail to include the procedures for identifying, analyzing, evaluating, and documenting information and conclusions. The work programs should also provide evidence that supervisory approval has been given, prior to staff conducting the work. Any adjustments to the original work programs should also be approved appropriately.

Recommendations for Enhancement

1. Review the IA Charter on a more frequent basis

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

Reference:

Practice Advisory: 1000-1

The IA Charter is intended to facilitate a periodic assessment of the adequacy of IA purpose, authority, and responsibility. While the IA Charter is complete and appropriately approved by the AC and senior management, the CAE could increase the frequency of his periodic assessment of the Charter's viability. An annual review would be appropriate period of time.

2. Expand management and reporting of IA resource requirements

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

References:

Practice Advisories 2020-1, 2030-1

The process developed by the CAE appropriately provides the Audit Committee and senior management with a risk based annual plan that determines the priorities of the IA activity consistent with LACERA's goals. The plan, as presented to senior management for their review and for the approval of the Audit Committee, properly communicates IA planned activities and resource requirements, and provides the basis for the CAE to ensure that IA resources are appropriate, sufficient, and effectively deployed.

Recommendations for Enhancement

2. Expand management and reporting of IA resource requirements **(Continued)**

There are potential opportunities to further enhance the CAE's management and reporting of IA resource requirements. The CAE could consider the following:

- Develop audit frequency guidelines, with the approval of the Audit Committee and senior management, which establishes a time period over which all auditable entities within the audit universe receive appropriate audit resources commensurate with their assessed risk. The frequency guidelines will establish and represent the "risk appetite" for LACERA. The length of the time period will be established based on the frequency guideline adopted for low risk entities. High risk entities, depending on their frequency guideline, will be audited more than once over the time period. Moderate risk entities may be audited more than once over the time period.
- Revise the annual plan format to include all auditable entities within the audit universe. For each entity to be audited within the current year, based on the established frequency guidelines, provide a resource estimate and brief scope description. For all the other entities, indicate the future year in which you estimate they will be audited.
- Revise the annual plan format to include time estimates for the expenditure of staff resources for non-audit purposes such as vacations, holidays, sick leave, and training. The plan should account for all staff time, except for the CAE.

Recommendations for Enhancement

3. Update the “IA Operations Guide”

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Operating Management

Reference:

Practice Advisory 2040-1

The CAE could boost IA administrative and audit engagement processes by completing a comprehensive update of the “IA Operations Guide”.

The CAE is responsible for establishing policies and procedures to guide IA. While their form and content is not stipulated within the *Standards*, given the size and structure of IA and the complexity of LACERA operations, maintaining a written policies and procedures manual would be appropriate.

A comprehensive update of the Guide would accomplish the following:

- Existing policies and procedures are made current;
- Obsolete information is eliminated;
- New processes are added;
- IA staff functions effectively;
- Consistency added to administrative processes, audit work, and work paper preparation;
- New IA staff members have an authoritative resource for reference and direction;
- Operating management can have a clearer understanding of the purpose and processes of the IA activity;
- Provide a valuable resource in any efforts to implement “Control Self-Assessment” within LACERA.

Recommendations for Enhancement

4. Enhance Audit Engagement Reports

Implementing Stakeholder: Internal Audit

Associated Stakeholders: LACERA Management
Audit Committee

Reference:

Standard 2430

There are potential opportunities to enhance IA audit reports. The CAE could consider the following:

- Based on the results of the QAIP, LACERA IA audit report opinions could be revised to state that audit engagements are “*Conducted in Conformance with the International Standards for the Practice of Internal Auditing*”.
- Increase the consistency in audit report opinions by always, rather than sometimes, addressing the adequacy of policy, procedure, or process design when it is appropriate, in addition to conformance.
- When appropriate, audit report opinions should provide LACERA management with a clear understanding of the level of assurance they can place in the policy, procedure, or process audited. The objective to be achieved is for management to have reasonable, but not absolute assurance.
- Continue current efforts to increase the timeliness of audit reports.

Recommendations for Enhancement**5. Increase operating management's awareness of IA****Implementing Stakeholders: Internal Audit****Operating Management****Reference:****Successful Practice**

The structure of the reporting relationship of IA within LACERA is entirely appropriate. It achieves complete independence for the IA, and establishes the proper environment to allow the IA to effectively support LACERA in fulfilling its mission and achieving its goals and objectives. However, there appears to be an opportunity to enhance the ability of the IA to add value to LACERA by raising the awareness of IA operations and services by operating managers having limited interaction with IA.

One of the keys to having a highly effective IA is the communication links, both formal and informal, between the CAE and all levels of management. At this point in time, the communication links between the CAE and senior management are well established and working effectively. The communication links between the IA and some operating management could be enhanced. Senior management could encourage these operating managers to reach out and include the CAE in the information flow for their operations. Likewise, the CAE could periodically reach out to all levels of operating management to ensure the IA is poised to continually meet their needs.

The CAE could consider taking the following steps for enhancing the relationship with LACERA management:

- Implement a practice of periodic face to face meetings with all operating managers and their staffs with a focus on current events

and ways IA can be of assistance to them, and provide them with an



G Shemo Consulting

Recommendations for Enhancement

5. Increase operating management's awareness of IA (Continued)

- Update the intranet web page for IA providing information on services and activities of IA. The web page could be used to relate issues of common interest found in audit engagements, without disclosing the specific department in which the engagement was performed.
- Encourage and assist operating managers in implementing internal control self-assessment processes. Provide training to operating departments on control evaluation techniques, and serve as facilitators for self-assessment implementation.

CAE Response

I have read this report in its entirety, and accept responsibility for communicating it to the appropriate members of the Audit Committee and executive management. I understand that the “Recommendations for Conformance” should be implemented to achieve a rating of “General Conformance” for the individual IIA *Standards* which have been rated “Partial Conformance” as shown in Attachment A to this report. Accordingly, I accept the “Recommendations for Conformance” as appropriate to the IA of LACERA. Further, I understand the “Recommendations for Enhancement” and I will consider incorporating them as part of the IA “Quality Assurance and Improvement Program” as appropriate. I will prepare an action plan for implementing the appropriate recommendations and provide it to executive management and the Audit Committee.



Richard Bendall
Chief Audit Executive
LACERA Internal Audit

Attachment A

		GC	PC	DNC
OVERALL EVALUATION		x		
ATTRIBUTE STANDARDS		x		
1000	Purpose, Authority, and Responsibility	x		
1010	Recognition of the Definition of Internal Auditing	x		
1100	Independence and Objectivity	x		
1110	Organizational Independence	x		
1111	Direct Interaction with the Board	x		
1120	Individual Objectivity	x		
1130	Impairments to Independence or Objectivity	x		
1200	Proficiency and Due Professional Care	x		
1210	Proficiency	x		
1220	Due Professional care	x		
1230	Continuing Professional Development	x		
1300	Quality Assurance and Improvement Program	x		
1310	Requirements of the Quality Assurance and Improvement Program	x		
1311	Internal Assessments		x	
1312	External Assessments	x		
1320	Reporting on the Quality Assurance and Improvement Program	x		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	x		
1322	Disclosure of Noncompliance	x		
PERFORMANCE STANDARDS		x		
2000	Managing the Internal Audit Activity	x		
2010	Planning	x		
2020	Communication and Approval	x		
2030	Resource Management	x		
2040	Policies and Procedures	x		

Attachment A

2050	Coordination	x		
2060	Reporting to Senior Management and the Board	x		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	NA		
2100	Nature of Work	x		
2110	Governance	x		
2120	Risk Management	x		
2130	Control	x		
2200	Engagement Planning	x		
2201	Planning Considerations	x		
2210	Engagement Objectives	x		
2220	Engagement Scope	x		
2230	Engagement Resource Allocation	x		
2240	Engagement Work Program		x	
2300	Performing the Engagement	x		
2310	Identifying Information	x		
2320	Analysis and Evaluation	x		
2330	Documenting Information	x		
2340	Engagement Supervision	x		
2400	Communicating Results	x		
2410	Criteria for Communicating	x		
2420	Quality of Communications	x		
2421	Errors and Omissions	x		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	x		
2431	Engagement Disclosure of Nonconformance	NA		
2440	Disseminating Results	x		
2450	Overall Opinions	NA		
2500	Monitoring Progress	x		
2600	Management's Acceptance of Risks	x		
IIA Code of Ethics		x		

ATTACHMENT D
Final KPMG Proposal,
with Sample Report



An insightful approach today to bring tomorrow into focus

Los Angeles County Employees Retirement Association (LACERA)

External Quality Assessment of
Internal Audit recommendation
follow-up process

August 03, 2020

[kpmg.com](https://www.kpmg.com)





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August 03, 2020

LACERA
Attention: Steven P. Rice
Chief Counsel
300 North Lake Avenue, Suite 620
Pasadena, CA 91101

Dear Mr. Rice,

KPMG LLP (KPMG) appreciates the opportunity to present our proposal to serve Los Angeles County Employees Retirement Association (LACERA). In seeking a service provider, it is important to work with a partner who aligns with your Mission, Vision and Values and KPMG understands how important LACERA is in serving and supporting its retirees.

LACERA and KPMG share a deep, powerful commitment to the highest principles of corporate values and culture. It is about doing good – for our people, our communities, the environment, and the future.

At KPMG:

- We work **together** to help provide the highest quality of services to our clients.
- We think big and act with **courage** in pursuing **innovative** ideas and solutions.
- We seek the facts, provide insight, and challenge assumptions.
- We look beyond our firm to make a broad impact **for better** – from the individual, to local communities, to the world at large.

Above all, we act with integrity.

Our shared values help us support your strategic initiatives and cultivate an environment where you realize your mission to produce, protect, and help provide the promised benefits, and vision of excellence, commitment, trust, and service.

Specifically, for these services we will bring a team that focuses on providing Internal Audit and Quality Assessment services which will allow us to bring a defined methodology and approach to hit the ground running and complete the work in an expedient and efficient manner. Your proposed team also has professionals with experience working in other large pension organizations which allows us to bring insights on the specific risks relevant to your organizations. Lastly, we are committed to being a valued partner to LACERA, which means we are focused on your success.

In closing, we want to express that, with KPMG, LACERA will receive an excellent level of reliable and professional client service. We are looking forward to working closely with the LACERA team throughout the engagement. Should you have any questions in the meantime, please don't hesitate to contact us. We look forward to meeting with you to discuss our proposal in greater detail.



Los Angeles County Employees Retirement Association (LACERA)

August 3, 2020

Page 2 of 2

Yours sincerely,

KPMG LLP



Debbie Biddle-Castillo
Lead Managing Director



Douglas Farrow
Lead State and Local Government Partner

We hereby confirm that the signatory is empowered and authorized to bind the respondent to an engagement agreement with LACERA's Audit Committee and represents and warrants that the information stated in the proposal is accurate and may be relied upon by the Audit Committee in considering, and potentially accepting, the proposal.

This proposal is made by KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity, and is in all respects subject to our client and engagement acceptance procedures as well as the negotiation, agreement, and execution of a specific engagement letter or contract.

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Executive summary



1 Executive summary

KPMG LLP (KPMG) appreciates the opportunity to present our proposal to serve **Los Angeles County Employees Retirement Association (LACERA)**. In seeking a provider of External Quality Assessment (EQA) services, it is important to work with a service provider with deep experience in Internal Audit and providing EQA services along with a strong understanding of state and local government and the risks in large pension systems. Our proposed team possesses these characteristics, combined with the technical knowledge and skills to deliver efficient, timely, and cost-effective services to LACERA.

As such, we are pleased to have the opportunity to present our qualifications to serve LACERA in this capacity, and we are confident that our experienced team will provide you with an exceptional level of service.

Our understanding of your requirements

We understand LACERA is seeking a professional services provider to perform a robust external quality assessment (EQA) of Internal Audit Division's recommendation follow-up process for compliance with the International Standards for the Professional Practice of Internal Auditing (Standards) and the Code of Ethics issued by the Institute of Internal Auditors (IIA).

An important role of the Internal Audit Department is to follow-up on observations and complaints to help ensure risks are effectively mitigated and resolved. Specifically, we will focus on:

EQA – Monitoring and Follow-up Process objectives

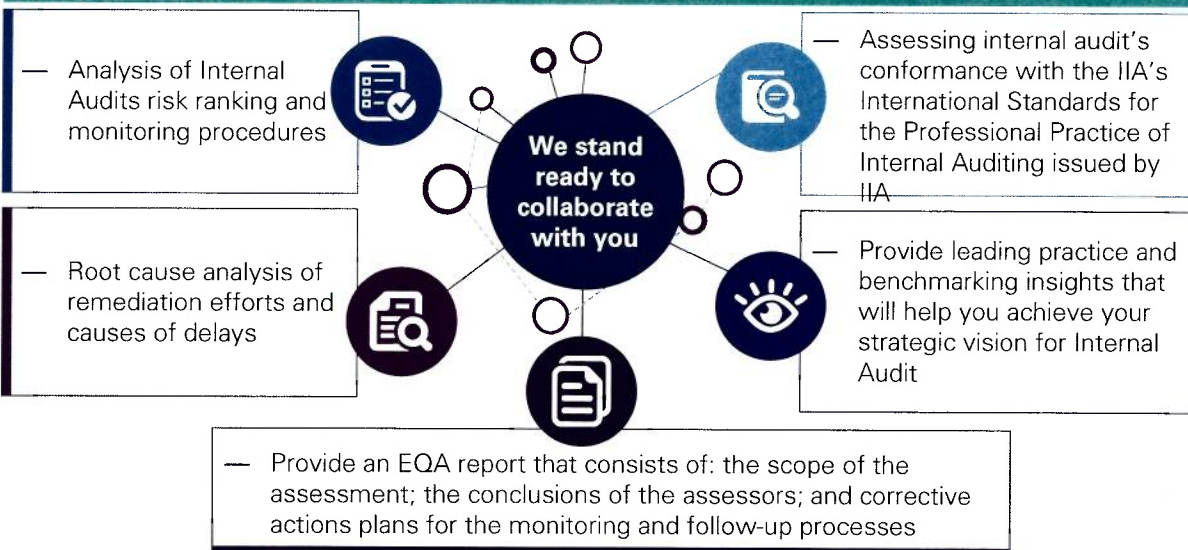
Assess policy and process for identification and ranking of deficiencies

Assess efficiency and effectiveness of remediation plans and timelines

Evaluate and identify root cause for extended risk exposure

Provide leading practices and benchmarking insights

KPMG's external quality assurance review of LACERA's Internal Audit Division will be focused on the following:



Why KPMG? What differentiates us?

KPMG's advantage over our competitors is based on one factor: our people. We offer our top quality resources, from associate to partner. This strength leads to an unbeatable breath of knowledge and a robust methodology provides clients with high-quality and cost effective services.

A focused, responsive, and experienced team: Your team comprises high level internal audit professionals that have over 50 years of experience. The team specializes in internal audit department development and quality assessments. Within the team, not only is internal audit experience, but also IT audit, Six Sigma certifications, interim CAE and industry risk management officer experience. Led by Debbie Biddle-Castillo, your engagement team has been designed for responsiveness with deep knowledge and understanding of your issues. Co-leading with Debbie, is Doug Farrow, Lead State and Local Government Partner. Doug has over 30 years of experience providing audit committee guidance on audit and regulatory components.

Our established, effective, tested approach: We have teamed with and assisted many Internal Audit departments to develop into high-impact and strategically focused functions within their organizations, serving as advocates for business excellence. Our approach is based on a structured, yet flexible methodology which can be tailored to help maximize the impact and value to LACERA. Our approach will merge KPMG's leading practice Internal Audit Methodology that includes monitoring, remediation testing and reporting for identified audit issues with our Strategic Performance Review of Internal Audit (K'SPRint) methodology. By utilizing both methodologies, we will bring not only the IIA's IPPF standards, but also KPMG's leading Internal Audit practices.

Clear Communication: We know that project success requires regular, open, and forthright dialogue with you. Our approach to this project will be characterized by close collaboration and continuous communication. To this end, we will schedule periodic update meetings and will be in regular contact with the designated project sponsor and Internal Audit management to help ensure that there are no surprises and that you are kept fully informed of our progress. We will communicate our feedback and recommendations in clear terms, in a report format agreed with LACERA.

Value beyond fees: We believe you deserve fair, market-based fees, as well as an insight into the process and approach we will employ to help meet your objectives. Our goal is to demonstrate that the benefit of working with KPMG exceeds the cost of our services.



Firm background,
qualifications,
and experience



Proposal to serve **Los Angeles County Employees Retirement Association (LACERA)**



2 Firm background, qualifications, and experience

KPMG overview

KPMG International Cooperative (KPMG International) is a global network of professional firms providing audit, tax, and advisory services. KPMG International operates in 147 countries with more than 219,000 people, including more than 10,900 partners. KPMG International does not provide client services. Our organization’s focus, commitment to excellence, global mind-set, and consistent delivery build trusted business relationships that are at the core of our business and reputation.

KPMG LLP, the United States member firm of KPMG International, traces its origins all the way back to 1897 and became a limited liability partnership in 1994, registered in the State of Delaware. Headquartered in New York with more than 38,000 people, including more than 2,200 partners, we are a leader among professional services firms. We provide services from more than 100 offices serving clients in all 50 states.

Utilizing our qualified resources from local, regional and national networks



KPMG's Los Angeles office

KPMG's Los Angeles offices are the hub of the firm's Southern California practice. These offices comprise of more than 830 employees, including 55 partners. Our experienced professionals provide audit, advisory, and tax services to numerous publicly and privately owned businesses throughout Los Angeles County. We deliver a full spectrum of advisory and compliance services for federal, international, and state and local tax and across multiple industry sectors, including internal audit, information risk management, operational improvement and forensics.








What we do?

KPMG provides **audit, tax, and advisory** services as well as industry insight to help clients and government entities address some of their critical complex challenges and capitalize on their significant opportunities. KPMG believes that the quality of our services separates us from our competitors. Our firm has established rigorous standards against which performance is measured to help ensure quality drives everything we do. By bringing different perspectives, sound judgment, and extensive collaboration, KPMG professionals help enable clients to make informed decisions.

Our commitment to corporate responsibility

Around the world, we are experiencing a new era of corporate responsibility. KPMG is helping to lead the charge. This past year has been one of significant achievement. Beyond the positive impact that we make through our audit, tax and advisory activity, our people continually work in their communities as a force of positive change.

We are deeply committed to helping to create a sustainable future for all of us. One that is defined by an uncompromising adherence to ethical behavior and a steadfast belief in the shared value we strive to create for our people, clients, communities, and our wider world. And one that appreciates and holds itself accountable for the critical role we play in the capital markets and the responsibilities that accompany it.

Community impact KPMG's commitment to education and lifelong learning supports a diverse talent pipeline by empowering individuals from pre-k to the C-suite to unlock potential and change lives.	 190K volunteer hours	 \$50M total KPMG giving	KPMG's Family for Literacy  576 schools and organizations supported	
	 KPMG is a signatory of the UN Sustainable Development Goals (SDGs). Our U.S. Community Impact strategy aligns with SDG #4, Quality Education.	Donated 5 millionth book	 \$11M raised by KPMG partners and professionals	
	 433K+ number of students supported by KPMG's Lifelong Learning programs	46% of KPMG's Community Impact Investment supports Lifelong Learning	 KPMG recognized as one of the 50 most community-minded companies in the U.S.	

Inclusion and diversity

To provide an inclusive environment that attracts and retains a values- and purpose-driven diverse workforce; cultivates the intellectual capital of unique skills, backgrounds, and experiences for innovative solutions; and enables all of our people to thrive in their careers.

222 Business Resource Groups (BRGs) & Inclusion Councils

African Ancestry, Abilities in Motion, Asian Pacific Islander, Hispanic Latino, KPMG Network of Women, pride@kpmg (LGBT+), and Veterans

Nearly **900** professionals lead our local and national BRGs and Inclusion Councils

16.8% of total spend with small and/or diverse businesses

49% partners and employees participate in Inclusion & Diversity events

KPMG's workforce diversity:

- 45%** Partners & employees are women
- 41%** Diverse board of directors
- 34%** Partners & employees are people of color

Environmental sustainability

Environmental sustainability is an essential element of our business strategy. We focus our efforts on reducing our own environmental footprint, addressing local challenges through grants and pro bono support, and working with clients to advance environmental sustainability through their strategies.

Environmental Highlights

- 56%** decrease in paper usage
- 53%** Reduction of office electricity
- 80%** of electricity from renewable sources over prior year

Note: Metrics as of September 30, 2018 compared to 2010 baseline

Alignment with the United Nations Sustainable Development Goals

- 425K** pounds of food waste diverted from landfills through composting
- Over **60%** of employees work in **LEED-certified offices**

More than **100** ambassadors in over **100** offices across the country

Living Green

New hire = Tree planted since 2013, over **34,000** trees from coast to coast

Supporting communities globally through COVID-19

As part of our global response, KPMG became a **founding member of the United Nations Educational, Scientific and Cultural Organization (UNESCO) convened Global Education Coalition for COVID-19 response** to safeguard access to education for the 1.5 billion students across 191 countries affected by nationwide school closures during this pandemic.



KPMG in the U.S. and the KPMG U.S. Foundation, Inc. have pledged to donate more than US\$2 million to support not-for-profit organizations. In addition, to date, US\$700,000 of funds have been provided to national not-for-profit organizations around their relief efforts and solutions supporting these four key areas: the "front line", education, food insecurity, and the cure.

KPMG's Internal Audit and EQA Services practice overview

KPMG's Internal Audit (IA) practice comprises financial, operational, compliance, technology, investigative and controls professionals. As a testament to our commitment to internal audit, over a decade ago, KPMG made IA services a global priority service line with a global footprint of dedicated professionals.

Today, a global steering committee of national IA leaders from the Americas, Asia-Pacific, and Europe/Middle East/Africa regions coordinate service delivery to multiple clients across various industries employing consistent methodologies and quality standards everywhere they deliver services. Highlights of our IA practice are as following.

Internal Audit (IA) Services practice overview	
 <p>Professionals We have 2,700+ professionals for internal audit, IT audit, Sarbanes-Oxley and enterprise risk, services operating in the U.S. We have 600+ Internal Audit and Enterprise Risk (IAER) professionals including 45+ partners serving in the U.S.</p>	<p>Internal Audit and Enterprise Risk services (IAER) to more than 900 U.S. clients, of which 247 are Fortune 1000 companies or private/government equivalents in size</p> 
<p>A few of our key services</p> <ul style="list-style-type: none"> — External Quality Assessment Reviews (EQA) — Internal Audit Strategic Alignment Services — Internal Audit Strategic Sourcing, including Data Analytics-enabled Internal Audit services — Sarbanes-Oxley Assistance Services — Enterprise Risk Management and Governance, Risk and Compliance 	<p>Internal Audit Outsourcing or Co-Sourcing services to 363 clients, 154 of which are on the Fortune 1000 or are private or government equivalents in size</p> 

Our experience in providing EQA services

KPMG has worked with many clients to perform EQAs of Internal Audit departments, and our support has varied depending on the need. We have performed services ranging from guidance through self-assessment processes, conducting readiness assessments, reviewing Internal Audit methodologies and action plans or department initiatives, performing strategic analyses, and performing full evaluations of the Internal Audit function. KPMG has a designated team of professionals that are focused on the continuous improvement of Internal Audit, including forward-looking thought leadership and development.



Our EQA projects, and some of the related projects we work on for our larger Internal Audit clients, are designed to help them:

- Assess the quality of the department’s key processes and Internal Audit methodology, including risk assessment approach, the method for determining the audit universe, and *audit finding monitoring and follow-up*
- Determine the extent to which the Internal Audit department is meeting the *expectations* of the audit committee, management, and other stakeholders for *all areas of the audit and follow-up process*
- Consider whether the department has an appropriate “people strategy” and competencies to deliver upon its mission and objectives and whether the resource allocation is balanced and flexible
- Consider the degree of internal consistency of processes, methods, and techniques and identify the opportunities for synergy and improvements that might be achieved through greater standardization and coordination across all phases of the audit.
- Compare the department’s operations, management, and processes to those considered leading practices or industry standards

Representative EQA clients

Representative EQA clients		
— AARP	— Central Pacific Bank	— National Microfinance Bank
— Abbey National	— Chemours	— Nordstrom
— Absa Bank	— Cincinnati Insurance Companies	— PACCAR
— ACE Insurance	— Citizens Bank, N.A.	— Pentair
— Aegon	— Citizens Financial Group	— Philips
— Allstate Insurance Company	— CME Group	— Prudential Financial
— Amica Mutual Insurance Company Inc.	— Cummins	— RBS
— Assessment and Qualification Authority	— Deutsche Börse AG	— Rio Tinto Services Limited
— Automatic Data Processing'	— Dynegy	— Sun International
— Banco de Portugal (Regulator)	— Entergy Services	— Susquehanna Bancshares
— Bank for Agriculture and Agricultural Cooperatives	— Federal Home Loan Bank of Boston	— Teachers Insurance and Annuity Association
— Barclays	— Federal Home Loan Bank of Pittsburgh	— United Nations Population Fund
— Boeing	— Federal Home Loan Bank of Topeka	— U.S. Bank
— Brambles Industries Ltd	— Fiserv	— Vantiv (now Worldpay)
— California State Teachers Retirement	— International Paper	— Walmart
— Capital One	— Loews Corporation	— Waste Management
	— Microsoft	— Wawa
	— Motiva Enterprises	— Whirlpool Corporation

Our experience in the state and local government industry

Almost a century ago, KPMG made a commitment to provide high-quality audit and advisory services to the public sector. Today, that commitment remains strong and can be measured by our market-leading service to some of the largest governments in the U.S. We believe no other firm can match our years of performance and experience. KPMG has been serving government for more than 100 years, and today serves more than **2,500 public sector clients, including federal, state, and local governments.**

KPMG actively assists the principal organizations that dictate accounting standards, including FASB-IASB, GAAP, GASB, to name a few, and serve as advisors on regulatory matters affecting all levels of government. Our vast knowledge and experience in the standard setting process allows us to anticipate and navigate the regulatory environment for future implementation measures and assist clients in adopting new and revised standards

KPMG has made serving the public sector a key focus of our business and our future by assisting organizations of all types, including federal agencies, states, cities, counties, school districts, public hospitals, finance authorities, transit authorities, and virtually all other institutions that serve the public. This practice consists of more than **2,000 professionals**, including more than **180 partners**, who devote their efforts full-time to serving state and local, federal, higher education, research, and other not-for-profit organizations. KPMG offers professional services to help public sector agencies meet the needs of their constituencies.

KPMG's Government sector practice including Federal, State and local, and HERON sectors consists of more than **2,000 professionals**, including **180 partners** in the U.S.

<p>Our purpose: What we do matters</p> <p>We bring innovative international perspectives to Government & Public Sector clients to help solve their pressing challenges.</p> <ul style="list-style-type: none">  KPMG inspires confidence and empowers change  KPMG's Government practice works in industries that affect everyone's lives; what we do matters 	<p>Our sector commitment: To be the Clear Choice for Government & Public Sector clients as they seek to:</p> <ul style="list-style-type: none">  Foster prosperity for all  Protect society  Help enable a better future  Create sustainable quality of life  Support trade, aid and investment
--	--

Our involvement in the state and local government sector

KPMG is an active leader and participant in several key industry associations, including:

National Association of State Auditors, Comptrollers and Treasurers	National Association of State Personnel Executives	National Association of State Chief Administrators	National Association of State Chief Information Officers
American Public Human Services Association	National Association of State Medicaid Directors	American Association of Motor Vehicle Administrators	Association of Government Accountants

KPMG Institute Network

We create an open forum where peers can exchange insights, share leading practices, and access the latest thought leadership.

Government Institute

The Government Institute is a forum for ideas, leading practices, and thought leadership to help federal, state, and local governments, higher education institutions, and not-for-profit organizations address difficult challenges.

Clients we serve

KPMG's commitment to state and local government has resulted in our serving many well-respected names. Following is the representative list of state and local government clients to which KPMG has provided advisory services on previous engagements:

KPMG's representative list of state and local government advisory clients

— Cadence Education Inc.	— County of Los Angeles Sheriff's Department	— Southern California Regional Rail Authority
— Charlotte County Florida	— County of Maricopa	— State of California
— City and County of San Francisco	— County of Riverside	— State of Florida
— City of Atlanta	— County of Santa Barbara	— State of Hawaii
— City of Boston City	— Covered California	— State of Maine
— City of Chicago	— Ducks Unlimited Inc	— State of Michigan
— City of Dallas	— Father Flanagan's Boy's Home	— State of New York
— City of Fountain Valley	— Florida Agency for Health Care Admin	— State of Ohio
— City of Indianapolis	— Government of the District of Columbia	— State of Rhode Island
— City of Industry	— John S and James L Knight Foundation Inc	— State of Vermont
— City of Long Beach	— Navajo Nation	— The American Red Cross
— City of Los Angeles	— New York Ehealth Collaborative (Nyec)	— United Negro College Fund Inc.
— City of New York	— NSF-National Science Foundation	— U.S. Dept. of Health & Human Services
— City of Orlando	— NY State & Local Ret Systems Inc	— U.S. Dept. of Housing and Urban Dev
— City of Pasadena	— Oregon Health Authority	— U.S. Dept. of Veterans Affairs
— City of Placentia	— RiverSpring Health	— Water Replenishment District of Southern California
— City of Santa Clarita	— San Manuel Band of Mission Indians	— Women Corporate Directors
— City of Seattle		— World Vision
— CNCS-Corp for National & Community Svc		— YMCA Retirement Fund
— Commonwealth of Kentucky		

Approach and proposed schedule



3

Approach and proposed schedule

KPMG’s intelligent EQA methodology: K’SPrint

Our K’SPrint methodology is focused on compliance with IIA standards and overall maturity.

Our methodology for delivering EQA services is called K’SPrint (KPMG’s Strategic Performance Review of Internal Audit) and fully conforms to IIA Standards. K’SPrint adopts a practical, structured, and compliance-driven approach to help assess conformance with IIA Standards in a cost-efficient way. Embedded in our methodology is a capability maturity assessment of your internal audit department. Our maturity model takes qualitative feedback collected from your key stakeholders into account specifically with respect to their expectations, needs, and vision and your current control environment to help provide a point of view on current state and desired future state. We will also provide you with leading practice options to help with continuous improvement.



K’SPrint adopts a practical, structured, and compliance-driven approach to help assess conformance with IIA Standards in a cost-efficient way.

Much more than a traditional compliance, transaction or process-oriented quality assessment review, K’SPrint puts internal audit’s key success factors—it’s positioning, people, and processes—into meaningful business context through a high-level diagnostic review process. The methodology conforms to IIA Standards and assesses the organization against attributes of a leading Internal Audit function.

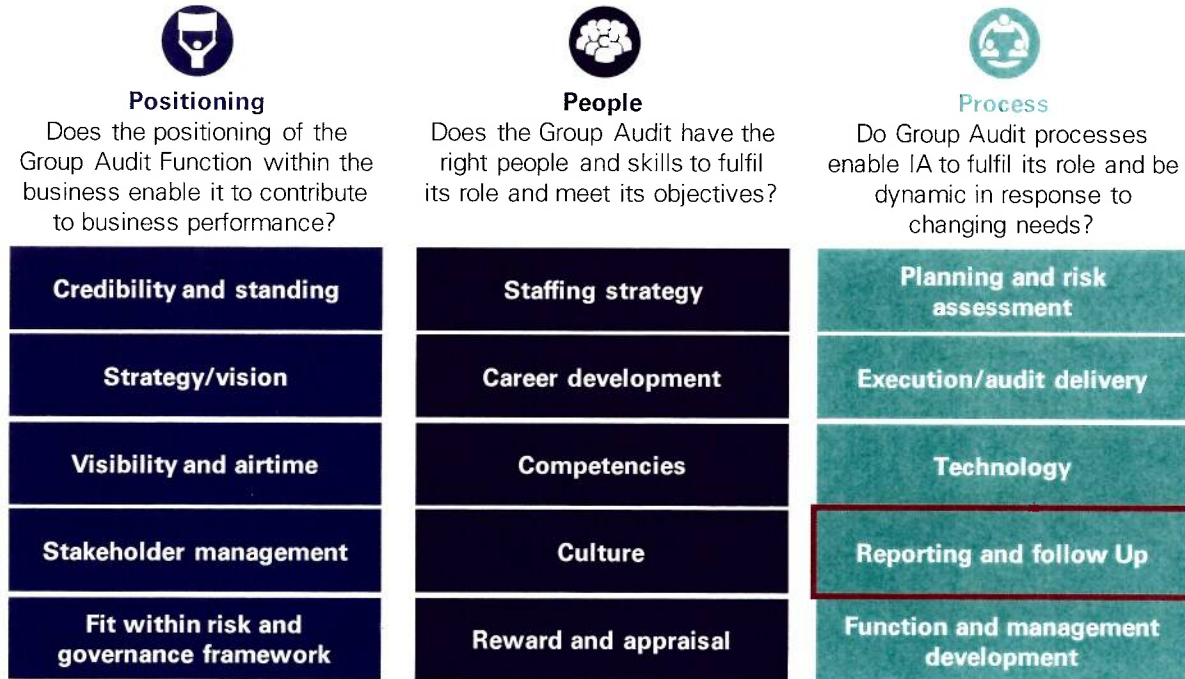
K’SPrint uses a structured, yet flexible and intelligent approach to help maximize the value you will receive from the review, and focuses on three key success factors for Internal Audit:

Positioning	People	Processes
Is Internal Audit strategically positioned to achieve its objectives and contribute to the business? Is Internal Audit viewed as a valued contributor to the business’s strategy and performance?	Does Internal Audit have the right people strategy and competency model to deliver on its mission/objectives as defined by management?	Are Internal Audit’s processes efficient, effective and aligned with the organization’s strategy?

We will focus on follow-up and monitoring of audit results within the assessment. We will review the existing policy for monitoring and helping ensure management remediation actions, and understanding the role of any issues management processes and responsibilities outside of the Internal Audit team. The policy will be compared to better practices and its compliance with IIA/IPP framework.

Our approach to accomplish LACERA’s objectives

To accomplish LACERA’s objectives, we will be focusing on the Reporting and Follow-up section within the Process category of our K’SPrInt methodology. The various IIA Standards, requirements and conformance attributes, within a robust EQA are grouped into three distinct categories as mentioned earlier in our K’SPrInt framework: **Positioning, People, and Process**.



K’SPrInt is designed to secure buy-in from relevant stakeholders on their strategic needs and expectations of Internal Audit, and compare the current Internal Audit structure and competency model to leading practices. Our systematic approach involves a combination of interviews, workshops and documentation review through which we can align our recommendations with stakeholders’ strategic expectations.

In addition to the K’SPrInt methodology, we will also leverage our Internal Audit Reimagined Methodology.

Scope and maturity attributes

We will assess the design and operating effectiveness of LACERA’s Internal Audit division’s recommendation and follow-up processes. We will review documentation including but not limited to, the Internal Audit charter, Internal Audit methodology, 2020 audit plan, Internal and External Audit reports issued, supporting files and working papers, quality assurance improvement program, issues tracking, validation and reporting, in addition to leveraging stakeholder interviews, plus existing internal independent feedback on LACERA Internal Audit and your self-assessment materials. *Kindly refer to **Appendices section** for more details of some of the topics covered by the KPMG framework.*

Detailed phases and activities for Phase 1:

Key activities	1 Planning <ul style="list-style-type: none">— Confirm the LACERA Internal Audit point of contact and key stakeholders— Develop project plan and timeline and agree upon frequency of status reporting— Facilitate introduction/kickoff meeting with key LACERA stakeholders to set expectations and communicate objectives— Develop and submit document and interview request list— Identify stakeholder interviews needed and schedule accordingly— Conduct knowledge sharing sessions with Internal Audit team
	2 Document collection and review <p>Assess LACERA Internal Audit governance/oversight and monitoring activities:</p> <ul style="list-style-type: none">— Review mission and mandate (e.g., Internal Audit charter)— Assessment will include review or sampling of the process and records for certain period of time that will be discuss and agreed upon with the Audit Committee. Sampling options could include: random selection from audit inventory, deep dive of findings due to the time taken for remediation, or based upon associated risk of finding identified.— Review Internal Audit manual/policies and procedures, annual risk assessment, audit plan, etc. for impacts to the Follow-up process including tools utilized for tracking, findings analytics, risk acceptance process, etc. <p>Interviews:</p> <ul style="list-style-type: none">— Conduct 10-12 key stakeholder interviews (audit committee, CEO, CFO, Controller, remediation owners, etc.) – to be validated with LACERA— Analyze feedback and assess responses <p>LACERA Internal Audit working practices review:</p> <ul style="list-style-type: none">— Review Internal Audit’s monitoring and follow-up program and process— Select completed audits/assurance/advisory projects and external audits to review for items such as:<ul style="list-style-type: none">- Communication to management and associated risk rankings- Level of information and details within remediation plans- Frequency of follow-up with remediation owners (e.g. follow-up audit, regular status meetings, review of risk exposure remaining)- Confirmation process of resolution and validation of sustained remediation- Escalation process for non-compliance to deadlines on remediation- Internal Audit’s internal discussions to evaluate potential elevated or increased risk with aggregation <p>LACERA Internal Audit technology and tools review:</p> <ul style="list-style-type: none">— Perform review of use of technology including data analytics, and other automation, if applicable— Perform review of knowledge management capabilities

3 Comparative analysis

Key activities

IIA/IPPF Standards

Industry practices comparison:

- Compare to KPMG high level principles
- Compare to leading practices from peers

Preliminary observations and discussion:

- Identify and document comparison results
- Review and confirm accuracy of observations
- Discuss potential recommendations
- Agree on observations/practical recommendations
- Educate key stakeholders on industry practices

4 Reporting

Key activities

Draft report:

- Prepare draft report on conformity with IIA Standards including observations and practical recommendations
- Discuss draft report with LACERA IA and other key stakeholders as applicable
- Revise draft report as appropriate

Final report:

- Finalize the aforementioned report and provide to agreed upon key stakeholder(s)
- Discuss the final report with LACERA Internal Audit and other key stakeholders as applicable

Phase 2:

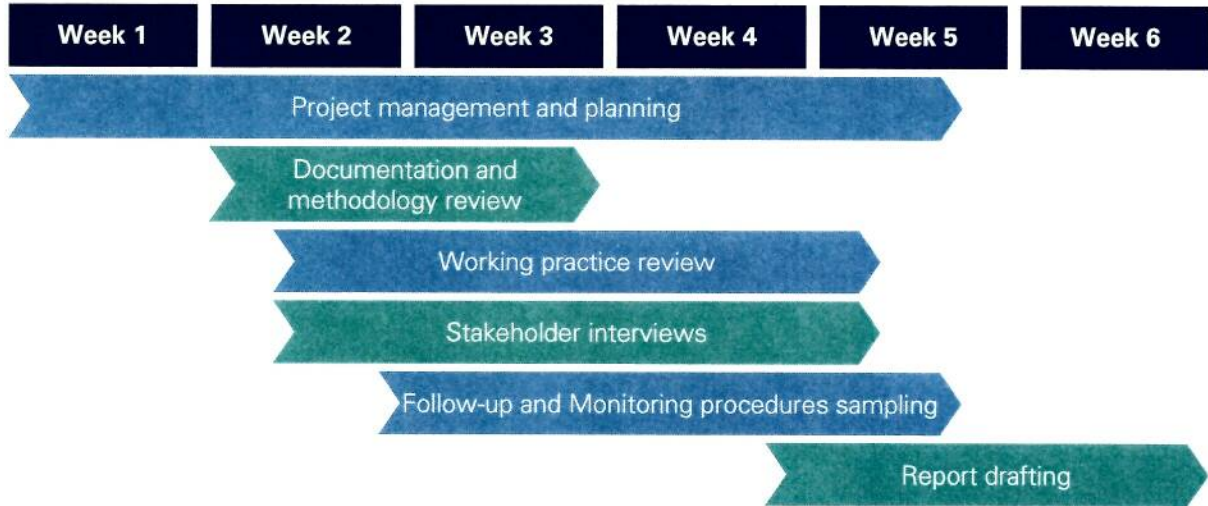
5 Planning

Key activities

- Root cause analysis and additional items to be determined at conclusion of Phase 1.


Sample project timeline and deliverables

KPMG is prepared to commence this engagement at a time mutually agreed upon between LACERA and KPMG. We usually anticipate the duration of engagement fieldwork for a project such as this to range over a **six week** timeframe, however due to the COVID-19 virtual working environment, we estimate a 6 – 10 week timeline. KPMG will collaborate with LACERA to further refine this timeline if needed.



Our deliverables will include weekly status updates and the final report. A complete sample report will be provided separately. Following are representative samples:

Representative deliverables (Subject to alignment with LACERA)



- **Introduction/Background** containing objectives, approach and overall observations
- **Overall observations**
 - Overall conformance with IIA Standards
 - Summary of Follow up and monitoring process findings
 - Summary strengths and opportunities for improvement
- **Evaluation (Strengths and opportunities)** for each key process area

Bi-Weekly Status Report

Status	KPMG Deliverables	Deliverables	Project Scope	Start Date	Revised Due Date	Status
	Flight Assessment Survey Methodology, training deck and draft report on internal control observations and recommendations			6/12/2019	9/13/2019	Complete
	Train the Trainer Sessions			9/13/2019	10/11/2019	Complete
	Departmental Training Assistance			1/15/2020	2/12/2020	In Progress
				TBD	Q1 - To be scheduled	In Progress

Activities Performed:

- KPMG provided final Survey and Train the Trainer deck

Key Issues (I)/Decisions (D):

- (D) - Invites sent to attendees of Train the Trainer sessions

Key Upcoming Activities:

- KPMG to provide document detailing instructions to edit survey
- KPMG to provide finalized training deck
- KPMG and SOX to schedule Train the Trainer sessions

■ All clear (low level of risk that deadlines will be missed)

■ Moderate level of risk that deadlines will be missed

■ High level of risk that deadlines will be missed

KPMG

Weekly Status – Status of various Corporate Audit initiatives such as technology and tools, methodology updates, resource needs and sourcing model, risk universe evaluations, etc.



Assigned professionals





4 Assigned professionals



In building our team to serve LACERA, we focused on bringing the right skills to the engagement, but also a team with diverse thinking and backgrounds. Our proposed team is based here in Los Angeles and reflects the diverse County we live in.





Members of our team are part of the KPMG affinity groups, including: KNOW (KPMG Network of Women), Women of Risk Consulting, APIN – Asian Pacific Islander Network, Hispanic Latino Network, and Abilities in Motion.



The strength of the firm that serves you is only as good as the team of people who deliver these services. Our commitment to LACERA is demonstrated by the strength of the team we have selected to serve you. The professionals on this engagement to serve LACERA have been chosen based on their EQA experience, as well as their integrity, industry experience, project management skills, and commitment to open, ongoing communication.

Brief biographies and roles of your team members

The following information outlines the areas of responsibility for each engagement team member. *Full résumés of the professionals listed below, including their contact information, are provided in Appendices section.*

CORE TEAM	
Team member	Background, IA and relevant experience
 <p>Debbie Biddle-Castillo <i>Lead Managing Director</i></p>	<p>Debbie will be the lead managing director responsible for this project. In this role, she will oversee the activities and participate with the team throughout the engagement.</p> <p>Debbie is a managing director in KPMG’s Advisory Services practice with 16 years of internal controls experience, including operational, strategic, financial, IT and compliance audits in both the USA and the UK. Debbie currently serves as the Head of Internal Audit for 7 companies, where she is responsible for all activities of the Internal Audit department. Debbie has extensive experience in audit finding follow-up protocols, including communicating and collaborating with process owners concerning the need for change and the associated risk of not taking remediation actions, ongoing guidance during remediation, tracking, reporting and validation testing for both internal and external audit findings across a variety of subject areas.</p> <p>Debbie is a collaborative, thoughtful and insightful internal controls specialist, with a breadth of industry experience, who prides herself on an open and proactive communication approach.</p>
 <p>Douglas Farrow <i>Lead State and</i></p>	<p>Douglas will be the lead State and Local Government and quality partner for this project. In this role, he will be responsible for the overall quality of service and in providing guidance to the Audit Committee.</p> <p>Douglas is a partner in KPMG’s Forensic Practice and has over 30 years of experience assisting, on a full-time basis, corporations, attorneys and their clients with a wide spectrum of financial, economic and accounting matters. Doug’s</p>

<p><i>Local Government Partner</i></p>	<p>professional experience in the litigation and forensic services includes numerous engagements involving forensic accounting investigations, wage and hour compliance assessment and quantification of damages, lost profits, crisis management, and economic loss calculations in connection with civil litigation matters.</p>
 <p>Sami Salam <i>Engagement Director</i></p>	<p>Sami will be the lead engagement director on the project. Sami will be responsible for day to day activities, staff oversight, communication and deliverables.</p> <p>Sami is a director in KPMG's Advisory Services practice, with over 15 years of internal audit and risk management experience. She has a strong background in performing internal audit, and information technology reviews to help mitigate operational, financial, and technology risks through remediation and risk mitigate processes for public and private sector clients. In addition to internal audit and technology risk experience, Sami has experience in system implementations, segregation of duties program development, and shared services. Sami is the Southwest Internal Audit Data Analytics lead.</p>
 <p>Colleen McAlary <i>Representative Engagement Senior</i></p>	<p>The identified senior will be responsible for detailed work paper review and to assist Sami in preparing key deliverables.</p> <p>Colleen is a senior associate in Internal Audit and Enterprise Risk (IA&ER) in the Los Angeles office. Colleen has provided internal audit services to leading companies in the Financial Services industry. Colleen has mainly served as a key staff member in all phases of the internal audit cycle including planning, delivery, reporting and remediation. Her experiences include in-charged first year currency management audit at one of the World's largest pension funds, performed business process internal audits for various financial institutions and, in-charged multiple Regulation 9 audits for commingled funds and private client services and reviewed multiple areas etc.</p>
<p>Subject Matter Professionals</p>	
 <p>Dee Dee Owens <i>Government industry SMP</i></p>	<p>Dee Dee is KPMG's West Region Lead for State and Local Government. In this role she is responsible for helping to ensure our clients receive quality service and we have the right people on the engagements. Periodically, Dee Dee will touch base with LACERA leaders to help ensure we are meeting or exceeding your expectations.</p> <p>Dee Dee is a partner in KPMG's Los Angeles office with over 20 years of experience serving clients across the full spectrum of governance, risk and compliance (GRC), including internal audit (both IT and operational), risk assessments, system development governance and quality assurance, financial statement attestation support, third party reporting and privacy and security. Her experience in operational and technology roles enable her to discuss information technology risks with a focus on business impact.</p>
 <p>Patty Basti <i>Quality Assurance Leader and SMP</i></p>	<p>Patty will be a Subject Matter Professional on the engagement. She will provide guidance to the team and LACERA as needed throughout the project.</p> <p>Patty is the national leader for Internal Audit Quality Assessment services. Additionally, leads the Internal Audit and Enterprise Risk practice for Cincinnati. In this role, she advises here client on best practices, and provides guidance on improvement opportunities within their Internal Audit programs.</p>

 <p>Anna Lam Analytics and Compliance SMP</p>	<p>Anna is the analytics and compliance subject matter professional for the engagement. Anna will be engaged as a subject matter professional as needed. Anna is a director in KPMG LLP's Forensic Advisory Services practice in the Los Angeles office with over 15 years of experience providing services relative to forensic accounting matters. She has experience managing and coordinating forensic engagements with responsibilities for planning, executing, and delivering services to clients. She has served clients in a variety of industries.</p>
 <p>Jacob Schotz Quality Assurance Director</p>	<p>Jacob is a quality assurance subject matter professional. Jacob will work with the core team, as needed, including attendance at interviews, deliverable and recommendation reviews.</p> <p>Jacob is a director in KPMG's Internal Audit and Enterprise Risk practice with over nine years of professional experience and has served clients primarily in the Financial Services industry. Jacob specializes in internal audits, control assessments, and process improvement projects across Financial Services areas, including home loans, consumer credit, retail banking, commercial lending, investment management, and capital markets. He has an extensive knowledge of financial controls and regulatory compliance frameworks.</p>

Detailed resumes of team members can be found in **Appendices section**.

Why select this team?

We have structured our team to make the assessment a valuable experience for LACERA and all those impacted by the review. Your collective team has deep internal audit and not-for-profit as well as state and local government industry experience. The team selected has level of experience that other vendors will find hard to match. This reduces LACERA's risk and enables KPMG to begin quickly upon award. **To KPMG, value goes beyond delivering quality work; we want to continue to be your trusted adviser, and believe our team goes a long way toward accomplishing that goal.**

Led by KPMG's Los Angeles's Advisory practice, we are a **local team of passionate professionals** with deep expertise, eager to work with you.

The appropriate capabilities and competencies of your engagement team include the following:

- An understanding of and practical experience with external quality assessment engagements of a similar nature and complexity
- Working with integrated EQA and IA teams to provide knowledge sharing and a true teaming environment to benefit LACERA
- Working with clients to develop and transform IA functions from compliance driven to more value-add activity as we look for opportunities to further enhance your IA program
- Strong communication skills which will ensure that you are made aware of issues early
- An understanding of professional standards and regulatory requirements

Our **consulting mindset** means that we understand the importance of **internal audit positioning** within the company, the cornerstone of which is **relationship building**. We believe that internal audit and EQA teams should develop and foster effective business relationships which lead to **better collaboration**.

KPMG draws on seasoned government, EQA professionals as well as other subject-matter professionals to help ensure that the right team is provided to serve you. Our professionals work together to deliver an array of services to help our clients analyze their operations with clarity, establish better accountability and transparency, and help raise levels of performance.

Use of subject-matter professionals (SMPs)

To serve LACERA, our team is multidisciplinary, drawing from our service lines to mobilize professionals who have extensive experience in internal auditing, IA, data analytics, fraud and risk assessments, and several other relevant disciplines. This teaming approach offers LACERA enhanced value through:

- Strengthened controls, risk prioritization, and risk management;
- Greater economic value through cost reductions, efficiencies, and revenue enhancements.

When a need for involvement of such specialties is identified during any phase of this engagement, they can be called upon to support the core engagement team.

Our commitment to staff continuity

For LACERA, we commit that **Debbie, Doug and Sami** will serve as leads for the full engagement term. Additionally, we will maintain substantially the remainder of your engagement team for the duration of the engagement.

Policy summary

It is KPMG's policy to actively seek and encourage qualified diverse businesses to compete for the firm's business, to provide equal opportunity to, and to evaluate all suppliers and potential suppliers, regardless of the race, color, creed, religion, age, gender, national origin, citizenship status, marital status, sexual orientation, gender identity, disability, pregnancy, veteran status or other legally protected status of their owners, management, employees, suppliers, or clients.

Developing Diverse Businesses

We work with our suppliers to grow, develop skills and expand joint business opportunities. For example, KPMG partners and employees may work directly with diverse business owners one-on-one to grow and expand their capabilities and their ability to provide products and services that our internal and external clients demand. KPMG sponsors training and participation in industry leading forums for members of our diverse supplier network.

KPMG has sponsored the attendance of a diversity-owned businesses at the Tuck/Google Digital Excellence Program for Minority Entrepreneurs. KPMG has also sponsored WBENC's annual Summit & Salute. Additionally, KPMG has sponsored the attendance of a WBENC-certified Women's Business Enterprise to attend the Tuck/WBENC Executive Program.

We recognize the benefits of including diverse suppliers in the firm's strategic sourcing events and purchases. Diverse suppliers can contribute innovative ideas, services and products that add value to the firm, our clients, and our communities. KPMG's clients represent a breadth of industries, people and locations, and we believe that our supplier relationships should be reflective of the clients we serve. Supplier Diversity collaborates closely with the Inclusion & Diversity team to maintain alignment with the firm's overall I&D strategy.

We are committed to growing representation of small and/or diverse businesses among our suppliers. We are proud to include small and/or diverse businesses among our suppliers, which in fiscal '19 represented 16.8 percent of our total procurement spend. Our achievements have been recognized by DiversityInc, who rank KPMG #9 on DiversityInc's Top Companies for Supplier Diversity (2019).

Highlight Metrics (as % of total procurement spend):

	FY'13	FY'14	FY'15	FY'16	FY'17	FY'18	FY'19
Total Small/Diverse Businesses	23.0%	20.6%	22.8%	14.8%	16.5%	18.7%	16.8%
Minority-owned Business Enterprises (MBEs)	7.7%	7.0%	7.3%	4.4%	5.7%	7.8%	7.4%
Women-owned Business Enterprises (WBEs)	4.7%	4.9%	6.2%	4.6%	4.6%	4.5%	2.7%
Veteran-owned Business Enterprises (VBEs)	3.1%	1.5%	1.8%	0.6%	0.3%	1.6%	0.3%
Disabled Veteran-owned Business Enterprises (DVBEs)	1.5%	0.5%	0.6%	0.1%	0.1%	1.4%	1.4%
Lesbian-, Gay-, Bisexual- and/or Transgender-owned Business Enterprises (LGBTBEs)	0.5%	0.20%	0.5%	0.2%	0.4%	0.4%	0.1%

Partnerships

KPMG is a national corporate member of the following resource and advocacy organizations:



KPMG actively encourages involvement of members of our employee resource groups with these organizations as volunteer board members, committee members, and site visitors.

Our corporate memberships give us access to resources including databases of certified diverse suppliers that can be invited to participate in strategic sourcing events such as RFPs or in client subcontracting plans. KPMG actively encourages involvement of members of our employee resource groups with these organizations as volunteer board members, committee members, and site visitors.

Awards

- KPMG ranks #9 on DiversityInc’s Top Companies for Diversity (2019), an achievement which recognizes, among other inclusion and diversity achievements, our commitment to increasing spend with diverse businesses;
- In 2019 KPMG was named one of the National Business Inclusion Consortium’s ‘Best of the Best’, recognizing our work to promote an inclusive supply chain, workforce, and marketplace;
- In 2019 KPMG received 100 percent on the Disability Equality Index, a national transparent, annual benchmarking tool that offers business an opportunity to receive an objective score on a scale of zero to 100, on their disability inclusion policies and practices;

- For 15 consecutive years, KPMG received 100 percent on the Human Rights Campaign’s Corporate Equality Index which benchmarks companies based on their corporate policies and practices pertinent to lesbian, gay, bisexual, transgender and queer employees and suppliers.

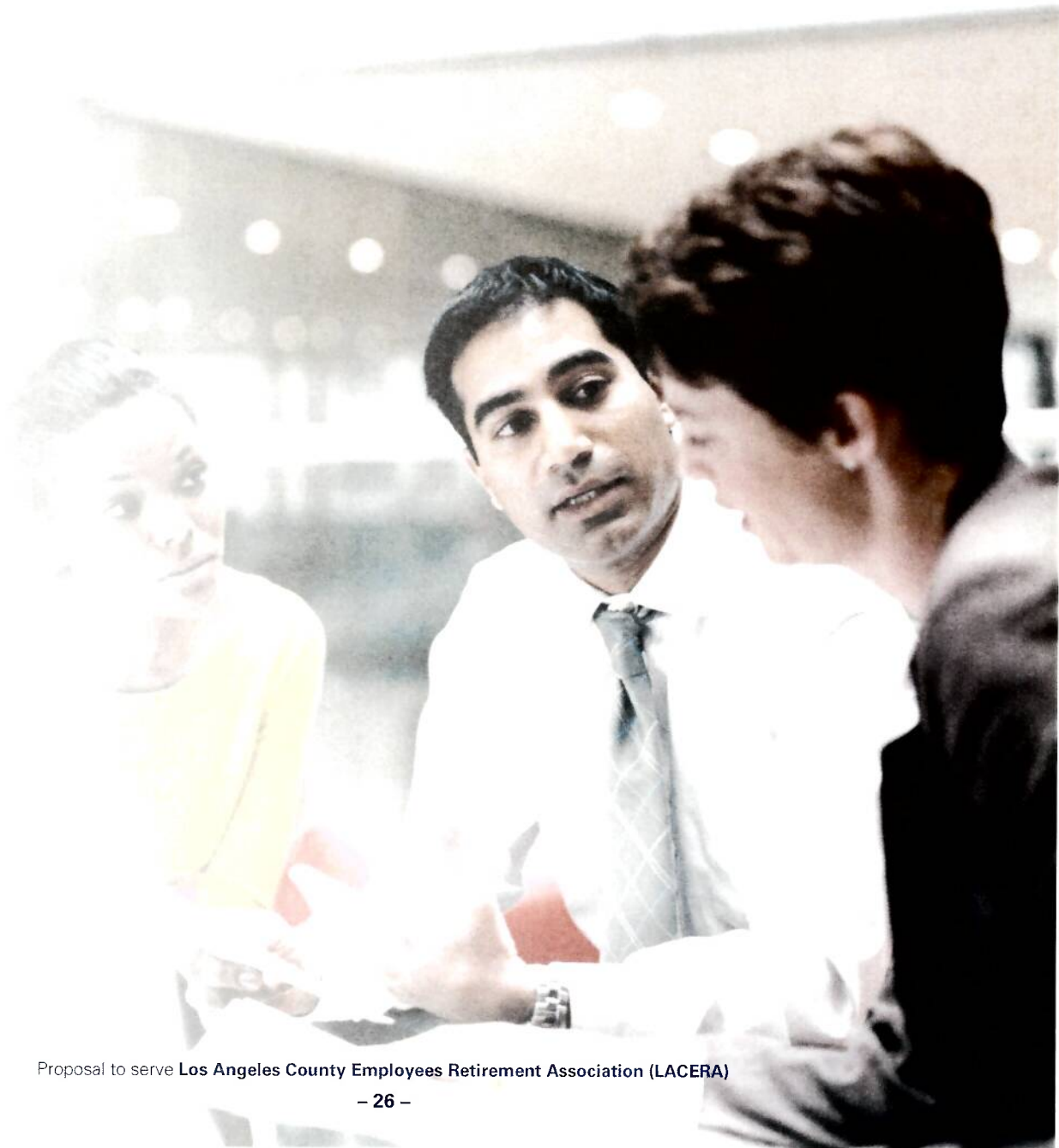
Diversity Inc announced KPMG’s inclusion among its 2019 Top 50 Companies for Diversity, ranking the firm at No. 9. This is the second consecutive year KPMG has been included in the Top 10, and the 12th time we have been honored among the Top 50. The ranking recognizes companies that excel at diversity and inclusion management, particularly in the areas of talent pipeline and development, leadership accountability, and supplier diversity.

DiversityInc also recognized KPMG on several specialty lists, including the unranked Top Companies for LGBT Employees. Additionally, we are:

- No. 10 among the Top Companies for Employee Resource Groups
- No. 10 among the Top Companies for Diversity Councils
- No. 11 among the Top Companies for Mentoring
- No. 11 among the Top Companies for Sponsorship
- No. 14 among the Top Companies for Executive Women



References



Proposal to serve **Los Angeles County Employees Retirement Association (LACERA)**



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References

Our philosophy in serving our clients

Our advisory philosophy is based on turning knowledge into value for the benefit of our clients, people, and communities. Several key factors are integral to the success of this philosophy:

- **Understanding** – Our experience gives us a thorough understanding of the needs of business across all sectors. We help our clients by devising results-oriented business methodologies, providing insights that can help them stay ahead of the competition and achieve market-leading results.
- **Quality service** – We demand that our services exceed our clients’ expectations. In addition to strong technical competence, effective thinking, and responsiveness, quality service also requires knowledge of our clients’ business issues and values.
- **Responsiveness** – KPMG is committed to building a new model for professional services firms: coordinated market teams of the right people, with the right skills, in the right place—precisely where our clients need them. Our organization is designed to allow our practices around the U.S. and the world to provide scalable, consistent, and responsive services to clients’ needs.
- **Culture of leadership** – By building a culture of leadership throughout the firm, KPMG strives to foster an environment of energy and innovation for all its employees. In doing so, KPMG becomes an agile and responsive professional service adviser that our clients need in today’s international marketplace.

The following clients can attest to our attention to detail and strong customer service, and may be contacted for a reference regarding our abilities and service. As you will see from our references, we can address a variety of operational and compliance needs impacting governments. Out of respect for each client, we ask that you please respect and protect the privacy and confidentiality of this information.

The references include public and private member service organizations, financial institutions, or other organizations, including public pension systems.

Client references from previous engagements

Reference 1	
Client name	CoreLogic
Contact	Name: John Stumpf Position: Controller
Length of time served	9 years
Description of services provided	Internal Audit outsource, including risk assessment, execution, reporting to the Audit Committee, tracking and monitoring internal audit findings, and validation of remediation of management’s actions. Management of the SOX 404 compliance program in all aspects.

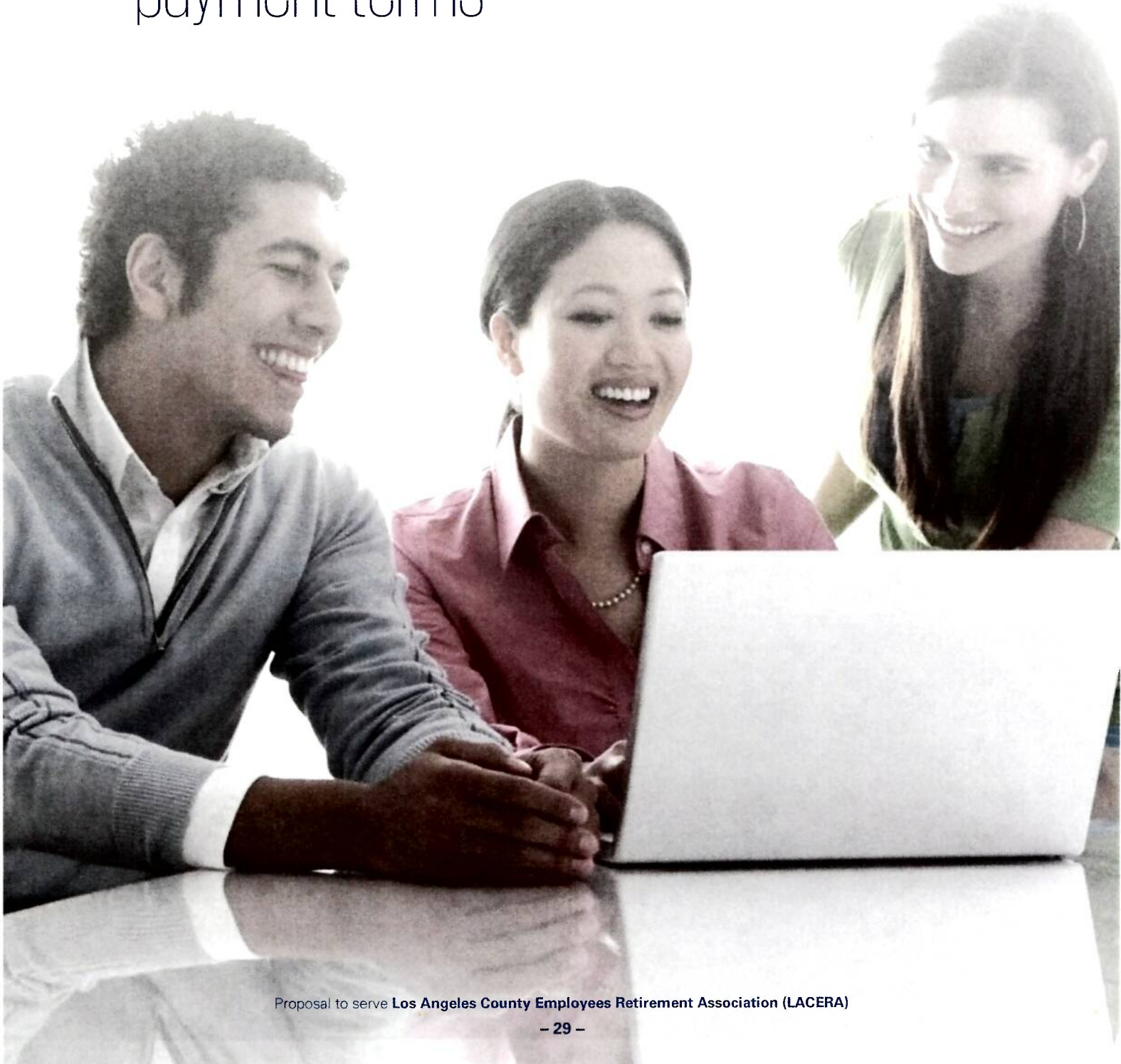
Reference 2	
Client name	City of Los Angeles
Contact	Name: Paul Alberga Position: Internal Audit
Length of time served	12 years
Description of services provided	KPMG has provided a variety of engagements to multiple departments within the City of Los Angeles, including internal audit engagements to the City Controller's office.

Reference 3	
Client name	Southern California Regional Rail Authority
Contact	Name: Don del Rio Position: General Counsel
Length of time served	2 years
Description of services provided	Forensic fraud and misconduct investigation services, accounting internal controls review and assessments

Reference 4	
Client name	Wal-Mart
Contact	Name: Laura Ganann Position: Senior Director, Global Audit Solutions
Length of time served	1 year
Description of services provided	KPMG performed a QAR in compliance with IIA Standards including leading practice benchmarking for the internal audit department.

Reference 5	
Client name	The Boeing Company
Contact	Name: Shannon Wiese Position: Chief of Staff, Audit Operations
Length of time served	1 year
Description of services provided	KPMG performed a QAR in compliance with IIA Standards including leading practice benchmarking for the internal audit department.

Fees and costs, billing practices, and payment terms





6

Fees and costs, billing practices, and payment terms

KPMG is committed to building a solid working relationship with LACERA. This commitment is demonstrated not only by the quality of the personnel assigned to serve you, but by what we believe is a cost-effective fee structure that responds to your needs, especially in this current business environment. Because of the nature of the EQA, the majority of the delivery is performed by our experienced partners and directors. Based upon the proposed hours below, preliminary timing of September – December 2020, and level of the professionals, our professional fees for performing services of Phase one, will be **\$50,000 - \$70,000**. Phase two fees will be discussed and agreed upon based on outcome and number of observations noted during Phase one.

The hours to deliver the high quality and actionable results are as follows:

Key Tasks	Low Hours	High Hours
Interviews	24	30
Documentation	20	30
Detailed review of activity	120	160
Reporting	24	40
PMO - including weekly status meetings	30	40
	218	300

The blended rate utilized to determine the fees, take into account the following general distribution of hours which allows for appropriate participation of key individuals with the requisite technical knowledge for task of the review.

Resource	Role/Title	Hours allocation
Debbie Biddle Castillo	Managing Director	20%
Patti Basti	National Partner – Quality Assurance	3%
Doug Farrow	Lead Partner - State and Local Government	7%
Sami Salam	Engagement Director	42%
Jacob Schotz	Director – Quality Assurance	7%
Other	SMPs, Senior Associate and Staff	21%
Total		100%

Billing practices

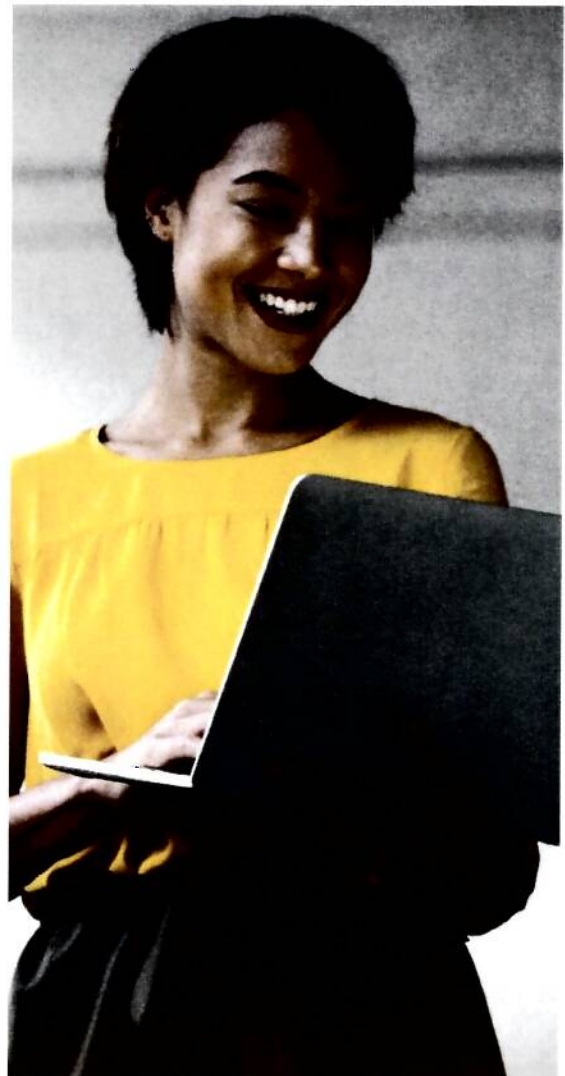
We are open and transparent in our billing process. We will notify you in advance of any scope changes or circumstances encountered that may warrant additional time or expense and obtain your agreement and approval before proceeding.

A billing schedule will be agreed upon with management prior to engagement initiation. In addition to professional fees, KPMG will be reimbursed for out-of-pocket expenses. Out-of-pocket expenses include but are not limited to airfare, meals, accommodations, and administrative expenses. We have estimated out of pocket expenses billed to LACERA will be no more than **5 percent** of professional fees.

Payment terms and assumptions

We have prepared the fees estimate based on the following assumptions:

- Interviews with **10-12** key stakeholders across the organization;
- Our EQA project sponsor will designate someone from Internal Audit to facilitate the scheduling of stakeholder meetings and interviews (including status meetings);
- We will work with you on the appropriate number and list of individuals to interview;
- Within the first week of the engagement, LACERA and KPMG will produce a Deliverable Expectation Document, which will outline the scope, contents, format and acceptance procedure for each project deliverable
- We anticipate each to last no longer than one hour;
- Review **6-8** Internal Audit projects, whereby supporting workpapers and related reports will be used to assess the finding follow-up processes, including compliance with IIA Standards;
- Up to **2** workshops with internal audit personnel will be conducted to gain an understanding of departmental activities, pain-points, and self-identified improvements;
- Focused discussions for select topics of interest including but not limited to audit administration; risk assessment, audit planning, and continuous monitoring processes; reporting; issues management and quality assurance improvement program
- Weekly status meetings will be conducted with the project sponsor



- Assistance will be provided from LACERA to facilitate stakeholder meetings, gathering of documentation and other logistical support.
- KPMG assumes that it will not encounter or handle any Personally Identifiable Information (PII) or Personal Health Information (PHI) during its execution of this engagement. If such data is encountered, KPMG will inform LACERA and the parties will address this through project change control.
- KPMG's services as outlined in this proposal constitute an Advisory engagement conducted under the American Institute of Certified Public Accountants (AICPA) Standards for Consulting Services. Such services are not intended to be an audit, examination, attestation, special report or agreed-upon procedures engagements as those services are defined in AICPA literature applicable to such engagements conducted by independent auditors. Accordingly, these services shall not result in the issuance of a written communication to third parties by KPMG directly reporting on financial data or internal control or expressing a conclusion or any other form of assurance.
- LACERA acknowledges and agrees that the Contractor's services may include advice and recommendations; but all decisions in connection with the implementation of such advice and recommendations shall be the responsibility of, and made by, LACERA. Contractor will not perform management functions or make management decisions for LACERA.
- LACERA agrees that KPMG personnel may need to work remotely for extended periods of time due to the COVID-19 pandemic, and LACERA and KPMG shall use commercially reasonable efforts to mitigate any effect that remote work has on the performance of the Services. Each party identified in the Agreement expressly agrees that this Agreement shall be deemed executed when a duly authorized representative of each party sends an electronic communication that (a) expressly accepts the terms set forth herein, (b) attaches a PDF of the accepted terms and (c) includes the full name and title of such representative for authentication purposes

Note: This proposal is made by KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity, and is in all respects subject to our client and engagement acceptance procedures as well as the negotiation, agreement, and execution of a specific engagement letter or contract.

Conflicts of interest



7 Conflicts of interest

No known relationships affect our independence

We are not aware of any relationships that exist between our partners and staff and directors, officers, or key employees of LACERA that would pose a conflict or impair our objectivity or independence.

KPMG LLP's independence policies require that the firm, its partners, and certain other professionals be free from financial interests in and prohibited relationships with the entities we audit and their affiliates, management, directors and significant owners. The firm requires adherence to applicable independence requirements and ethical standards, which meet or exceed the standards promulgated by the PCAOB, SEC, AICPA, Government Accountability Office (GAO) and other applicable regulatory bodies. These policies and procedures, which cover areas such as personal independence, postemployment, business, financial, and vending relationships, partner rotation of certain engagement personnel, and approval of audit and non-audit services, are monitored continuously.

We will complete due diligence related to independence and potential conflicts prior to this engagement's launch, and we are confident that we can be independent and avoid conflicts upon appointment. Should any situation arise such that it requires your attention, we will raise the issue to Internal Audit Leadership for discussion of resolution to help eliminate any potential conflict. Monitoring of potential conflicts will be a KPI that we review during regular status meetings, leveraging our Conflicts Check System.

Conflicts and independence clearance

Engagement teams proposing to perform a new audit engagement are required to perform a series of procedures, including a review of any non-audit services provided to the potential entity to be audited. **The Sentinel system** is used to identify and manage potential independence issues and conflicts of interest within and across member firms in the KPMG International network. When a potential conflict of interest is identified, the lead partner may consult with a member of Risk Management to determine how to resolve the potential conflict after appropriate consultations, if needed, with the Office of General Counsel, and the resolution of all matters is documented. Resolution of potential conflicts requires approval from someone outside the audit engagement team, which could include the professional practice partner, Sentinel conflicts resolver or the functional risk management group, before signing the initial audit engagement letter.

If the engagement is accepted, it may be necessary to establish "ethical dividers" with respect to the professionals assigned and to communicate with appropriate parties. If a potential independence issue or conflict cannot be resolved satisfactorily, in accordance with professional and firm standards, the prospective entity or engagement is declined.

KPMG's independence technology tools

The word independence means many things. KPMG looks for three clear things:

- How do we address independence and identify potential issues (hard and fast rules)?
- Business conflicts (some gray areas)
- Staying focused on our professional duties of objectivity.

KPMG LLP uses robust procedures and a suite of technology tools to help ensure that the firm and applicable personnel are independent of the firm's audit clients. **Lead Engagement Partner** is responsible for our continued independence from LACERA and will continually monitor our service and investment relationships by using the tools described below. Additionally, the firm provides mandatory annual independence training for all professionals and holds them personally accountable for their independence. Our independence procedures meet or exceed standards set by the SEC, PCAOB, Government Accountability Office, and all other applicable regulatory bodies. We have substantially completed our independence due diligence and are confident that we can be independent upon appointment.

Service Independence – KPMG International's proprietary system, Sentinel, facilitates compliance with the firm's policies related to the provision of services and also is used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network. Audit partners and professionals are required to maintain organizational structures for the entities we audit in the system. For SEC-registered and certain non-public entities we audit, the applicable Lead Audit Engagement Partner reviews and approves or denies any proposed service upon receipt of the Sentinel notification. For engagements subject to GAO standards, the firm also requires approval by the Lead Audit Engagement Partner before commencement of non-audit services.

Investment independence – KPMG LLP monitors compliance with its independence policies for financial interests through an independence compliance system (called KICS), as well as through a compliance audit process; this compliance audit process also exists for engagements. KICS contains an inventory of SEC registrants and other entities that require us to be independent and the securities they have issued; these entities are marked "restricted" in KICS. Before purchasing a security, securing a loan or initiating another financial relationship, partners, managing directors and certain managers are required to use KICS to determine if the entity is restricted. Additionally, personal investments, including mandatory broker imports, are required to be reported in KICS, which automatically notifies professionals if an investment becomes "restricted".

Each professional is ultimately responsible for maintaining his or her personal independence. In addition to our policies prohibiting any firm partner or employee from trading on inside information, our partners, managing directors, managers and those providing professional services to an entity we audit may not have direct or material indirect investments in an entity we audit or its affiliates (collectively, restricted entities), regardless of whether they are in possession of inside information about such entities. Certain other financial relationships with restricted entities we audit (e.g., loans, credit cards, insurance products and brokerage accounts) may be prohibited or subject to limitations. Close family members of certain KPMG LLP partners, managing directors and employees may not hold accounting or financial reporting roles with restricted entities we audit.

Compliance with rules – KPMG LLP has established processes to communicate independence policies and procedures to our personnel. Among other things, the firm requires all professionals to complete independence training every year and affirm their independence using an electronic confirmation system. This confirmation is completed upon commencement of employment at the firm, every year thereafter and at key promotions. To confirm our professionals' and the firm's independence, in fiscal year 2018, the firm audited the financial relationships of more than 1,200 individuals subject to the independence requirements. Failures to comply with the firm's independence policies are referred to a panel of specified members of leadership for review, remediation, and disciplinary actions, helping to enable consistent resolution.

Business relationship independence – Our firm has policies and procedures in place that are designed to help certify that business and supplier relationships are identified, assessed and maintained in accordance with applicable independence standards. Compliance with these policies and procedures is monitored by the Independence Group.

Communicating with you regarding resources that serve your competitors

In addition to being independent of LACERA, we welcome management's feedback on other business relationships you perceive as conflicts of interest. Understanding your preferences on any limitations about how your audit team serves your competitors is an important step in building a professional relationship.

Protecting confidentiality of your intellectual property and personally identifiable information

KPMG understands that confidentiality is important to LACERA. Our professionals follow the rules of the American Institute of Certified Public Accountants (AICPA). They also adhere, where applicable, to the rules of confidentiality and independence promulgated by state boards of accountancy.

KPMG has strict policies for maintaining the confidentiality of LACERA's information beyond the requirements of the AICPA Code of Professional Conduct, and our professionals take these obligations very seriously.



Claims and insurance





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Claims and insurance

Claims, litigations and lawsuits

Like all major professional services firms, KPMG LLP (KPMG or firm) has a large number of clients that are registered with, or otherwise regulated by, the Securities and Exchange Commission (SEC), the Federal Deposit Insurance Corporation (FDIC), other regulatory agencies, the Federal Reserve Board, various stock exchanges, and other self-regulatory organizations ("Regulators"). Such clients are at times involved with investigations or informal inquiries by such Regulators. In addition, clients may be involved with investigations or informal inquiries by other federal, state and local government agencies involved with law enforcement, including, but not limited to, the Department of Justice, the Internal Revenue Service, various federal, state and local government agency Offices of Inspectors General, and state attorneys general ("Investigators"). KPMG regularly is asked to, and does, cooperate with investigations and informal inquiries of such Regulators and Investigators related to services provided to clients. KPMG is also from time to time involved in investigations and informal inquiries conducted by its own Regulators, including the SEC, the Public Company Accounting Oversight Board (PCAOB) and various state boards of accountancy, regarding KPMG's compliance with laws, rules and regulations. Many of these investigations and informal inquiries are not public, and we are frequently not privy to the thoughts or focus of the Regulator or Investigator with respect to these matters. In the vast majority of cases, investigations and informal inquiries in which KPMG has some involvement are closed without any action being threatened or taken against KPMG. **We are not aware of any pending investigation by any Regulator or Investigator that would materially affect the firm's operations or our ability to provide services under this proposal/contract.**

As is the case with all major professional services firms, from time to time KPMG LLP and/or individual partners or principals have been named as defendants in lawsuits by regulatory bodies and civil plaintiffs, particularly when one of the firm's clients suffers an economic downturn. Understandably, the details of such litigation are sensitive and highly confidential. **KPMG has a professional indemnity insurance program in place to insure against such risks, and we have no pending litigation that would materially affect the firm's operations or our ability to perform services for LACERA.**

Sanctions or enforcement actions over last five years

Like other professional services firms, over time KPMG LLP (KPMG or firm) has been the subject of disciplinary proceedings brought by, or sanctions imposed by, regulatory or law enforcement agencies, including the Department of Justice, the Securities and Exchange Commission (SEC), and/or State Boards of Accountancy. For example, the following matters have occurred in the last five years:

In December 2016, the firm entered into a settlement with the SEC that related to the inadvertent loss (in 2009) by a KPMG office of approximately 40 pages from an audit workpaper binder, while the binder was checked out for routine use in a subsequent audit of the same client. The settlement order directed KPMG to cease and desist from committing any future violations of the SEC's audit workpaper retention rules, and imposed a civil monetary penalty of \$230,000. In the settlement, the SEC acknowledged that since 2010 KPMG has enhanced its policies and procedures governing the retention of audit workpapers, which now include retention of electronic workpapers in a central filing system.

In August 2017, KPMG and one of its partners entered into a settlement with the SEC that resolved allegations by the SEC that the firm's audit of a public company audit client's fiscal 2011 financial statements did not comply with applicable professional standards. In connection with the settlement, KPMG paid the SEC a civil monetary penalty of \$1,000,000, together with disgorgement of \$4,675,680, which represents audit and audit-related fees paid to KPMG by the client over the course of the auditor-

client relationship (2011-2014), and prejudgment interest of approximately \$558,000. The firm has also agreed to certain undertakings to improve audit quality, including, among other things, conducting a firm wide internal review of the adequacy of the firm's policies and procedures with respect to the audit areas in which the SEC found deficiencies, and then providing the SEC with a detailed report (the "KPMG Report") summarizing both the review itself and any changes that the firm has made in those areas between 2011 and the present, as well as any additional changes that the firm may decide to make as a result of the review. Additionally, KPMG has undertaken to hire an independent consultant, to whom the firm will provide the KPMG Report, and who will conduct his or her own review of the same areas. The independent consultant will then prepare a detailed report (the "IC Report") summarizing the review and making recommendations for appropriate additional changes. The independent consultant will provide the IC Report to both KPMG and the SEC. As is typical in SEC settlements, the firm did not admit or deny the SEC's allegations. KPMG is committed to the highest standards of professionalism, integrity and quality, and we have fully cooperated with the SEC to reach this resolution.

On June 17, 2019, the SEC issued an order (the Consent Order) instituting public administrative and cease and desist proceedings against KPMG in relation to the two matters described as following.

In early 2017, KPMG learned that an individual who had joined the firm from the PCAOB subsequently received confidential information from the PCAOB and shared it with other KPMG personnel. KPMG immediately reported the situation to the PCAOB and the SEC, took steps to separate implicated individuals from KPMG, and retained outside counsel to investigate. That investigation revealed that several KPMG individuals either had improper advance warnings of upcoming engagements to be inspected by the PCAOB, or knew that others had received such information and had failed to report the situation in a timely manner.

In January 2018, the U.S. Attorney's Office for the Southern District of New York announced that it had criminally charged five of the individuals who, months earlier, had been separated from KPMG. The SEC also instituted administrative proceedings against the same individuals. Three of these individuals have entered guilty pleas, and one of the partners who pled guilty has also agreed to a settlement with the SEC. On March 11, 2019, a former KPMG partner was convicted following a jury trial of four of the five charges against him, including wire fraud and conspiracy to commit wire fraud. The criminal trial for the fifth individual is currently scheduled for October 2019. KPMG cooperated fully with the U.S. Attorney's Office and the SEC in connection with this matter and took several remedial actions designed to prevent the sort of individual misconduct at issue in this matter.



The second matter resolved by the Consent Order relates to training exams and arose in late 2018. Some of KPMG's professionals shared the answers to open-book tests that were administered in connection with internal, firm-sponsored training. In the context of investigating the training exams, KPMG discovered that prior to 2016 certain individuals also had manipulated the hyperlink associated with the training exams in order to help ensure passing scores. KPMG immediately reported this misconduct to its regulators, and, in addition, KPMG's Board of Directors established a Special Committee to oversee the investigation conducted by outside counsel.

The Consent Order censured KPMG for a violation of PCAOB Rule 3500T and other standards. Rule 3500T requires KPMG and associated persons to comply with ethics standards mandated by the American Institute of Certified Public Accountants. The Consent Order also ordered the firm to cease and desist from committing or causing any future violations of PCAOB Rule 3500T and imposed a \$50 million civil money penalty and remedial undertakings upon the firm. The remedial undertakings obligate the firm to take certain actions, including but not limited to a robust internal review of the firm's ethics and integrity policies and processes. That policy review will be evaluated by an independent, third-party consultant that KPMG will retain. Reporting to the SEC following the completion of these actions is also required. The Consent Order imposed no limitations on KPMG's ability to perform services for existing or new clients.

Insurance

KPMG LLP maintains in full force and effect a robust property/casualty insurance program that includes such coverage as employer's liability, workers' compensation, general and auto liability, fidelity and crime, and miscellaneous other property and liability coverage. The policies provide coverage that is underwritten with various insurers, which include both captive and commercial insurance and/or reinsurance companies. The coverage limits provided under these policies are equal to or exceed those of other major accounting firms. *Copies of insurance certificates are provided on next pages.*





CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY):
7/1/19

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must have ADDITIONAL INSURED provisions or be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER MARSH USA, INC. 20 CHURCH STREET 8TH FLOOR HARTFORD CT 06103 CN 102516341-CN-19-19-20	CONTACT NAME Alice M. Link PHONE (A/C No., Ext.) (860) 234-6673 FAX (A/C No.) (860) 234-6673 EMAIL ADDRESS Alice.M.Link@marsh.com												
INSURER(S) AFFORDING COVERAGE													
INSURED KPMG LLP Three Chestnut Ridge Road Montvale, N.J. 07465	<table border="1"> <tr><td>INSURER A - Hartford Fire Insurance Co</td><td>15622</td></tr> <tr><td>INSURER B - Hartford Underwriters Insurance Company</td><td>33104</td></tr> <tr><td>INSURER C - American Guarantee and Liability Insurance Company</td><td>26247</td></tr> <tr><td>INSURER D - Trumbull Insurance Company</td><td>27128</td></tr> <tr><td>INSURER E - Zurich American Ins. Co</td><td>15635</td></tr> <tr><td>INSURER F - Twin City Fire Insurance Company</td><td>29459</td></tr> </table>	INSURER A - Hartford Fire Insurance Co	15622	INSURER B - Hartford Underwriters Insurance Company	33104	INSURER C - American Guarantee and Liability Insurance Company	26247	INSURER D - Trumbull Insurance Company	27128	INSURER E - Zurich American Ins. Co	15635	INSURER F - Twin City Fire Insurance Company	29459
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INSURER D - Trumbull Insurance Company	27128												
INSURER E - Zurich American Ins. Co	15635												
INSURER F - Twin City Fire Insurance Company	29459												

COVERAGES **CERTIFICATE NUMBER:** 24967 **REVISION**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

NR	LT/R	TYPE OF INSURANCE	ADOL	SUBR	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	X	COMMERCIAL GENERAL LIABILITY CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR			02C R22015	10/01/2019	10/01/2020	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Per occurrence) \$ 1,000,000 MED EXP (Any one person) \$ 10,000 PERSONAL & ADV INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 5,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000
<input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PROJE <input type="checkbox"/> LOC <input type="checkbox"/> OTHER		GEN'L AGGREGATE LIMIT APPLIES PER:						
A		AUTOMOBILE LIABILITY			02 AB R22010 (AOS)	10/01/2019	10/01/2020	COMBINED SINGLE LIMIT (Per accident) \$ 1,000,000
B		OWNED AUTOS ONLY LEASED AUTOS ONLY SCHEDULED AUTOS NON-OWNED AUTOS ONLY			02 AB R22011 (H)	10/01/2019	10/01/2020	BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
C	X	UMBRELLA LIAB EXCESS LIAB			AUCS30490747	10/01/2019	10/01/2020	EACH OCCURRENCE \$ 1,000,000 AGGREGATE \$ 1,000,000
<input type="checkbox"/> DED <input type="checkbox"/> RETENTION \$		<input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> CLAIMS-MADE						
D		WORKERS COMPENSATION AND EMPLOYERS' LIABILITY			02 WN R22016 (AOS)	10/01/2019	10/01/2020	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTHER
F		ANY PROFESSIONAL LIABILITY (Mandatory in NH) (Yes, describe under DESCRIPTION OF OPERATIONS below)	Y/N		02 WBR R22017 (W)	10/01/2019	10/01/2020	E.L. EACH ACCIDENT \$ 1,000,000 E.L. DISEASE - EA EMPLOYEE \$ 1,000,000 E.L. DISEASE - POLICY LIMIT \$ 1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (ACORD 101, Additional Remarks Schedule, may be attached if more space is required)
 Work Comp - Partners Excluded except in the state of California

CERTIFICATE HOLDER Los Angeles County Employees Retirement Association (LACERA) 300 N. Lake Pasadena, CA 91101-4199	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE of Marsh USA Inc. Craig A. Parrow
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ACORD 25 (2016/03)

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SUMMARY OF INSURANCE

We hereby confirm that the following described insurance is in force as at the date hereof:

Type of Insurance:	Professional Indemnity Insurance
Name of Assured:	KPMG LLP (USA)
Policy No:	FIP0008207 15
Insurer:	North American Capacity Insurance Company 650 Elm Street Manchester, NH USA 03101-2524
Period:	12.01 a.m. June 1, 2020 to 12.01 a.m. June 1, 2021
Limit:	USD 2,000,000 (per claim) USD 2,000,000 (annual aggregate)
Geographical Limitation:	Worldwide Coverage
Coverage:	KPMG's professional liability policy includes coverage for cyber related claims arising out of the performance of professional services.

It is the Insurance Policy between the Assured and the Insurer that establishes the terms, conditions and exclusions of the insurance. The limit shown is as requested. A deductible may apply as per Insurance Policy terms and conditions. This document is issued as a matter of information only. It does not amend, extend or otherwise alter any of the coverage terms, conditions or exclusions of the Insurance Policy, nor does it confer any rights upon the person or organization to whom it is issued. Any amendment, change or extension of the Insurance Policy can only be effected by specific endorsement attached thereto.

The Insurance Policy is written on a claims made basis and, pursuant to the terms and conditions of the Insurance Policy, there is a per claim limit and an annual aggregate limit. The annual aggregate limit may be eroded by losses from more than one claim.

For the avoidance of doubt, this document is issued by us at the request of the Assured and not as agent for the Insurer.

To: Los Angeles County Employees Retirement Association (LACERA)
300 N. Lake
Pasadena, CA 91101-4199

Dated: July 21, 2020

Signed: *Aon Risk Services Northeast, Inc.*

One Liberty Plaza | 165 Broadway | Suite 2201 | New York, NY 10006 | USA
t +1.212.441.1000 | f +1.212.441.1553 | aon.com/professional-services
Aon Risk Services Northeast, Inc.

Appendices







Appendix A: Additional information

KPMG’s K’SPrInt framework

K’SPrInt is designed to secure buy-in from relevant stakeholders on their needs and expectations of Internal Audit, and compare the current Internal Audit structure and competency model to IIA requirements and leading practices. Our systematic approach involves a combination of interviews, workshops and documentation review through which we can align our recommendations with IIA requirements and stakeholder expectations.

The following provides more detail of some of the topics covered by K’SPrInt framework:

Position 
<p>Organization</p> <ul style="list-style-type: none"> — Organization and governance (including audit committee oversight) — IA mandate, roles, responsibilities and reporting lines, and access (IA Charter) — Positioning and impact within three lines of defence — Strategic objectives — Transformation process and oversight — Stakeholder management (including the Board and its Committees, Executive Management, Business Management, Regulators) — Impact on stakeholders and outcomes achieved — Methodology, standards, policies and procedures — Quality assurance — Budgeting and performance management — Root cause analysis of adverse events
People 
<ul style="list-style-type: none"> — Leadership and team competency and experience — Succession planning — Skills needs assessment — Capacity management — Specialist and supplemental headcount cosourcing/contracting/guest auditors — Induction training — Recruitment — Staff turnover — Objective setting and performance evaluation — Reward — Competency framework — Training records

Process



Planning

- Audit universe (audit entities reflect organization, policies, processes, legal entities, locations, regulations)
- Risk assessment and internal audit requirements generation methods and appropriate risk-based coverage rotation
- Annual plan – regulatory required/risk-based reviews
- Periodic plan updates/changes
- Linkage to budget
- Linkage to resources

Execution

- Types of review
- Work programs
- Assignment planning
- Assignment announcement
- Walkthroughs and control design review
- Assessing control operating effectiveness
- Impact of efficiency of process on risk and control
- Efficiency of control
- Integration of business and information technology reviews
- Use of data analytics for analytical review and substantive procedures
- Outcomes testing
- Change reviews
- Issue rating and any risk culture assessment methods
- Oversight
- Lessons learned

Validation of closure of issues

- Validation of issues identified by IA, management, risk management/compliance, external audit and regulators

Technology and tools




- Function management
- Risk assessment and planning
- Succession planning
- Execution working papers
- Assignment reporting
- Assignment management
- Resource management
- Time recording
- Management information and key performance indicators

Reporting

- Assignment reporting formats
- Assignment report rating method
- Summary group and legal entity reporting to executive management and audit committee
- Risk assessment/annual plan and periodic updates/changes
- Plan progress and financials
- Significant findings/themes
- Issue assurance status
- Key performance indicators

Evolving expectations of internal audit

Current state of play: Internal Audit: To realize your ambitions, it is helpful to understand current market conditions and how expectations of internal audit are shifting and what 'leading edge' means. Current market conditions are evolving and are focused on better results while remaining objective. As Internal Audit departments address emerging trends, a shift in skillsets, mandate and vision will be required.

Traditional IA roles and expectations 	Current IA demands 	Emerging IA trends 
<ul style="list-style-type: none"> — Manage average cost of compliance — Focus on auditing accounting issues — Focus on existing policies & procedures — Market expansion — Detection of problems and errors restricted by functional lines — Considered to be investigators — Reactive vs. proactive — Use of substantive audit approach — Adversarial relationship with the business. 	<ul style="list-style-type: none"> — Performance of efficient and effective audits — Increase value from traditional business functions with measurable impact — Diverse and dynamic skill sets — Critical thinking and judgment — Rapid identification of opportunities for improvement — Objective perspective — Strong stakeholder communications — Help assessing risk and risk management practices — Embrace new technologies — Command of the use of data and analytics throughout the audit process — Respond to rapidly changing business conditions. 	<ul style="list-style-type: none"> — Pro-active identification of risk — Continuous risk assessment — Leverage data and analytics — IA as a lens into enterprise-wide risk and governance issues — Support top-level decisions — Protect organizations against risks — Improve control systems — Identify margin enhancement opportunities — Enhance corporate governance processes — Enhance IA and related processes — Maximize/leverage strategy with external audit — Respond to evolving PCAOB standards — Optimizing cost efficiencies, which may lead to use of off-shoring — Be a strategic member of the executive management team.

The drive towards value creation

Pyramid of Internal Audit maturity: The pyramid of internal audit maturity captures the movement through each stage to ultimately add value. This is a maturation process and first requires establishing foundational aspects of auditing skills, process, technology and industry experience.

As we start to unbundle the pyramid, we see the importance of each underlying step.

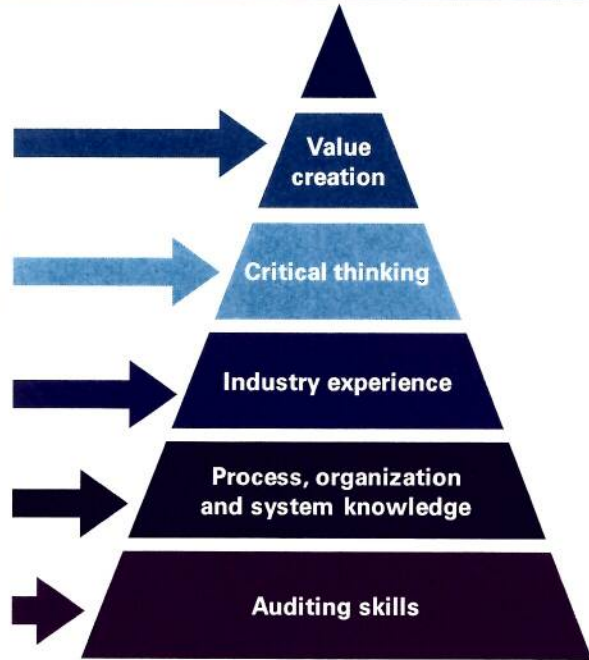
When audit has become a “partner” to the business and is requested to take an active role in transformational change

Analyze a risk that may have been considered “fundamental” in the past and provide a new perspective on how to approach the audit (a cross-functional lens, data, technology and culture)

Bring in-depth knowledge of the industry and current market trends or leading practices to opportunities for improvement

An understanding of how business processes, risks, controls and underlying applications are related

The foundational points that drive the audit methodology from planning, process documentation, testing and reporting





Appendix B: Team resumes



Debbie Biddle-Castillo

Managing Director

KPMG LLP
20 Pacifica
Suite 700, Irvine 92618, CA, U.S.

Tel 213 533 3375
Fax 213 355 6955
Cell 310 977 4853
dbiddle@kpmg.com

Function and specialization

Debbie is a managing director in the Internal Audit and Enterprise (IA&ER) practice, specializing in internal audit, risk assessment, SOX 404 and enterprise risk management services.

Representative clients

- CoreLogic, Inc.
- El Pollo Loco
- Kilroy Realty Corporation
- Masimo Corporation
- Sabra Health Care REIT, Inc.
- Sunstone Hotel Investors, Inc.
- VICI Properties, Inc.

Professional associations

- Member, Association of Chartered Accountants in England and Wales (ICAEW)
- Member, Institute of Internal Auditors (IIA)

Education, licenses & certifications

- B. Com, The University of Birmingham, England
- Chartered Accountant (ACA)

Lead Managing Director

Background

Debbie is a managing director in KPMG's Advisory Services practice with 16 years of internal controls experience, including operational, strategic, financial, IT and compliance audits in both the U.S. and the U.K. Debbie has experience across the life-cycle of internal audit, from establishing internal audit departments in fast growing companies to leading internal audit functions in large corporations. Debbie currently serves as the Head of Internal Audit for 7 companies, where she is responsible for the activities of the Internal Audit group from risk assessment, audit execution, resourcing, reporting and follow-up and remediation of internal audit's recommendations.

Debbie has also worked as an Internal Audit Senior Manager at a FTSE 100 fast moving consumer group in the U.K. Responsible for the enterprise risk management and internal audit of various operational and compliance risks.

Debbie is a collaborative, thoughtful and insightful internal controls specialist, who prides herself on an open and proactive communication approach.

Professional and industry experience

Establishment of Internal Audit function

Assisted clients establish Internal Audit functions, including definition of reporting protocols, development of policies, procedures and methodologies, development of Internal Audit work plans, and protocols for finding follow-up, reporting and validation testwork.

Internal Audit Outsource/Co-source

Debbie has led the end-to-end delivery of internal audit projects within the U.S. and internationally in a wide range of operational, strategic, information technology, compliance and financial areas.

Recommendation follow-up and validation

Debbie has led the recommendation follow-up, validation and reporting protocols for a large commercial client for the past 9 years. During this time, all recommendations have been actioned by management, enhancing the internal control environment within the company, and effective reporting and validation protocols have been in place, such that average time for management's

remediation and validation has decreased from approximately 2.5 years to 1 year.

Debbie has led projects focused on assessing the adequacy of remediation of audit findings raised by regulatory bodies, including tracking, reporting and validation testwork.

SOX 404 assistance

Debbie has extensive SOX 404 experience from both an external and internal audit perspective. Debbie has led global SOX 404 projects on behalf of companies; being responsible for the delivery and project management both internal teams and managing global outsource providers. Debbie has assisted various clients with

- Initial implementation of SOX 404 compliance programs and SOX readiness.
- SOX control rationalization projects, including successfully implementing a rationalization program which reduced the key control totals from >1000 to approximately 400.
- Deficiency evaluation, successfully assisting companies in evaluating deficiencies and liaising with their external auditors to help ensure that all appropriate information is considered
- Deficiency remediation, including prioritization and recommendations around appropriate remediation activities to address previously identified MW's or SD's, and remediation testing.
- Audit Committee reporting on program status.

Vendor management

Significant vendor management experience, successfully managing international third party outsource providers of various Internal Audit and SOX services from initial implementation through achievement of efficiencies on service maturity. Debbie has also led several projects helping her clients evaluate their vendor management processes, including on-site visits to assess vendor companies with contractual and operational requirements.



Douglas E. Farrow

Partner

KPMG LLP
550 South Hope Street
Los Angeles, CA 90071

Tel: 213-955-8389
Email: dfarrow@kpmg.com

Function and specialization

Doug is a member of the Forensic practice specializing in investigative services, business interruption claims, and dispute advisory services.

Representative clients

- Amgen Inc.
- Carlisle Companies, Inc.
- Cities of Fountain Valley, Industry, Pasadena, Placentia, Santa Clarita
- Cumberland County Hospital System
- Disney Worldwide Services
- Konami Gaming Inc.
- Medtronic, Inc.
- Southern California Gas Company
- Southern California Regional Rail Authority
- Sony Pictures Entertainment, Inc.
- University of Texas System
- University of Southern California
- Water Replenishment District of Southern California
- Westfield, LLC

Professional associations

- Member, Adjunct Professor - University of Southern California
- Member, AICPA, American Institute of Certified Public Accountants
- Member, ACFE, Association of Certified Fraud Examiners
- Member, California Society of CPAs

Education, licenses & certifications

- BA, Pitzer College
- CPA, Licensed in CA
- CFE, Certified Fraud Examiner
- CFF, Certified in Financial Forensics (AICPA)

Lead State and Local Government Partner

Background

Douglas Farrow is a partner in KPMG's Forensic practice and has over 30 years of experience assisting, on a full-time basis, corporations, attorneys and their clients with a wide spectrum of financial, economic and accounting matters.

Doug's professional experience in the litigation and forensic services includes numerous engagements involving forensic accounting investigations, wage and hour compliance assessment and quantification of damages, lost profits, crisis management, and economic loss calculations in connection with civil litigation matters. He has assisted attorneys and their clients with preparation of damage models, discovery requests, preparation of deposition and interrogatory questions, document interpretation, analysis of opposition's damage and liability claims, research related to accounting and litigation issues, researching and analyzing market and industry trends, preparation of declarations, development of trial exhibits and presentations and preparation of "expert witness" for testimony.

Professional and industry experience

Doug has conducted numerous high-profile forensic accounting investigations pertaining to allegations of fraud and misconduct, accounting irregularities and financial statement fraud in a wide variety of industries. These investigations have involved matters such as improper revenue recognition, understated and/or delayed expense recognition, improper capitalization of expenses, improper inventory valuation, recognition of vendor allowance, inappropriate accounting for reserves, and disclosure requirements. He has assisted several large public companies with the restatement of prior years/quarters audited financial statement. Additionally, he has prepared and communicated the results of these investigations to the SEC staff and/or the audit committee of the respective public companies.

The following list is samples of forensic accounting investigations in which Doug has been involved in.

Relevant experience

- Assisted a large Southern California government municipality with an internal investigation into allegations of employee misconduct, specifically regarding suspected employee embezzlement carried out in collusion with a vendor. Our assistance involved review of multiple years of vendor invoices and check payment documents in addition to review of the corresponding electronic transactional data. Through our work, we determined the fraud scheme had been perpetrated by the employee over a ten-year period of time and the amount of funds embezzled totaled in excess of \$6 million. Our work also

included assistance to the municipality with preparation of an insurance claim to seek reimbursement of the embezzled funds through the insurance recovery process. Our review of the electronic transactional invoices and payments data was expedited through our experience and knowledge in the use of data analytic tools in detecting anomalies, outliers, or other unusual trends and patterns in a transaction data set. Our work assisted the municipality in identifying internal control weaknesses in the accounts payable process and providing recommendations to strengthen controls in the affected areas.

- Retained by a local Southern California city municipality to conduct a forensic investigative review involving suspected unauthorized service billings or non-conforming billing practices by a service vendor under contract with the city. The vendor invoices under review covered a span of over eleven years and represented vendor billings in excess of \$70 million for general municipal maintenance related services. Adding to the intricacies of the matter, the owner of the vendor company was also the former mayor of the city, which raised issues of potential conflict of interest and public corruption by a government official. In connection with our review of the invoices data, we created a relational database to house the invoices and check payments transactional data; the database facilitated electronic data analysis and streamlined data retrieval. Our work supported the city in terminating its service contract with the vendor.
- Assisted a Southern California city municipality with an internal investigation into employee embezzlement. The City suspected the employee had transferred in excess of \$5 million through wire transfer payments to multiple external third parties. KPMG performed a detailed and robust examination and tracing of the wire transfer payments in question through to the City's bank account records to identify the pattern of the fraudulent activity and quantify the dollar amount of the embezzled funds. Our work was performed at the direction of the City Attorney and in cooperation with a parallel criminal investigation conducted by the District Attorney's Office. The results of our work assisted the City in addressing internal control weaknesses, quantifying the dollar amount of the fraudulent activity, and seeking recovery of amounts embezzled through the insurance claim process.
- We were engaged by a Southern California city municipality to perform a proactive data analysis of accounts payable and payroll disbursements over an eight year period of time to identify any patterns of unusual activity, anomalies, or outliers indicative of potential fraud. KPMG obtained the transactional information and performed a systematic analysis to identify anomalous transactions for further analysis. The financial data analyzed included review of vendor relationships and nature of vendor disbursements, employee expense reporting, and examination of employee corporate credit card activity. The work performed by KPMG identified potential internal control weaknesses in the

areas of accounts payable disbursements and vendor procurements. Based on our work performed, the City implemented remedial actions to improve and strengthen internal controls over these operational areas. Additionally, during the course of our work, the City engaged us to investigate a matter involving suspected employee embezzlement. The City believed the employee had misappropriated approximately \$500,000 by submitting fraudulent vendor invoices for payment. KPMG responded quickly and put together an investigation plan and assisted the City with an investigation conducted under the direction of external counsel.

- Our client, a California state regional rail commuter transportation authority and special-purpose governmental entity, retained us to provide forensic audit services to assist the organization in achieving the highest level of financial and accounting integrity by improving the reliability of the accounting books and records. Our work included reconciling significant account balances over cash, accounts receivable, and grant funding; instituting procedures for timely monthly and quarterly closing activities of the accounting books and records; and streamlining vendor payment procedures for a more efficient cash disbursements management process. Our work also included identifying and quantifying any unusual transactions or abnormal accounting practices that may be an indication of potential fraudulent activity or financial misconduct. The results of our work assisted the organization in improving policies and procedures and internal controls relating to cash, investments, grant management, and accounts payable.

Publications and speaking engagements

- Interview with The Metropolitan Corporate Counsel, Inc. "Crisis Management And Disaster Recovery: A Matter For Experienced Forensic Advisors" July/August 2013
- Doug is co-author of an article titled "Construction Litigation – A Look at the ABCs"
- Doug is author of an article titled "Considering a Methodology for Estimating Potential 10b-5 Damages"
- Doug is author of an article titled "What you Should Know About Investigations"
- Doug is co-author of chapter titled "Present Value Concepts and Damages Modeling"



Sami Salam

Director

KPMG LLP
550 S. Hope Street, Suite 1500
Los Angeles, CA 90071

Tel 213-533-3310
Cell 602-819-7543
ssalam@kpmg.com

Function and specialization

Sami is a member of the Advisory practice specializing in Internal Audit, and IT services (program management, implementations, and sourcing).

Representative clients

- Apria Healthcare
- Bank of America
- Capital Bank & Trust (part of Capital Group Companies)
- City of Los Angeles
- Clovis Oncology
- CVS Health
- El Pollo Loco
- F100 Media and Entertainment Company
- San Manuel Band of Mission Indians
- SCL Health
- Smart & Final
- Toyota Motor Services
- Warner Brothers

Professional associations

- Member, Project Management Institute
- Member, Institute of Internal Auditors

Language

- English

Education, licenses & certifications

- MBA, Arizona State University
- BS, Arizona State University

Engagement Director

Background

Sami is a director in KPMG's Advisory Services practice, with over 20 years of management advisory experience. She has a strong background in performing internal audit, business process, and information technology reviews to help mitigate operational, financial, and technology risks for public and private sector clients. In addition to internal audit and technology risk experience, Sami has experience in system implementations, segregation of duties program development, and shared services.

Sami is a national data analytics champion and the director of the region's data analytics group.

Professional and industry experience

Sami has substantial experience leading and coordinating advisory engagements across several industries, focusing on internal audit and Sarbanes Oxley engagements. She has also provided subject-matter knowledge and guidance on engagements related to ERP applications, utilizing her experience in both IT and BP (audit and operations).

Representative experience

- Managed multiple internal audit projects including scoping, risk assessment, process documentation, controls identification and mapping, controls testing, process improvement, and reporting across various industries including media and entertainment, retail, financial services, and healthcare.
- Identified business process and entity-level risks to define scope of work to be performed for internal audits and to assist client management with assessing enterprise-wide risks and developing risk management strategies.
- Conducted operational and financial accounting internal audits over areas such as contract compliance, regulatory compliance, social media, human resources, payroll and benefits, board governance, time and expense reporting, technology implementations and supply chain.
- Performed on-site retail store audits over store operations, loss prevention, and inventory control.
- Involved in all aspects of project management and client management, including planning, budgeting, resourcing, and status reporting.
- Managed and delivered on multiple segregation of duties programs, in various industries from mid-market to large multi-national entities with over 80 applications. Project scopes included: system identification, conflict and rules development,

testing (data analytic code development and third-party software), through mitigating control mapping.

- Managed and delivered multiple Data Analytics projects from planning through execution, assisting in the determination of the appropriate analytics scripts to be utilized, data validation, and presentation of analytics results through dynamic visualization for national retailer.
- Led Data Analytics-enabled Internal Audit project to develop project status analyzer tool for various types of projects - e.g. SOX, Remediation, etc.
- Experience managing large scale projects with clients in the financial services, healthcare, and consumer markets industries, fielding both on-shore and off-shore team members, for project areas including: operational audits, payroll audits, vendor management audits, procurement audits, fixed asset audits, and system implementation reviews, often leveraging data analytics to strengthen internal audit results.
- Developed and delivered training for multiple business processes for clients regarding Lawson and SAP software.
- Served as project manager for the implementation of a general ledger and reporting modules for Lawson Software at a Fortune 50 Company. Primary responsibilities included building, designing, and testing the system functions, financial transactions, interfaces, and reporting processes within the Lawson S3 System.

Other activities

- Board Member: March of Dimes, Orange County
- Former Board Member: West Los Angeles Fisher House, Advancing Women in Technology
- Advisor/Mentor: StemAdvantage, Los Angeles Education Partnership, Valley Center for the Deaf, No Limits for Deaf Child Children
- Speaker, 2015 IIA: Data & Analytics and the proper use of Visualization
- Speaker, 2018 Western IIA Conference: Analytics within Internal Audit
- Speaker, 2018 IIA: Automation and Robotics within Internal Audit; The use of and corresponding risks.



Colleen K. McAlary

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Function and specialization

Colleen is a senior associate in Internal Audit and Enterprise Risk (IA&ER) within the Risk Assurance network of the Advisory practice.

Representative clients

- Bank of Hope
- California State Teachers Retirement System
- Capital Bank & Trust Company
- Federal Home Loan Bank of San Francisco
- The Walt Disney Company

Education, licenses & certifications

- BS in Business Administration from the University of Southern California

Engagement Senior

Background

Colleen is a senior associate in Internal Audit and Enterprise Risk (IAER) and a graduate from the University of Southern California with two years' experience at KPMG and prior experience working in business operations at the University of Southern California. Since joining KPMG, Colleen has served as a key staff member in all phases of the internal audit cycle with a demonstrated history of working in the financial services industry.

Professional and industry experience

Colleen has provided internal audit services to leading companies in the Financial Services industry. Colleen has mainly served as a key staff member in all phases of the internal audit cycle including planning, delivery, reporting and remediation.

Internal Audit

- In-charged first year currency management audit at one of the World's largest pension funds. This included testing investment compliance, broker selection, trade compliance, trade execution, trade confirmation and settlement, external manager due diligence, investment accounting, and investment reporting.
- Performed business process internal audits for various financial institutions. Reviewed areas of asset liability management, investments, credit administration, HR, loan servicing, collections, human resources, branch administration, vendor management, letters of credit, financial privacy, Regulation 9, Regulation W, regulatory filings (1099-R and 5498), Bank Secrecy Act/Anti-Money Laundering ("BSA/AML").
- In-charged multiple Regulation 9 audits for commingled funds and private client services and reviewed multiple areas of new account acceptance and set-up, active account governance, cash management, management fees, unmanaged assets, special assets, terminated accounts, and dormant accounts.
- In-charged directed trustee function audit. This included testing over account set up of core and full feature plans, incoming investments, trustee to trustee transfers, transactions processed by third parties, authorization and recording of distributions, and termination of full feature accounts.
- Assisted on multiple BSA/AML internal audits covering multiple financial institutions and reviewed areas of Office of Foreign Asset Control ("OFAC"), Know Your Customer ("KYC"), Suspicious Activity Reporting ("SAR"), Currency Transaction Reporting ("CTR"), training, record retention, Customer Due Diligence/Enhanced Due Diligence ("CDD"/"EDD"), Section 314(a) and (b), fund transferring, monetary instruments, and transaction monitoring.

- In-charged branch administration audit. This included testing over new and closed accounts, physical security, regulatory posters, safety deposit accounts, fee waivers, deposit product interest rate changes, and reclamations.

Model Validation experience

- Teamed with Risk Analytics SMP to assist in the assessment of the design and operating effectiveness of an Access DB model designed to perform the Asset Allocation for one of the World's largest pension funds.

External audit support

- Assisted on an external audit engagement. Conducted fieldwork, including testing and walkthroughs with the client. Performed testing in various areas, including Operating Expenses, Prepaid Expenses, Fixed Assets, Accrued Expenses, Accounts Receivable, Treasury, Payroll, and Non GAAP policies.



Dee Dee Owens

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Function and specialization

Dee Dee is a partner in KPMG's Los Angeles office. She specializes in providing risk management and technology services to healthcare and state and local government clients.

Representative clients

- City of Los Angeles
- Los Angeles Department of Water and Power
- Los Angeles World Airport
- Los Angeles Community College District
- State of Oregon

Professional Associations

- Member, AICPA
- Governing Board Member, Institute of Internal Auditors - Los Angeles Chapter
- Member, Association of Healthcare Internal Auditors
- Local KPMG Los Angeles Representative, ISACA

Languages

- English

Education, Licenses & Certifications

- Bachelors, Accountancy
- Certified Public Accountant
- Certified Information Systems Auditor
- Six Sigma Green Belt

Government industry SMP

Background

Dee Dee serves as KPMG's West Area lead for State and Local Government. In this role, she is responsible for providing governance and oversight on projects in the region. Dee Dee has substantial experience leading and coordinating large consulting engagements and specializes in the healthcare and state and local government industries.

Professional and industry experience

Dee Dee started her career in finance and accounting operational roles, including accounting and financial reporting, inventory control and accounts payable. She transitioned into information technology by leading implementations, including business process redesign and governance. Her experience in operational and technology roles allow her to discuss information technology risks with a focus on business impact.

Representative experience:

- **Large government entity** - Dee Dee is responsible for the overall engagement quality and deliverables on a large system replacement. She is the main point-of-contact for the engagement and leads communications to key leadership across the project. In addition to project management activities, Dee Dee is responsible for assessing the impacted department's engagement, focusing on understanding the requirements and concerns across all parties, and helping to build consensus. With a background in system implementations and a focus on the public sector, Dee Dee was able to translate technical matters to business leaders across the City to help them feel comfortable and better understand the project.
- **Government entity** - Dee Dee had overall responsibility for the quality and delivery of the project. This included: leading communications to the executive steering committee and other stakeholders, providing communication on the early identification of project or business risks, validating team progress, reviewing key deliverables for quality and helping to ensure the skills needed throughout various project phases were engaged.
- **Large integrated health system** - Throughout the phased implementation, Dee Dee led audit and monitoring activities to assess the health of each go-live, focused on reviewing certain key project deliverables, testing activities, organization readiness and training. In this project, she interviewed project team members, consultants and business owners to discuss project risk, issues and concerns and reviewed key project deliverables. As needed, Dee Dee was responsible for identifying and bringing in in subject-matter professionals to address specific key risk areas of the projects as needed to assess certain

speciality areas. She was also responsible for consolidating any areas of concerns and communicating those to senior leadership in a timely and concise manner.

Publications and speaking engagements

- Speaker, ISACA Spring Conferences
- Speaker, ISACA International Conferences
- Speaker, AHIA (Association of Healthcare Internal Auditors) Annual Conference



Patty Basti

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Function and specialization

Patty is a member of the Risk Advisory Solutions practice specializing in internal auditing, internal control, strategic risk assessment, and enterprise risk management. She leads the Internal Audit EQA service offering for the U.S. firm.

Representative clients

- Amgen
- Boeing
- Cardinal Health
- Eli Lilly
- FirstGroup America
- General Cable Corporation
- Global Payments
- Hillenbrand, Inc.
- Mayo Clinic
- Wal-Mart
- Xavier University

Professional associations

- Member, Institute of Internal Auditors
- Member, American Institute of CPAs
- Member, Ohio Society of CPAs

Education, licenses & certifications

- BS, Miami University
- Certified Public Accountant (CPA)

Quality Assurance Leader and SMP

Background

Patty is a partner in KPMG's Risk Advisory Solutions practice. She leads the Internal Audit and Enterprise Risk practice for Cincinnati, southern Indiana and Kentucky, serving clients in a variety of industries and delivering services focused on internal controls, risk management, compliance and risk-based internal audits. She is also KPMG's national leader for the Internal Audit EQA service offering. Prior to joining KPMG in 2007, Patty worked at a Fortune 500 consumer goods company where she led the design and implementation of the global SOX 404 compliance program, managed the global Internal Audit Department, assisted with designing and launching an Enterprise Risk Management program, and led a global project to improve the financial close and forecast processes. Patty began her career at KPMG in external audit where her primary client was a Fortune 50 retailer.

Professional and industry experience

Patty has substantial experience leading and coordinating enterprise risk management projects, internal audits, IA quality assurance reviews, and controls assessments and implementations, including U.S. SOX and J-SOX, across several industries including automotive, healthcare, technology, manufacturing and transportation. Patty's specific experience includes:

Internal Auditing/Controls/Compliance

- Serves as lead partner on five internal audit cosourcing engagements for clients of the firm, securing annuity relationships with all of them due to quality client service, responsiveness, and overall value provided from the relationship.
- Lead or supporting partner on more than twenty quality assessment reviews for leading practice internal audit departments in multiple industries.
- Served as subject-matter professional on an engagement to design performant structure for internal audit and controls functions for global consumer markets company.
- Served as global project manager for the design and implementation of a SOX 404 compliance program for a \$4B consumer products company, including training 100+ professionals worldwide and selecting, configuring and implementing software to support the program. Coordinated the efforts of process owners, financial management, and external resources to achieve compliance, and regularly reported project status to the Audit Committee.

- Managed a global internal audit department focused on audit coverage related to key operational and financial initiatives, including the establishment of regional Shared Service Centers in Europe, Latin America and the U.S., and streamlining processes across multiple divisions

Risk Assessment/Risk Management

- Led more than a dozen enterprise risk assessments for clients in multiple industries, including manufacturing, technology, transportation, and higher education. Projects included interviewing members of management and Board of Directors, and regularly presenting results to the Audit Committee.
- Co-led the design and implementation of an Enterprise Risk Management program for a \$4B global consumer products company. Interviewed key management personnel, identified and gained management consensus on company's top risks, evaluated current risk mitigation strategies, developed reporting protocols to the Audit Committee and Board of Directors, and trained internal resources on the benefits of Enterprise Risk Management.
- Developed and implemented a strategic risk assessment to drive development of the internal audit plan. Participated on the team to leverage this risk assessment for SOX 404 compliance and external audit scoping, driving to a single risk assessment in the organization

Other activities

- Board of Governors, Institute of Internal Auditors, Cincinnati Chapter – 2010-present
- Treasurer, Institute of Internal Auditors, Cincinnati Chapter – 2009-2010
- Board Member and Treasurer, Junior Achievement Cincinnati Chapter – 2018-present
- Cincinnati Chamber of Commerce, WE Lead Class 7 Graduate
- Member, Miami University Center for Business Leadership Advisory Board – 2018-present
- Member, Miami University Accounting Advisory Group – 2004-2011
- Member, University of Cincinnati Accounting Advisory Group – 2015-2018
- Member, Saint Susanna Parish Finance Commission – 2013-2019
- Treasurer, Saint Susanna School Parent/Teacher Organization – 2009-2013.



Anna Lam

Director

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Function and specialization

Anna is a member of the Forensic practice specializing in investigative services, business interruption claims, and dispute advisory services

Representative clients

- California State Polytechnic University, Pomona
- Cities of Fountain Valley, Industry, Pasadena, Placentia, Santa Clarita
- Consolidated Edison Company of New York, Inc.
- Los Angeles County Sheriff's Department
- Southern California Gas Company
- Southern California Regional Rail Authority

Professional associations

- Member, American Institute of Certified Public Accountants
- Member, California Society of Certified Public Accountants
- Member, Association of Certified Fraud Examiners

Education, licenses & certifications

- Bachelor of Science in Accounting, University of Southern California
- Certified Public Accountant – California
- Certified Fraud Examiner – Association of Certified Fraud Examiners

Analytics services SMP

Background

Anna is a director in KPMG LLP's Forensic Advisory Services practice in the Los Angeles office. She has over 15 years of experience providing services relative to forensic accounting matters. Her practice area focuses on organizational fraud and misconduct investigations and fraud risk management. She is a certified public accountant (CPA) in the state of California and holds a certification as a Certified Fraud Examiner (CFE).

Her professional experience has included public accounting and private industry providing services in forensic accounting, auditing, and financial analysis.

Professional and industry experience

Anna has experience managing and coordinating Forensic engagements with responsibilities for planning, executing, and delivering services to clients. She has served clients in a variety of industries. Her areas of specialized focus include the following:

Investigative services

Conduct investigations into organizational fraud and misconduct, including issues of employee embezzlement, procurement fraud, fraudulent financial reporting, and foreign corrupt practice act (FCPA) matters. Skills she brings to forensic investigations include analysis of accounting documents, interviews of key personnel, and preparation and presentation of deliverables.

In providing forensic advisory services, her primary areas of focus include corporate fraud investigations, internal controls compliance review, fraud risk management, anti-bribery and corruption assessments and due diligence services.

Presentation and speaking engagements

- Guest Lecturer, University of Southern California, ACCT 542 – Analytics for Detecting Financial Fraud (2019)
- Presenter, "Fraud and Misconduct in the Workplace" Institute of Internal Auditors Los Angeles Chapter, California (2018)
- Co-Presenter, "Fraud Update, Higher Education/Not-For-Profit/Government", KPMG Annual Industry Update, Los Angeles, CA (2018)
- Presenter, "Fraud and Embezzlement in Local Government" California Society of Municipal Finance Officers Central Los Angeles and South Bay Chapters, Cerritos, CA (2015)



Jacob Schotz

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Function and specialization

Jacob is a member of KPMG's Los Angeles Advisory practice specializing in Internal Audit for the Financial Services industry.

Representative clients

- AmeriHome Mortgage
- Banner Bank
- Central Pacific Bank
- CIT / OneWest Bank
- Confie
- Coinbase
- East West Bank
- Federal Home Loan Bank SF (FHLB)
- JPMorgan Chase & Co.
- MUFG Union Bank
- Oaktree Capital
- PennyMac
- PayPal
- Plaza Bank
- US Bank
- Western Alliance Bank

Professional associations

- Member, The Institute of Internal Auditors (IIA)

Languages

- English

Education, licenses & certifications

- BS, Business Management, Pepperdine University
- Certified Internal Auditor (CIA)

Quality Assurance Director

Background

Jacob has over 9 years of professional experience and has served clients primarily in the Financial Services industry. Jacob specializes in internal audits, control assessments, and process improvement projects across Financial Services areas, including home loans, consumer credit, retail banking, commercial lending, investment management, and capital markets. He has an extensive knowledge of financial controls and regulatory compliance frameworks.

Professional and industry experience

Finance and Capital Markets

- Identified controls, documented processes, and developed and executed test programs for SOX, and FDICIA compliance. The areas included finance processes for securities valuation and price verification reporting, as well as loan valuations and contingency reserves.
- Assessed financial statement disclosures as it relates to fair value measurement of certain financial instruments. Performed reviews of middle office and trade support functions as it relates to daily P&L, risk tolerance, and B2G reporting. Assessed capital management QA/QC programs to ensure capital ratios and conclusions are supported and provide adequate coverage of capital adequacy requirements. Moreover, evaluated a mortgage trading desk's requirement as it relates to reverse mortgage portfolio compliance; and identified significant areas for improvement in the monitoring of critical GNMA/HUD requirements.

Consumer Compliance and Banking Operations

- Performed a governance review of a bank's fair lending function responsible for: fair lending regulation policies, methodologies, HMDA, and internal reporting, mortgage/dealer pricing analysis, MLO/dealer monitoring, and monitoring of litigation impact.
- Conducted enterprise-wide consumer compliance reviews for a bank with coverage of the following regulations: Reg-E, TILA, RESPA, ECOA, and HMDA.
- Supported a bank's effort to address OCC MRAs related to flood insurance compliance.
- Performed a comprehensive review of the compliance function at a large bank as it relates to FRB Supervisory Letter SR 08-8.
- Participated in multiple SOX implementation project by identifying key controls, writing process narratives, and identifying ICOFR controls gaps across the organizations.

Internal Audit Department Quality Assurance Reviews (QAR)/SR-13-1 Assessment

- Performed Quality Assurance Reviews and SR-13-1 Assessments for several banking clients; which included assessments of each internal audit department's compliance with IIA standards, alignment with industry best practices, as well as readiness and/or compliance with SR-13-1 guidance.

Technical skills

- MS Excel, Word, PowerPoint, Visio, SharePoint, Lotus Notes, ARIS, iSeries AS400, iPortal, NICE, FileNet, In\$ight, eLedger, PeopleSoft, Wdesk/Workiva, TeamMate, OpenPages, and Credit Studio.

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[Client name]

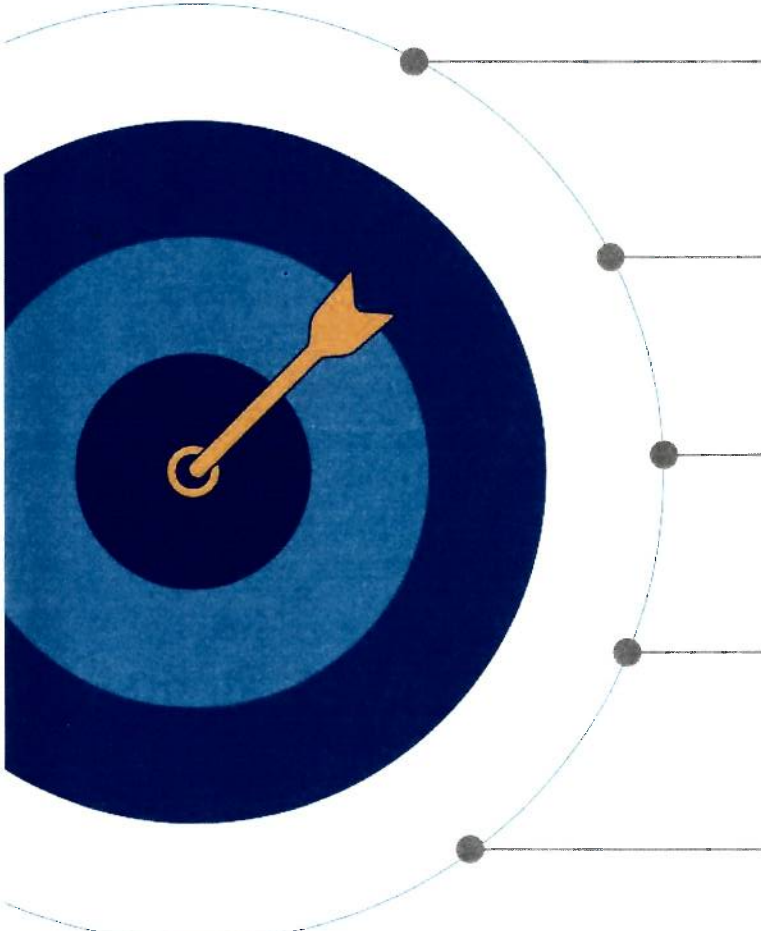
Corporate Audit
External Quality Assessment

November XX, 20XX



Objectives

KPMG's External Quality Assessment (EQA) of [Client name]'s Corporate Audit (CA) function focused on the following:



Assist in understanding the current state of CA.

Assess the CA function against the Institute of Internal Auditors (IIA) attributes and performance standards, including against CA's charter and related policies and procedures. These standards provide a baseline for Internal Audit (IA) expectations and performance.

Obtain input from CA key stakeholders within the organization: Audit Committee Chair, executive management, select additional members of management, and CA team members.

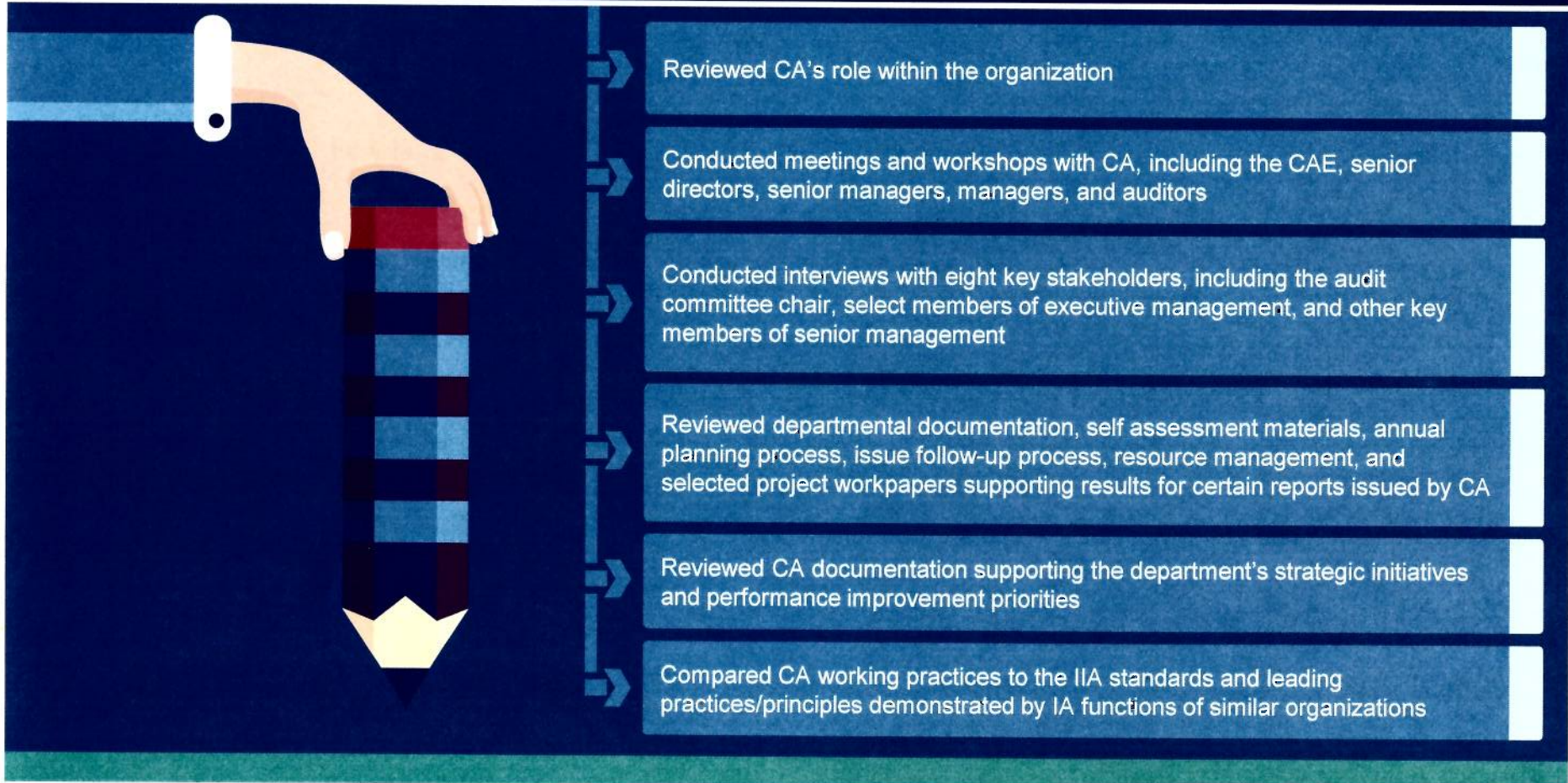
Evaluate that CA continues to make appropriate use of its resources and adheres to IA leading practices, including the mix of knowledge, experience, and discipline within the function, as well as tools and technologies employed by CA.

Provide observations and recommendations that will promote greater alignment with stakeholder expectations and assist CA in being more insightful and impactful.

Approach

KPMG's approach followed our methodology that considered the three aspects of an IA function's performance

– Position, people, and process – and included the following steps:



Executive summary

[Client name]’s Corporate Audit (CA) function generally conforms¹ (highest possible rating) with the IIA Standards promulgated by the Institute of Internal Auditors and is operating and delivering services consistent with its charter.

Process point of view	Process	Conclusion
<p>CA follows a robust risk assessment and audit planning process that results in appropriate risk coverage, according to most stakeholders. CA should continue to focus on certain department processes, such as reporting and the use of innovative audit techniques, to maximize its results for [Client name].</p>	<p>Does the internal audit function’s processes enable achievement of its objectives and enable responsiveness to changing business needs?</p> <p style="text-align: center;"> Developing Mature Leading </p> <div style="text-align: center;"> </div>	<p>[Client name]’s CA function generally conforms (highest possible rating) with the IIA Standards promulgated by the Institute of Internal Auditors and is operating and delivering services consistent with its charter. As part of our engagement, KPMG reviewed three full sets of workpapers supporting CA projects performed.</p>
<p>100% of stakeholders stated that the CA risk assessment process is collaborative and their perspectives are considered</p>	<p>Creating a leading practices IA function is more than policing compliance. It requires an optimum balance between position, people, and process. A well-developed and aligned IA function can provide an important resource and opportunity for the organization to tighten their controls, reduce risks & costs, and identify potential efficiencies.</p>	

1. In the lexicon of the *IIA Standards*, “generally conforms” means that internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *IIA Standards*. “Partially conforms” means deficiencies in practice are noted that are judged to deviate from the *IIA Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. “Does not conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.



Strengths and opportunities

Key strengths

- **Assure/advise** – Advisory assessments are requested and valued by the organization in areas such as 737 MAX, MSC&O Indirect Supply Chain, and ET&T External Technical Affiliation to provide process and control improvement recommendations, insights into operating standards, evolving trends, and other consultation in high priority areas. This is a valuable service that CA regularly provides to [Client name].
- **Risk assessment** – Stakeholder feedback indicated active engagement with CA in the risk assessment process, called the Rolling Audit Plan Risk Assessment (RAPRA). CA solicits input from the business which increases process owner participation and buy-in for the audit plan, and helps ensure CA resources are allocated towards the top risks as viewed by the business. The continuous nature of the RAPRA allows for a dynamic audit plan that shifts as risks change. CA has an established process to communicate audit plan changes to the Audit Committee.
- **Focus on audit scope** – CA executes a robust process to scope audits including leveraging the insights of Audit Business Focals (ABFs), full time resources in CA who are charged with staying close to current risks and trends within specific business areas. CA has seven full-time department members and a part-time data analytics specialist focused on these activities.
- **Auditor orientation** – CA has invested in building a new auditor orientation program to support expedited onboarding of EA's and newly hired personnel into the department. This is viewed as an area of strength to introduce new auditors to the culture of CA as well as the continuous learning/training environment of the department.

Key opportunities

- **Audit reports** – Consider enhancing the audit reporting process and audit reports as follows:
 - Continue working to streamline the drafting and review process for audit reports to shorten the timeline from audit conclusion to report issuance.
 - CA does not rate overall audit reports, and CA's current audit finding rating scale is a three point scale of which only two ratings have generally been used in the past four years. Evaluate if there is an opportunity to enhance the rating scale to better indicate either severity of findings or prioritization of remediation efforts, or eliminate altogether if the ratings are not value-added.
- **Leveraging data analytics** – CA considers the use of data analytics in executing its audit work, but stated that audit topics and/or available data don't always translate to robust use of data analytics. Leveraging data analytics techniques in audit procedures is rarely an easy exercise but when used successfully, the results can be very insightful. Further, leading CA functions have a defined data analytics, and automation strategy, and also partner closely with their organization to ensure common objectives, and coordination related to these initiatives. CA should continue to challenge itself to increase the use of data analytics techniques in its audit work.
- **Department technology tool** – Leading IA departments are supported by technology platforms that enhance audit workflows and assimilation of information gleaned from audit activities, such as risk assessment insights, or current risk mitigation efforts. CA's current audit tool is a point of frustration for the department and has largely become a document repository vs. a robust workflow tool to support insightful analysis. Consider selecting and implementing a quality tool to support CA into the future.



Observations



Observations, recommendations, and management response

Observation	Recommendation	Management action plan
<p>1. Control design gaps xxxxxx</p> <p>2. Risk description xxxxxx</p>	<p>Risk Rating: High</p>	<p>xxxxxx</p>



Appendices



Appendix: Parties contributing to the EQA

Thank you for the opportunity to serve [Client name] and the CA team. We appreciate the following individuals' support of the project and willingness to spend time providing feedback, documentation, or examples to support the EQA:

Company management

- xxxxxxxxxxxx
- xxxxxxxxxxxx
- xxxxxxxxxxxx

Corporate audit personnel

- xxxxxxxxxxxx
- xxxxxxxxxxxx
- xxxxxxxxxxxx
- xxxxxxxxxxxx

- xxxxxxxxxxxx
- xxxxxxxxxxxx
- xxxxxxxxxxxx

Audit committee/Board of Directors

- xxxxxxxxxxxx

As provided in Section 1300 of the IIA Standards, this deliverable is prepared for the use of the CAE in support of the quality assurance program for CA. The quality assurance program should include periodic internal and external assessments as well as CA's ongoing monitoring to assist the CAE in his/her assessment of CA's conformity with the IIA Standards. This deliverable is intended solely for the information and use of management and the Board of Directors of [Client name] and is not intended to be and should not be used by anyone other than these specified parties.

Conformance with IIA standards

Rating	Number	Standard
●	1000	Purpose, Authority, and Responsibility
●	1010	Recognizing Mandatory Guidance in the Internal Audit Charter
●	1100	Independence and Objectivity
●	1110	Organizational Independence
●	1111	Direct Interaction with the Board
N/A	1112	CAE Roles Beyond Internal Auditing
●	1120	Individual Objectivity
●	1130	Impairment to Independence or Objectivity
●	1200	Proficiency and Due Professional Care
●	1210	Proficiency
●	1220	Due Professional Care
●	1230	Continuing Professional Development
●	1300	Quality Assurance and Improvement Program
●	1310	Requirements of the Quality Assurance & Improvement Program
●	1311	Internal Assessments
●	1312	External Assessments
●	1320	Reporting on the Quality Assurance and Improvement Program
●	1321	Use of "Conforms with the [Standards]"
N/A	1322	Disclosure of Nonconformance
●	2000	Managing the Internal Audit Activity
●	2010	Planning
●	2020	Communication and Approval
●	2030	Resource Management
●	2040	Policies and Procedures
●	2050	Coordination and Reliance
●	2060	Reporting to Senior Management and the Board
N/A	2070	External Service Provider and Organizational Responsibility for IA
●	2100	Nature of Work
●	2110	Governance

Rating	Number	Standard
●	2120	Risk Management
●	2130	Control
●	2200	Engagement Planning
●	2201	Planning Considerations
●	2210	Engagement Objectives
●	2220	Engagement Scope
●	2230	Engagement Resource Allocation
●	2240	Engagement Work Program
●	2300	Performing the Engagement
●	2310	Identifying Information
●	2320	Analysis and Evaluation
●	2330	Documenting Information
●	2340	Engagement Supervision
●	2400	Communicating Results
●	2410	Criteria for Communicating
●	2420	Quality of Communications
N/A	2421	Errors and Omissions
●	2430	Use of "Conducted in Conformance with the [Standards]"
N/A	2431	Engagement Disclosure of Nonconformance
●	2440	Disseminating Results
●	2450	Overall Opinions
●	2500	Monitoring Progress
●	2600	Communicating the Acceptance of Risks

Key	Rating
●	Generally conforms
■	Partially conforms
❖	Does not conform
N/A	Standard was not applicable to Corporate Audit or instance did not arise.

Conclusion – [Company's] CA function generally conforms (highest possible rating) with the IIA Standards promulgated by the Institute of Internal Auditors and is operating and delivering services consistent with its charter. As part of our engagement, KPMG reviewed three full sets of workpapers supporting CA projects performed.



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July 30, 2020

TO: 2020 Audit Committee
Gina V. Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

Audit Committee Consultant
Rick Wentzel

FROM: Richard P. Bendall 
Chief Audit Executive

Nathan Amick 
Internal Auditor

FOR: August 19, 2020 Audit Committee Meeting

SUBJECT: **Audit of Los Angeles County's Compliance with Requirements for Rehired Retirees**

Executive Summary

As part of Internal Audit's FY 2019-2020 Audit Plan, we conducted an audit of Los Angeles County's (County) compliance with requirements for hiring County retirees. This audit is done annually as failure to adhere to the regulations and LACERA requirements not only violates the state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law.

Background

The State of California's County Employees Retirement Law (CERL) provides that if the County believes its retirees possess special skills or knowledge, the County has the option to employ those retirees as "Rehired Retirees." Under Government Code Section 31680.3, Rehired Retirees may work up to and not exceed 960 hours per fiscal year, on a strictly temporary basis, without affecting their retirement status or benefits.

In addition, IRS regulations require a "bona fide" break in service after retirement if the retiree is under the "normal retirement age," before the retiree can be rehired. To comply with the IRS regulation, LACERA's Board of Retirement adopted a resolution in 2006 stating that a member under the "normal retirement age" may not return to temporary County service within 90 days of his or her retirement date. All Rehired Retirees under their normal retirement age must comply with the 90-day break in service requirement.

Normal retirement age, as defined by LACERA's Board of Retirement, is as follows:

- Age 57 for general members of Plan A, B, C, D, or G
- Age 65 for general members of Plan E
- Age 55 for safety members

In addition to IRS requirements, the California Public Employees' Pension Reform Act of 2013 ("PEPRA") added additional restrictions for Rehired Retirees under "the normal age of retirement." The PEPRA regulations reinforced the 960-hour limit and added its own break in service requirement of 180 continuous days before allowing for rehire. PEPRA does allow the following two exceptions to the 180-day requirement:

- If the employer can certify it is necessary to fill a critically needed position and the hiring has been approved by the Board of Supervisors (or the Board of Retirement, for LACERA positions) in an open meeting
- If the retiree is a public safety officer or firefighter

Those who are eligible for the PEPRA 180-day exceptions still must comply with the IRS's "bona fide" break in service of 90 days.

PEPRA specifies the criteria under which the County may rehire retired employees, those being:

- 1) during an emergency to prevent stoppage of public business, or
- 2) because the retired person has skills needed to perform work of limited duration.

Lastly, County policy number 505, "*Reinstatement of Retirees to a 120-Day Assignment*" dictates that rehiring retirees with special skills or knowledge is allowable, however County management is encouraged to "...develop a transition plan to ensure the transfer of the retiree's special skills or knowledge to current departmental employees." According to the County Auditor-Controller's Office, a lack of transition plans increases the risk of excessive costs and inefficient use of resources, ineffective succession planning, and reliance on the institutional knowledge of retirees.

Objective and Scope

For fiscal year ended June 30, 2019, LACERA Internal Audit received payroll detail from the County Auditor-Controller identifying 591 rehired retirees. We tested all 591 (100%) for compliance with:

1. CERL's 960-hour requirement, hours worked did not exceed 960 hours within the fiscal year,
2. IRS' "bona fide" break in service requirement, defined as 90 days by LACERA's Board of Retirement, and
3. PEPRA's 180-day break in service requirement.

In addition, this year we compiled past rehired retiree data, and compared it to this year's 591 rehired retirees to identify those who have worked continuously as a rehired retiree for three or more years.

Testing Results

As indicated in the table below, our testing noted a slight improvement in the County's compliance with the 960-hour limit relative to prior years.

Fiscal Year Ended June 30	Rehired Retirees	Noncompliant Rehired Retirees	Noncompliance as a Percentage	Total Overage Hours	Average Hours Over
2017	513	8	1.6%	121	15.2
2018	602	6	1.0%	145	21
2019	591	5	<1.0%	47	9.4

Of the 960 hour overages resulting in the five violations we noted the following

- One individual exceeded the 960 limit by 22 hours, Sheriff's Department
- One individual exceeded the 960 limit by 17 hours, Child and Family Services
- One individual exceeded the 960 limit by 6 hours, Child and Family Services
- Two individuals exceeded the 960 limit by 1 hour, Sheriff and Public Health

In addition, we identified one break in service violation for FYE June 30, 2019. The individual in question was rehired 55 days after their retirement date. This individual did receive a 180-day break in service exemption from the Board of Supervisors, however they did not meet the IRS 90-day break in service requirement, which cannot be waived, nor did they meet the age requirement for the "normal retirement age" exemption.

We did not test whether County departments had developed transition plans to ensure the transfer of the retiree's special skills or knowledge to current departmental employees, in accordance with County policy number 505. However, we did stratify the rehired retiree population based on our available data and determined the following:

- Of the 591 current rehired retirees, 367 have worked consecutively as rehired retirees for three years – fiscal years ending 2019, 2018, and 2017
- Of the 367 above, 108 have worked consecutively as rehired retirees for four years – fiscal years ending 2019, 2018, 2017, and 2016
- Of the 108 above, 94 have worked consecutively as rehired retirees for five years – fiscal years ending 2019, 2018, 2017, 2016, and 2015.
- Of the 94 above, 82 have worked consecutively as rehired retirees for six years – fiscal years ending 2019, 2018, 2017, 2016, 2015, and 2014.

Of the 82 above, 68 have worked consecutively as rehired retirees for at least seven years – fiscal years ending 2019, 2018, 2017, 2016, 2015, 2014, and 2013. Some of these rehired retirees may have worked longer than seven years, but our data does not go beyond seven years.

We provided this information in further detail broken out by department to the County CEO's Benefits, Classification and Compensation Policy section (BCOMP). BCOMP's response to our testing results can be found in "Attachment A" of this memo.

NOTED AND APPROVED



Richard Bendall
Chief Audit Executive

Date: July 30, 2020

CC:

2020 Audit Committee
Santos H. Kreimann

JJ Popowich
Steve Rice
Fern Billingy

Allan Cochran
Bernie Buenaflor
Internal Audit Staff

ATTACHEMENT A

Response from County CEO's Benefits, Classification & Compensation Policy

In an effort to mitigate identified non-compliance areas, BCOMP Management indicated that they will add new informational slides to their educational presentations. This educational presentation is in collaboration with the LACERA and County Counsel and explains the legal aspects and ramifications of not complying with the hours worked regulations and re-enforces an action plan requiring County Departments to monitor the rehiring of retirees to ensure adherence to policy limits. Various presentations are continually scheduled throughout the year to reach a wide range of personnel that includes Administrative managers and supervisors, Information Technology personnel and Human Resources managers and personnel staff. New slides expanding the presentation to address improvement areas are as follows:

- BCOMP will provide training on the new electronic checklist available on the Personnel Action Request (PAR) system.
 - BCOMP created a manual checklist as one of the tools introduced to departmental staff in 2017 that provided all the rules and regulations in a single document. While it was well received, departments requested an electronic version. The creation of an electronic and user-friendly checklist to attach to the electronic PAR utilized during the hiring process was tested and launched in 2019.
- BCOMP will provide instruction and guidance regarding County practice for overpayments, cancelled checks and processing timecard adjustments for employees who have gone over the allowed 960-hour cap.
 - Three (3) of the identified five (5) overage violations were subsequently reversed. Both departments, Sheriff and Department of Public Health, resolved the noncompliance issue by processing a timecard adjustment and cancelled checks. Had both Departments completed the process prior to LACERA running final reports when they were data gathering, the audit would have resulted in two (2) instead of five (5) overage violations. We will, therefore, strongly recommend to departments during the educational trainings to resolve overages within two (2) weeks, one (1) pay period.
- BCOMP will provide instruction and guidance on the type of work assignments and/or projects that will qualify and support the limited time for a department to rehire a retiree in compliance with PEPRA.
- BCOMP will update best practices to include suggestions and recommendations for all new slide topics.

In 2016, standardized reports that allow Human Resources staff throughout the County to generate on demand monitoring reports of rehired retirees was created and made available. BCOMP has access to all departmental reports and continues to regularly

monitor the reports at a countywide level. BCOMP will encourage departments to carry out proactive measures for those employees who are within ten (10) hours of reaching the cap by collaborating with impacted supervisors and employees and engaging them in a self-monitoring process to avoid non-compliance issues. This will be communicated in the notification emails sent to departments when we identify employees who are at risk of working beyond the allowable cap of hours. BCOMP will follow up with an offer to come out and work directly with those impacted departments in need of assistance.

Current Departmental Budget Instructions issued out by the CEO's office includes the review and monitoring of Rehired Retirees as part a department's continued efforts to initiate or enhance efficiencies. Departments with Rehired Retirees annually submit, with their Recommended Budget Packet, a "Rehired Retiree Cost Analysis" form that identifies the estimated number of retired employees for the upcoming Fiscal Year and a description of the program and their needs for the retired employee.


- BCOMP will conduct a thorough review to confirm the length of years each rehired retiree has been working and the identified assignment or project.
- BCOMP will work with departments to come up with a transition plan to ensure compliance with PEPRA's limited duration provision.
- BCOMP will also propose revision to include more language that outlines guidelines and expectations to departments to ensure compliance with PEPRA.


BCOMP will submit a request to the Department of Human Resources to review the existing Policies, Procedures, and Guidelines Policy No. 505 Reinstatement of Retirees to a 120-Day Temporary Assignment to determine if revisions are necessary to address and provide further guidance to avoid repeat non-compliance issues.


August 11, 2020

TO: 2020 Audit Committee
Gina Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

Audit Committee Consultant
Rick Wentzel

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Senior Internal Auditor

FOR: August 19, 2020 Audit Committee Meeting

SUBJECT: Proposed Revisions to the Audit Committee Composition

BACKGROUND

The Institute of Internal Auditors (IIA) best practices dictate that the key to an audit committee's effectiveness is having members with an appropriate mix of skills and experience relevant to the organization's responsibilities. The ideal composition of the audit committee and attributes of its members depends on a variety of factors such as the organization's size, complexity, and responsibilities.

Furthermore, an essential feature of an effective audit committee is independence from management. This allows the Committee to play a key role in the organization's governance structure. To that end, it is prudent that the Committee consider restructuring the composition of the Audit Committee to include both Board Trustees and Outside Public Members (Public Members). This restructuring of the Audit Committee composition will promote a balance of organizational knowledge and independence.

COMPOSITION OF AUDIT COMMITTEE

We propose a Committee of five members, comprised of one Trustee from each Board, and three elected Public Members. The composition of Trustees and Public Members is designed to promote a balance of organizational knowledge and independence.

We have found similar audit committee structures at a growing number of peer pension funds as illustrated in the chart below:

Peer Public Pension Systems	Board Trustees	Public Members	General Comments about Public Members
Colorado Public Employees Retirement Association	5	2	Recommended by AC and appointed by Board
San Diego City Employees Retirement System * One additional member, either Board Trustee or Public Member	1*	3*	Appointed to four-year staggered terms, recommended by Business & Governance Committee, and appointed by Board
San Diego County Employees Retirement Association	3	2	Appointed to three-year staggered terms, recommended by AC and appointed by Board
California Public Employees Retirement System	7	-	N/A
Maryland State Retirement & Pension System	5	-	N/A
California State Teachers' Retirement System	3	-	N/A

Board Trustees

The IIA's best practice recognizes the importance of maintaining institutional memory while providing new perspectives and fresh insights. Audit committee members should therefore be appointed to terms long enough to maintain continuity, but not so long that an individual becomes vested in the organization's current policies and direction.

Based on best practices, we recommend the following:

- Annually, each Board elect a Trustee to the Committee for a one-year term.
- The elected trustee should not hold a current Board position to ensure all Trustees are able to actively participate in LACERA's governance and to encourage independence from the Board.
- The elected Trustee would be limited to serving no more than five consecutive one-year terms, after which there must be a one-year break, before reappointment to the Committee.
- The elected Trustee upon election will sign a pledge confirming their independence in judgment and understanding their fiduciary duties.

Public Member

It is of utmost importance that the Public Members are independent of the Board, Management, LACERA service providers, and any relationship that would interfere with their ability to exercise independent judgment on accounts, disclosures, audits, and financial related matters. To ensure and encourage independence, we recommend:

- Annually, the Boards will jointly elect one Public Member for a three-year term. The Public Members will be on staggered terms, one year apart. The Public Members will be limited to serving 1 three-year, non-renewable term.
- Public Members will attest to their independence at the beginning of their appointment and then annually by completing LACERA's Audit Committee Independence Evaluation form.

In addition, Public Members will provide the Committee with financial expertise as defined by Sarbanes Oxley and have substantial experience in:

- a) Financial reporting, and Generally Accepted Accounting Principles (GAAP) and/or Governmental Accounting Standards Board (GASB) standards.
- b) Preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to LACERA's financial statements.
- c) One or more areas of accounting, auditing, finance, investments, or corporate governance, which can be applied to a public pension plan.
- d) Overseeing governance, risk, and compliance programs.
- e) Overseeing the organization's system of internal controls.
- f) Understanding the Audit Committee's functions.

TRANSITION PLAN TO NEW COMPOSITION

Under the current structure, the Committee consists of up to six members, which includes the Chair and Vice Chair from each board as well as one nominated Trustee from each Board. Under the proposed composition, the Committee will consist of five Committee Members. To ensure that the Committee maintains institutional knowledge, it is suggested that the transition to the new audit committee structure be phased in over several years, so that beginning in the third year, the Committee consists of one Board Member elected from each Board, and three elected Public Members (see Transition Plan below).

Proposed Revisions to the Audit Committee Composition

August 11, 2020

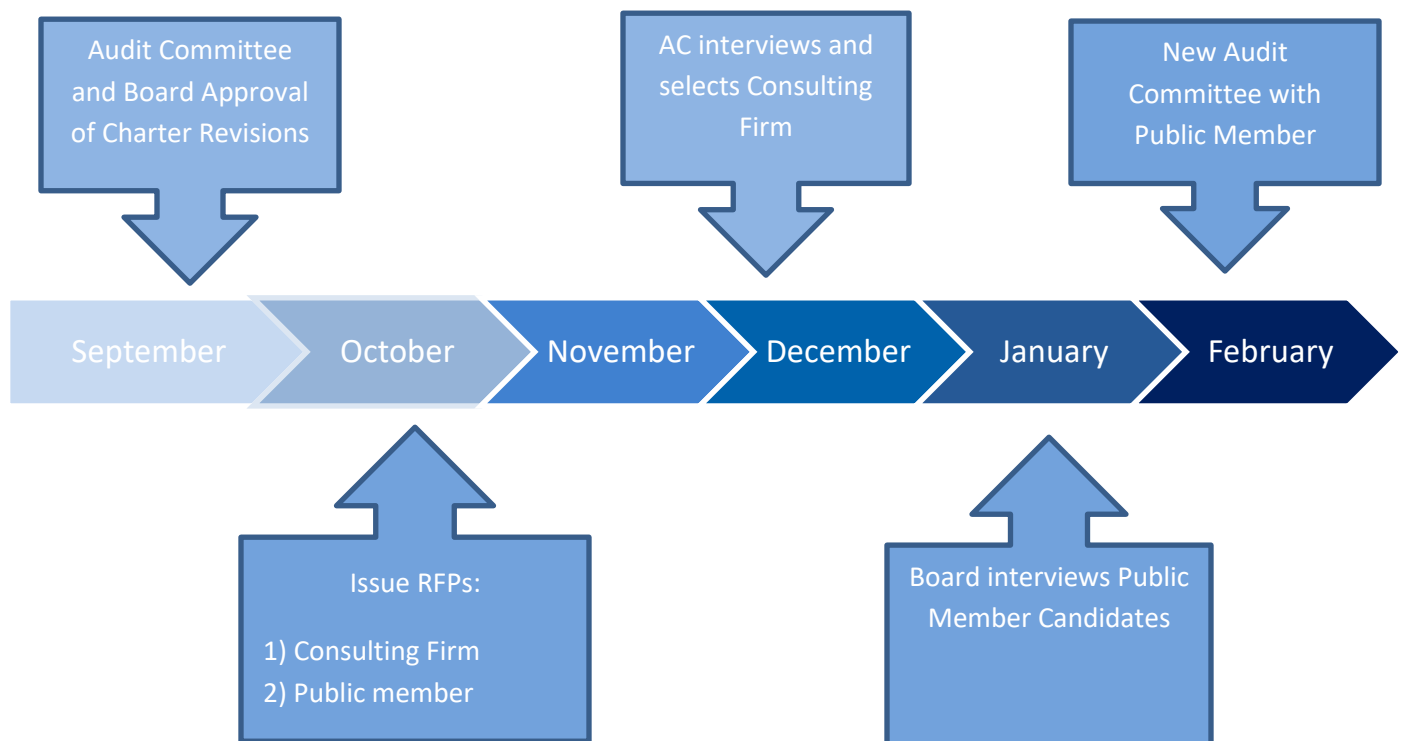
Page 4 of 5

The composition of Board Trustees and Public Members is designed to promote a balance of organizational knowledge and independence which would be phased in over a three year period as follows:

Year	BOR	BOI	Joint Boards
2021	2 Trustees	2 Trustees	1 Public Member
2022	1 Trustee	1 Trustee	1 Trustee; 2 Public Member
2023 and beyond	1 Trustee	1 Trustee	3 Public Members

SELECTION PROCESS AND PROPOSED TIMELINE

LACERA values diversity and inclusion and believes that effectively accessing and managing diverse talent—inclusive of varied backgrounds, age, experience, race, sexual orientation, gender, ethnicity, and culture—leads to improved outcomes. The Audit Committee will work with an external firm to evaluate applicants and ensure that candidates of diverse backgrounds are actively sought after and evaluated. Given the amount of time involved in conducting the search for candidates, it is prudent to start the process before calendar year-end. The key milestones and the proposed timeline to complete this process is illustrated below:



AUDIT COMMITTEE CHARTER REVISIONS

The Committee formally defines its purpose, authority, and responsibilities in the Audit Committee Charter (Charter), which is periodically reviewed and updated to ensure the Charter is aligned with industry best practices and organizational changes. The Committee's Charter was most recently updated in May 2020 to better align with the model charter, formalize the principles that should guide the Audit Committee, and expand and add clarity to the Audit Committee's responsibilities.

These proposed changes to the Committee composition will also require revisions to the Audit Committee Charter (Charter). Since these proposed Charter revisions address majority public membership, staff plans to have fiduciary counsel opine on the Charter revisions. The fiduciary opinion and proposed Charter revisions will be brought to the next Committee Meeting for approval.

The following is a presentation (ATTACHMENT A) that provides an overview of the restructuring of the Audit Committee composition, transition plan, and timeline. Staff will make this presentation at the August 2020 Audit Committee Meeting.

Attachment

RB:lec:cl

Restructuring the Audit Committee Composition



Audit Committee
August 19, 2020

Table of Contents

- I. Background

- II. Proposed Audit Committee Composition

- III. Transition Plan to New Composition

- IV. Next Steps and Proposed Timeline

- V. Questions

Background

The Institute of Internal Auditors (IIA) best practices dictate that the keys to an effective audit committee include members:

- With an appropriate mix of skills and experience relevant to the organization's responsibilities. The ideal composition of the audit committee and attributes of its members depends on a variety of factors such as the organization's size, complexity, and responsibilities.
- Independent from management that allows the committee to play a key role in an organization's governance structure.
- That maintain institutional memory while providing new perspectives and fresh insights. Terms limits are long enough to maintain continuity but not so long that an individual becomes vested in the organization's current policies and direction.

Proposed Composition For Audit Committee

Restructure the Audit Committee composition to include both Board Trustees and Public Members to promote a balance of organizational knowledge and independence



Proposed Composition of Audit Committee

We have found a growing number of similar audit committee structures at peer pension funds as illustrated in the chart below:

Peer Public Pension Systems	Board Trustees	Public Member	General Comments about Public Members
Colorado Public Employee Retirement Association	5	2	Recommended by AC and appointed by Board
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California Public Employee Retirement System	7	-	N/A
Maryland State Retirement & Pension System	5	-	N/A
California State Teachers' Retirement System	3	-	N/A

Trustee Requirements

**IIA's best practice for Audit Committee composition =
Institutional memory + new perspectives + fresh insights**

Audit committee members should be appointed to terms long enough to maintain continuity but not so long that an individual becomes vested in the organization's current policies and direction. We recommend:

- Annually, each Board elects Trustee(s) to the Committee for a one-year term.
- The elected trustee should not hold a current Board position to ensure all Trustees are able to actively participate in LACERA's governance and to encourage independence from the Board.
- The elected Trustee would be limited to serving no more than five consecutive one-year terms, after which there must be a one-year break, before reappointment to the Committee.
- The elected Trustee upon election will sign a pledge confirming their independence of judgment and understanding their fiduciary duties.

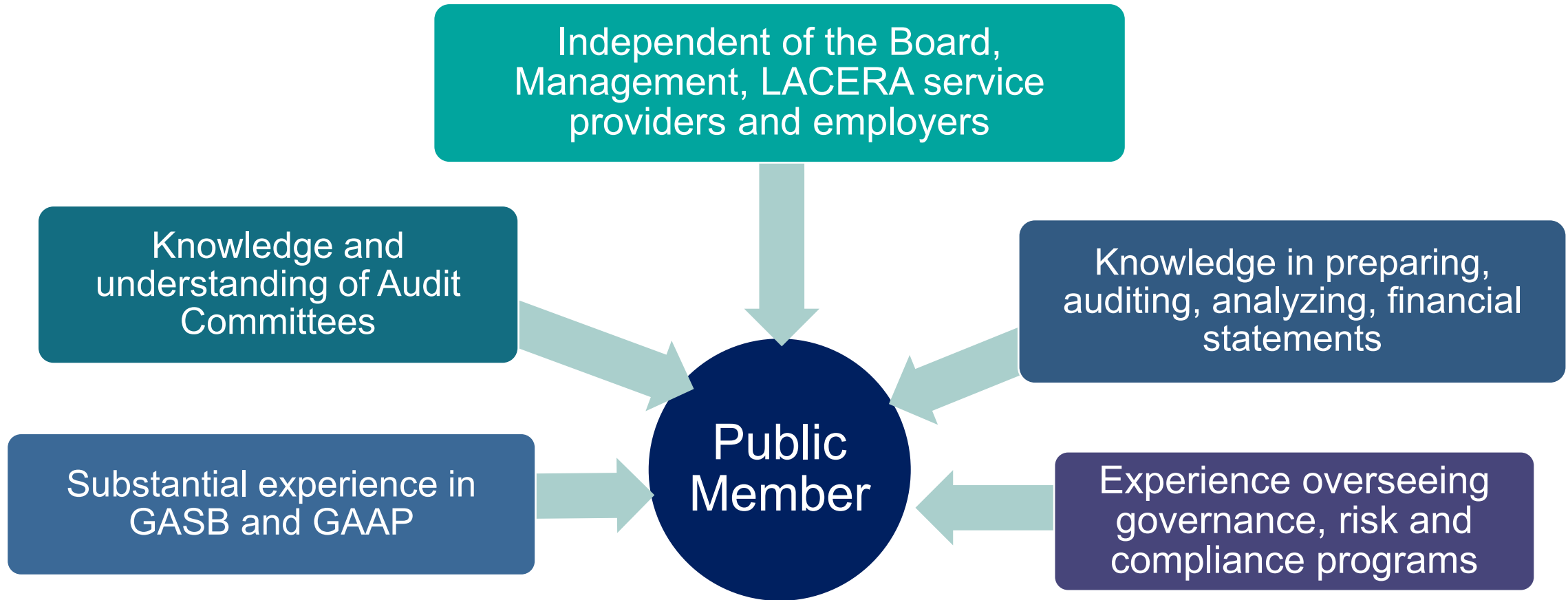
Public Member Requirements

Public Members = Independence from the Board, management, service providers + free from any relationship that would interfere with their ability to exercise independent judgment on accounts, disclosures, audits and financial related matters

Consistent with Sarbanes Oxley, IIA, Deloitte's Audit Committee Guidance, & Clapman Report 2.0 . We recommend:

- Annually, the Boards will jointly elect one Public Member for one three-year, non-renewable term. The Public Members will be on staggered terms, one year apart.
- Public Members will attest to their independence at the beginning of their appointment and then annually by completing an independence evaluation form.
- Public Members will receive compensation consistent with LACERA's policies and procedures for Board Member's stipend for attending committee meetings

Public Member Qualifications



Selection Process

RFP Process

- Annually Internal Audit will issue a request for proposal (RFP) to fill an upcoming vacant Public Member position.
- We will solicit bids from various local professional organizations, local colleges and university accounting schools to ensure a diverse candidate pool.
- An external firm, who is selected by the Audit Committee through an RFP, will evaluate the applicants, and recommend three applicants to interview before the Boards.

Diverse Candidate Pool

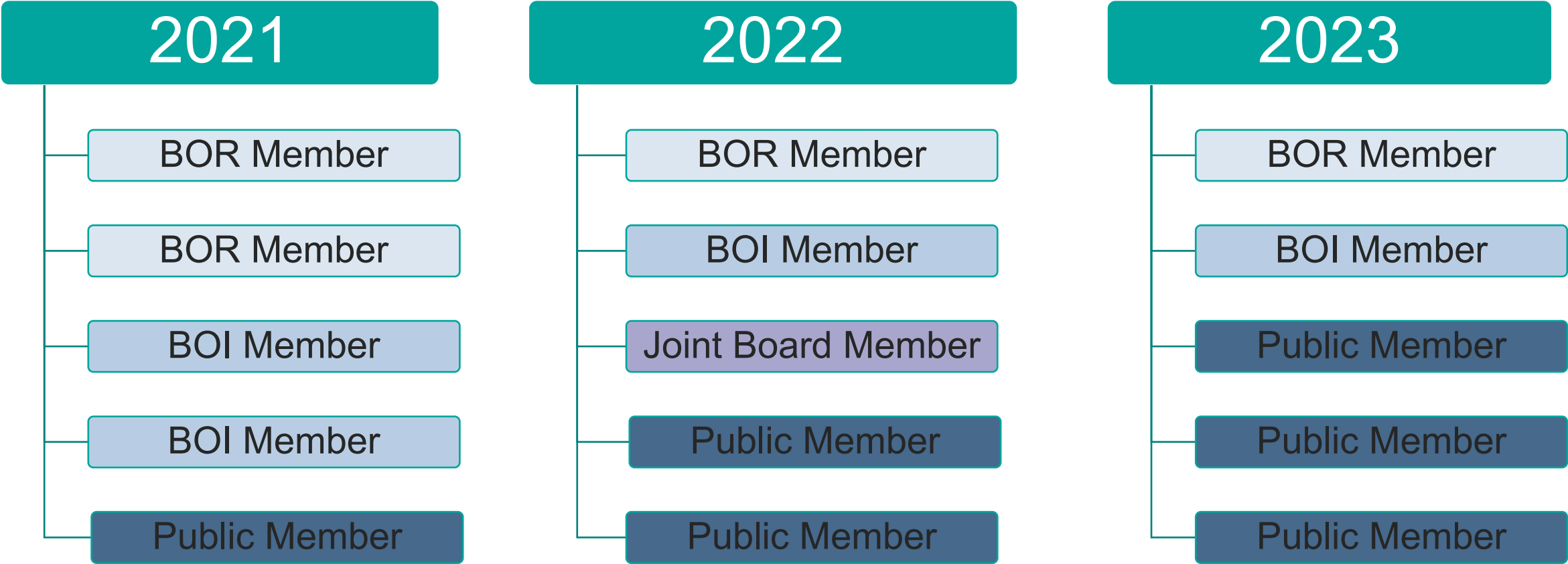
- The Audit Committee will work with the external firm hired to evaluate applicants, to ensure candidates of diverse backgrounds are actively sought after and evaluated.
- The candidate pool will be inclusive of varied backgrounds, age, experience, race, sexual orientation, gender, ethnicity, and culture.

Charter Revisions

- These additional proposed changes discussed above, will require revisions to the Audit Committee Charter.
- Staff will seek Fiduciary Counsel Opinion on proposed Charter revisions.
- Staff will bring Charter Revisions to the next Audit Committee meeting for approval.

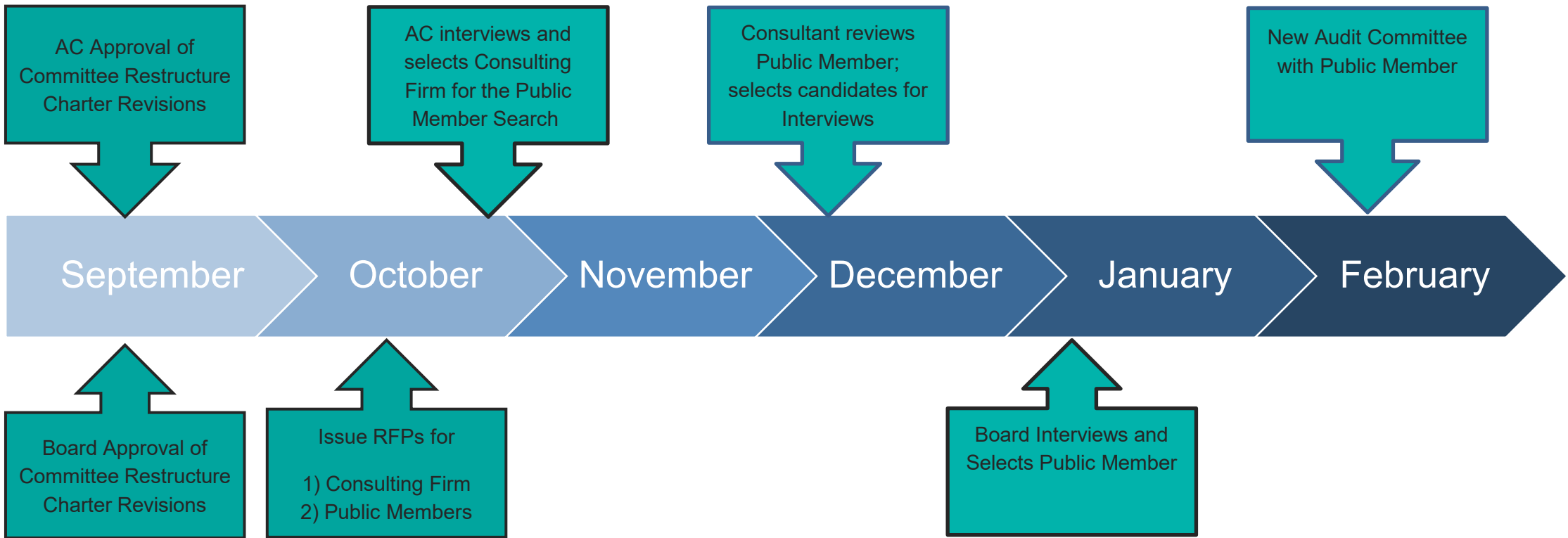
Transition Plan To New Composition

Proposed transition plan to new Audit Committee composition over a three-year period



Transition Plan Timeline

Given the amount of time involved in conducting the search for candidates and the selection process it is prudent to start the process for the selection of the first Public Member before calendar year-end. The key milestones and the proposed timeline to complete this process is illustrated below:







July 30, 2020

TO: 2020 Audit Committee
Gina Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

Audit Committee Consultant
Rick Wentzel

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

FOR: August 19, 2020 Audit Committee Meeting

SUBJECT: **FY 2020-2021 Internal Audit Goals**

Attached are the FY 2020-2021 Internal Audit goals. We welcome the opportunity for discussion and feedback from the Committee.

RPB:lec

Attachment

Internal Audit Goals – FY 2020-2021

Goal 1: Develop and Execute an Optimal Annual Audit Plan

Performance Measures

- Conduct annual and ongoing risk assessments and incorporate results in the Audit Plan.
- Expend 70% or more of total available Internal Audit staff hours (excluding uncontrollable leave) on direct assurance, consulting, and advisory services.
- Ensure internal audit processes are in accordance with internal auditing standards.

Goal 2: Facilitate Audit Committee Governance

Performance Measures

- Provide quarterly educational resources on effective Audit Committee practices.
- Advise in the development of LACERA's Governance, Risk, and Compliance program(s) and annually update the Audit Committee on progress.
- Obtain annually the Audit Committee's feedback on Internal Audit performance and expectations.

Goal 3: Continue to improve and strengthen Internal Audit's Processes

Performance Measures

- Complete an External Quality Assessment and obtain a "Generally Conforms" rating.
- Administer Audit Surveys on 100% audit engagements.
- Continue to employ new project management approaches to improve efficiency and timeliness of the audit process.
- Develop and operationalize metrics and key performance indicators to improve Internal Audit's efficiency and effectiveness.

Goal 4: Ensure continued competence and expertise of Internal Audit

Performance Measures

- 100% of Internal Audit staff:
 - Complete a self-assessment related to internal audit skills and LACERA knowledge.
 - Develop an annual training plan based on resulted from their self-assessment.
 - Complete annual training plans and obtain a minimum of 30 hours of continuing education credits, including two hours of required Ethics training.




July 30, 2020

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Gina Sanchez, Chair
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Vivian H. Gray
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Audit Committee Consultant
Rick Wentzel

FROM: Richard P. Bendall 
Chief Audit Executive

Gabriel Tafoya 
Senior Internal Auditor

Christina Logan 
Senior Internal Auditor

FOR: August 19, 2020 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up for Sensitive Information Technology Areas**

BACKGROUND

In July 2020, Internal Audit and Information Systems Management (Systems) completed a review of information technology (IT) recommendations related to the following audits / assessments:

- Tevora 2019 Penetration Test
- Tevora 2019 Social Engineering Test
- Tevora 2018 Security Risk Assessment
- Alston & Bird 2016 Privacy Audit (attorney-client privileged)

Due to the sensitive nature of these external assessments, Internal Audit provided the Audit Committee with executive summaries of the assessments as they were completed (see attachments).

Additionally, a confidential investigation performed by Net Force, which was managed jointly by the Legal Office and Internal Audit looked at specific Human Resource concerns but provided helpful recommendations to strengthen IT areas. Neither the report nor an executive summary was shared with the Audit Committee when it was finalized in May 2019, but Internal Audit has provided an executive summary as Attachment A.

The recommendations are included as part of this Recommendation Follow-Up for Sensitive IT Areas.

Although this is the first time Internal Audit is bringing these recommendations to the Audit Committee, Internal Audit has worked with Systems Management to monitor and track these recommendations after each external assessment was completed. We previously did not report on these sensitive recommendations but after reviewing our Internal Audit Recommendation Follow-Up process, we realized this was an area that would benefit from additional transparency.

RECOMMENDATIONS CATEGORIZED

IT General Controls (ITGC) are the basic controls that can be applied to IT systems such as applications, operating systems, databases, and supporting IT infrastructure. The general objective for ITGC is to ensure the integrity of the data and processes that systems support.

We categorized the recommendations from the four external IT assessments into the following ITGC:

- **Data Backup and Recovery** – Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.
- **Environmental** – Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
- **Information Security** – Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
- **Logical Access** – Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
- **Physical Security** – Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.
- **System Development & Change Management** – Controls provide reasonable assurance that changes to or development of applications is authorized, tested, and approved. Controls also provide reasonable assurance that segregation of duties exist.
- **System Monitoring & Maintenance** – Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.

RECOMMENDATIONS STATUS

Substantial effort is underway by Systems Management to address all recommendations in a comprehensive and effective manner.

- For recommendations which are listed as **Completed**, Systems Management provided supporting documentation to substantiate their position, which Internal Audit reviewed and approved.
- For recommendations which are listed as **In Progress**, Systems Management provided a summary of work to be performed and a timeline. Key milestones related to multiple recommendations are:
 1. Systems and the Executive Office are currently working with TransQuest on a comprehensive review of all of Systems policies, standards, and standard operating procedures to ensure they are up-to-date, complete, and effective by the end of September 2020.
 2. Systems is working with Legal, Human Resources, and Internal Audit to develop an IT End-User Manual which will include updated IT policies to help protect LACERA's electronic equipment and information assets. The Manual is expected to be completed by September 2020.
 3. Systems is working with Human Resources to formalize its Security Awareness Training by October 2020.
- For recommendations listed as **Accept Risk**, Systems Management is in the process of creating a narrative to document the risk and mitigating controls, which will be reviewed and approved by the Executive Office by October 2020.

Table 1: Recommendations Status – By IT General Control Areas as of July 30, 2020

*IT General Control Areas	Completed	In Progress	Accept Risk	Total # Recos by Category
Data Back Up & Recovery	N/A	N/A	N/A	N/A
Environmental	N/A	N/A	N/A	N/A
Information Security	N/A	15	N/A	15
Logical Access	0	12	1	13
Physical Security	N/A	N/A	N/A	N/A
System Development & Change Management	N/A	2	N/A	2
System Monitoring & Maintenance	1	3	N/A	4
Total # Recos by Implementation Status	1	32	1	34

Recommendation Follow-Up for Sensitive Information Technology Areas

July 30, 2020

Page 4 of 4

Staff will be available to address questions at your August 2020 Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

RB:cl:gt

Attachments:

- A: Net Force 2019 Engagement
- B: Tevora 2019 Penetration Test
- C: Tevora 2019 Social Engineering Test
- D: Tevora 2018 Security Risk Assessment
- E: Alston & Bird 2016 Privacy Audit





July 30, 2020

TO: 2020 Audit Committee
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Audit Committee Consultant
Rick Wentzel

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Senior Internal Auditor

FOR: August 19, 2020 Audit Committee Meeting

SUBJECT: **Net Force Engagement – May 2019**

EXECUTIVE SUMMARY

In 2019 LACERA engaged Net Force to: Determine if an allegation regarding inappropriate use of email accounts could be substantiated. This engagement also included a limited Office 365 Security Assessment of LACERA's implementation. The scope and deliverables of this engagement included the following:

- Reviewing Select Office 365 Logs
- Examining Office 365 SecureScore
- Review Administrator Accounts
- Conversations with staff from Information Systems

Based on review of audit logs, system generated reports, and discussions with various LACERA staff, including Legal, Internal Audit, Executive Office, and Systems, Net Force identified no unusual or unauthorized Email account access, or delegation of access permissions during the period, and confirmed multifactor access authentication protocols were being used by administrators. Net Force identified 12 recommendations to help strengthen LACERA's use of Office 365 and overall information technology and/or security structure.

Internal Audit and Systems Management have agreed to use the IT General Controls (ITGC) to categorize recommendations that are deemed sensitive to LACERA's information systems and/or security. ITGCs are the basic controls that can be applied to IT systems such as applications, operating systems, databases, and supporting IT infrastructure. The general objective for ITGC is to ensure the integrity of the data and processes that systems support. The following is a summary of the Net Force recommendations categorized by ITGCs:

- **4 Information Security** recommendations – Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
- **5 Logical Access** recommendations– Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
- **1 System Development & Change Management** recommendation– Controls provide reasonable assurance that changes to or development of applications is authorized, tested, and approved. Controls also, provide reasonable assurance that segregation of duties exist.
- **2 System Monitoring & Maintenance** recommendation – Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.

These recommendations are included in the Recommendation Follow-Up for Sensitive IT Areas dated July 30, 2020.



June 14, 2019

TO: 2019 Audit Committee
Joseph Kelly, Chair
Gina Sanchez, Vice-Chair
Herman Santos, Secretary
Alan Bernstein
Shawn Kehoe
Les Robbins

Audit Committee Consultant
Rick Wentzel

FROM: George Lunde
Senior Internal Auditor

FOR: July 11, 2019 Audit Committee Meeting

SUBJECT: 2019 IT Penetration Test

This IT Network Penetration Assessment project was part of Internal Audit's Fiscal Year ended June 30, 2019 Audit Plan. It was conducted during April, 2019. In January 2019, Internal Audit contracted with Tevora Threat Research Group (Tevora), an information technology audit consultant to assess security over LACERA's internet perimeter and internal network security. Internal Audit periodically and randomly schedules these types of security tests, the last of which was reported to your Committee at your March 2018 meeting. It is best practice to perform periodic penetration testing to ensure continued access security controls are in place over LACERA systems and member data.

The results of Tevora'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.

We have used a number of firms over the last 21 years to perform these types of security reviews and typically we use each firm at least twice. This is the second time that we have employed the penetration testing services of Tevora. 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. Therefore, Systems Division staff was not informed of this audit in advance of Tevora initiating their penetration tests.

In this test, staff detected the suspicious internet and intranet activity generated by Tevora shortly after commencement and staff took appropriate steps to alert Systems management and Internal Audit. In accordance with usual protocols, the Systems Division staff were instructed to allow Tevora to continue their testing without restriction.

We are pleased to report, as indicated in the executive summary segment of Tevora's report, that only four minor vulnerability risk issues were identified and that Tevora was unable to breach the external or internal network. In all instances the vulnerability risk issue rankings take into consideration mitigating controls in place along with the speed and likelihood that the risk could impact LACERA membership or operations should those controls fail.

Remediation of one internal network server issue was completed during the course of the review. Tevora identified an external logon vulnerability because LACERA was not using multifactor authentication (MFA). While only one remotely located employee uses this external logon access, Systems management is committed to remediating this vulnerability along with the remaining low risk internal vulnerabilities by December 31, 2019.

Internal Audit would like to extend its appreciation to the management and staff of the Systems Division. Their helpful attitude and responsiveness contributed greatly towards the successful completion of this assessment.

REVIEWED AND APPROVED



RICHARD BENDALL
Chief Audit Executive

Date: 6-14-19

REPORT DISTRIBUTION

2019 Audit Committee
Rick Wentzel
Steve Rice
JJ Popowich

Internal Audit Staff
James Brekk

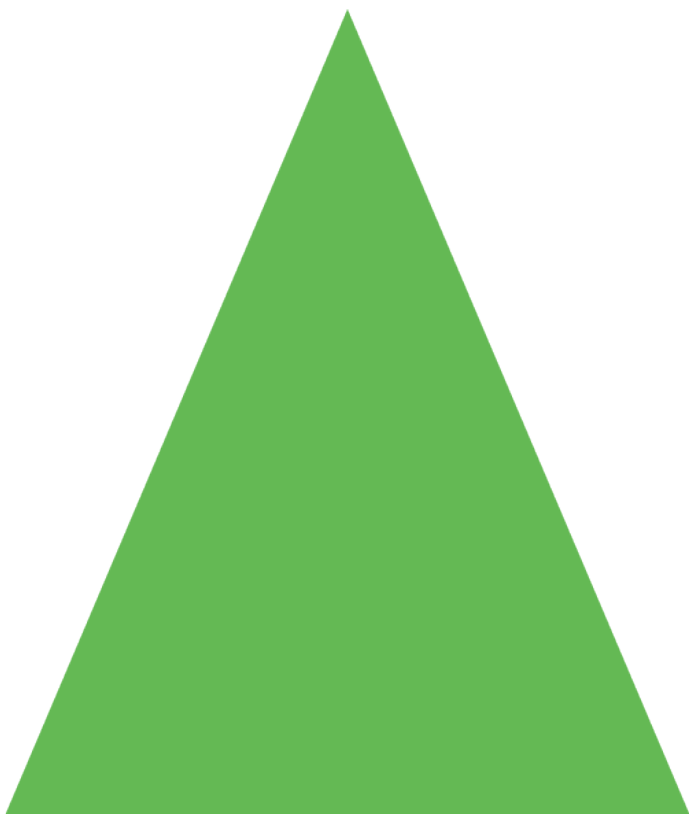
TEVORA

LACERA

LACERA
2019 Penetration Test

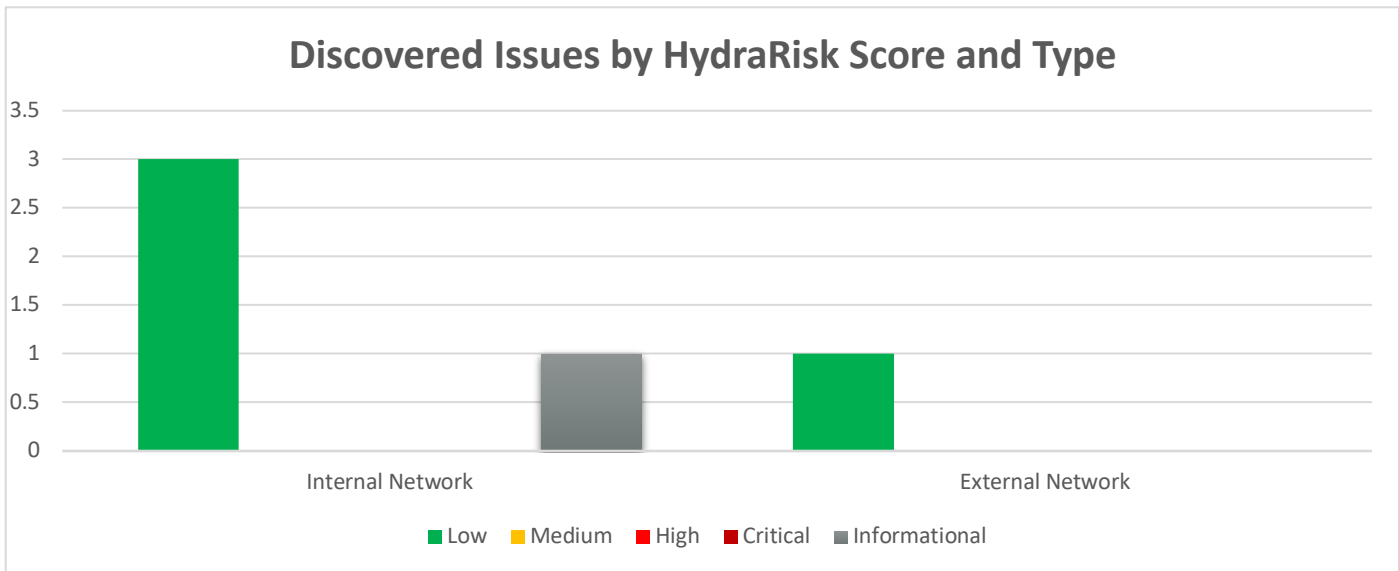
Tevora Threat Research Group

Delivered June 7, 2019



Executive Summary

Overview



Internal Penetration Test Results

Tevora discovered a few low risk vulnerabilities on the internal network. The LACERA network had many controls in place to detect and deter attackers. The network was very firewalled off and only valid users and computers would be able to access the network due to the network access and physical access controls in place. Tevora was allowed physical access to attach to the network but very few services or parts of the network were accessible.

Strategic Recommendations

Tevora recommends focusing remediation efforts on the identified Workspace remote-code-execution vulnerability as this could potentially be exploited by an unauthorized device that is placed on the network. This server contains or is connected to database servers that houses the PII for LACERA. The remaining low risk items should be remediated as time and resources permit.

External Penetration Test Results

Tevora noted a low-ranked vulnerability on the external network, attributed to current security best practices. Tevora discovered a login form that does not have multifactor authentication (MFA) enabled. Tevora was unable to breach the LACERA perimeter network during testing; however, systems without multifactor authentication can be used in a larger attack and exploitation chain to potentially obtain access to the internal network and systems.

Attackers often attempt to phish employees for credentials and use VPNs without multifactor authentication to gain access to the internal environment. When attackers gain access to internal networks with valid credentials, they become difficult to identify and remove from the environment. Tevora was unable to exploit this using

strictly open source intelligence gathering, making it necessary for an attacker to attempt gathering valid credentials through social engineering.

Strategic Recommendations

Tevora recommends focusing primary remediation efforts on implementing multifactor authentication for external services. Weak passwords are a hard issue to solve because of the human element, but MFA is a simpler and effective technical control. MFA can significantly reduce the risk of phished credentials and brute force attacks on externally-hosted systems. With this item remediated, LACERA will further strengthen the overall external security posture.



June 14, 2019

TO: 2019 Audit Committee
Joseph Kelly, Chair
Gina Sanchez, Vice-Chair
Herman Santos, Secretary
Alan Bernstein
Shawn Kehoe
Les Robbins

Audit Committee Consultant
Rick Wentzel

FROM: George Lunde
Senior Internal Auditor

FOR: July 11, 2019 Audit Committee Meeting

SUBJECT: 2019 Social Engineering Test

This Social Engineering project was part of Internal Audit's Fiscal Year ended June 30, 2019 Audit Plan. It was conducted during April, 2019 in conjunction with an IT penetration assessment. In January 2019, Internal Audit contracted with Tevora Threat Research Group (Tevora), an information technology audit consultant to conduct this social engineering assessment to gauge the susceptibility of LACERA employees to social engineering attacks. Multi-factor authentication (MFA) is in place for selected users granted privileged access to services, applications, data and systems. However, testing MFA was not in scope due to the complex nature of executing such a test.

Tevora conducted an email phishing test to determine the likelihood of LACERA employees falling for phishing attacks. In addition, Tevora conducted a phone phishing (vishing) test to determine the likelihood of LACERA employees falling for vishing attacks. The review is summarized in their attached executive summary report. The detailed full report contains information that would compromise LACERA's security and staff privacy if made public.

Results

LACERA performed slightly better than average compared to similar companies on the email phishing test. Please note, as these were social engineering tests, tests to

evaluate the vulnerability of LACERA staff to malicious emails, the Systems Division disengaged multiple automated security systems. The overall percentage of malicious incidents per email would likely be lower in a real-life scenario. LACERA information security staff purposely did not take any action to cease the phishing.

LACERA performed at an average level compared to similar companies on the phone phishing test. Over 50% of users did not answer calls over multiple attempts, indicating call screening, a secure practice. However, over 37% percent of the calls that reached their target resulted in the target giving their credentials or executing a payload (performing a detrimental action), which would place LACERA at high risk if an attack of this type were performed at scale.

Recommendation

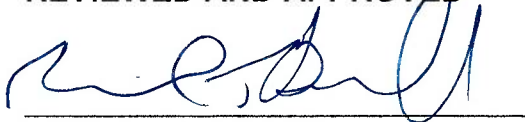
Regularly scheduled formal security awareness trainings are needed to educate staff and management on recognizing suspicious emails and telephone calls.

Management Response

Systems and Human Resources management have committed to implementing a computer based training (CBT) program for all staff and management to increase awareness to social engineering attacks. A CBT vendor resource has been identified that would meet LACERA's needs. Management expects to implement the CBT by December 31, 2019,

Internal Audit would like to extend its appreciation to the management and staff of the Systems Division. Their helpful attitude and responsiveness contributed greatly towards the successful completion of this assessment.

REVIEWED AND APPROVED



RICHARD BENDALL
Chief Audit Executive

Date: 6-14-19

REPORT DISTRIBUTION

2019 Audit Committee
Rick Wentzel
Steve Rice
JJ Popowich

Internal Audit Staff
James Brekk
John Nogales

TEVORA™

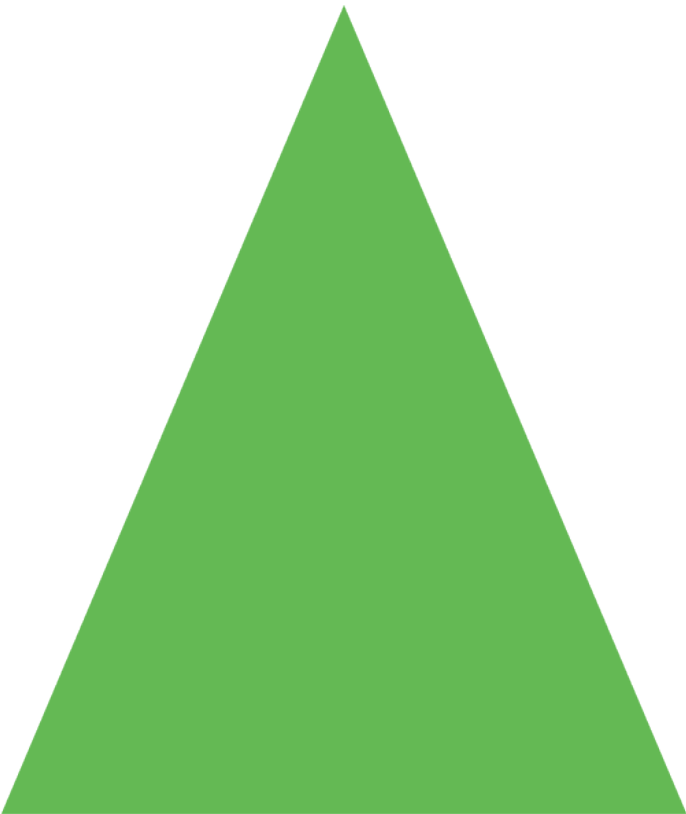
LACERA

LACERA

2019 Social Engineering Report

Tevora Threat Research Group

Delivered May 6, 2019



Executive Summary

Findings

LACERA performed slightly better than average compared to similar companies on the email phishing test. Additionally, multiple security systems were shut down or whitelisted to allow the test to take place. The overall percentage of malicious incidents per email would likely be lower in a real-life scenario, as the standard protection mechanisms in place would not have allowed so many malicious emails to come through. Information security purposely did not take any action to cease the phishing and whitelisted Tevora's sending addresses in order to gauge phishing success rate. Had this been an actual attack, the information security team would have blocked these emails, blacklisted the link and notified all employees to delete these emails, and the phishing success rate would have been much lower.

Tevora observed an average number of users clicking into the phishing link, and an overall low number of users submitting their credentials to our landing page. The percentage of users clicking the link matches with typical observations; however, the number of credential submissions relative to the number of unique user clicks was significantly lower than what Tevora usually observes. This rate is indicative of a userbase with adequate security awareness and the ability to identify phishing attempts in the email client and in the browser. The aforementioned factors place LACERA at a low risk for this type of attack.

Phishing attacks are the most commonly-observed cause of breaches in Tevora's incident response experience, with one or two successfully phishing attempts often leading to complete domain compromise. The defense LACERA has put-up in response to this threat is impressive, though there is room for further improvement through employee awareness.

LACERA performed at an average level compared to similar companies on the phone phishing test. Over 37 percent of the calls placed by Tevora that reached their target resulted in the target giving their credentials or executing a payload, which would place LACERA at high risk if an attack of this type was performed at scale. However, over 50% of users did not answer calls over multiple attempts, indicating call screening, a secure practice. The aforementioned rates are indicative of a userbase with an average level of security awareness surrounding phone phishing, common pretexts and standard operating procedures related to (lack of) password transmission.

Recommendations

LACERA should perform security awareness trainings periodically to educate its users on recognizing suspicious emails and calls, including to always check the domain, and to never submit credential to unknown sites or via phone. End users are encouraged to continue to report suspicious emails that they receive and never open emails from people or organizations they do not know or conduct business with. LACERA should practice in-depth defense and use multi-factor authentication extensively to limit the use of maliciously-acquired credentials.

George Lunde

From: Richard Bendall
Sent: Friday, November 2, 2018 12:55 PM
To: Joseph Kelly; michael@mschneidercpas.com; viviangray@aol.com; hsantos@pub.def.lacounty.gov; SRKehoe mail forward; davidgreen37@sbcglobal.net; Wentzel, Rick
Cc: Robert Hill; James P. Brekk; Bernie Buenaflor; John Popowich; Roxana Castillo; Steven Rice; Mary Phillips; Internal Audit Staff
Subject: LACERA 2018 Enterprise Security Risk Assessment
Attachments: 2018 LACERA IT Risk Assessment Executive Summary .pdf

2018 Audit Committee:

Attached please find the LACERA 2018 Enterprise Security Risk Assessment. As a reminder, to ensure compliance with the Brown Act, if you have any questions, please send them to me without copying all on your reply. Please provide your questions to me by Friday, November 16. We will reply to your questions by Wednesday, November 28, and the questions and answers from all Committee members will be included with the materials for your December 12 Audit Committee meeting. I usually attach both a Word and PDF version of the report, the Word version for your use in embedding comments or questions. However, this is a vendor report and is a PDF only. Please provide your questions with a reference to the page of the report or area of concern.

Please note, the Audit Committee meeting is currently scheduled for Wednesday, **December 12** following the Board of Investment meeting. Staff will be available to address any further questions you have about this audit report at the meeting.

Because this report requires some additional explanation, I am including below the language that will be included in the memo to your Committee for your December Audit Committee meeting.

This IT Risk Assessment project was part of Internal Audit's Fiscal Year ended June 30, 2018 Audit Plan. A Privacy & Data Security Assessment review conducted in 2016 by Alston & Bird LLP, presented an opinion that a comprehensive Security Risk Assessment based upon United States Department of Commerce, National Institute of Standards and Technology (NIST) guidelines would benefit LACERA's governance framework. Following is a summary description of the project and opportunities for improvement resulting from the project.

Tevora Business Solutions Inc. (Tevora), a full-service firm focused on information security, risk, governance and compliance, conducted the enterprise security risk assessment beginning in May 2018. The assessment was conducted using a modified version of NIST's *Special Publication 800-30, Guide for Conducting Risks Assessments*. Tevora uses the NIST CyberSecurity Framework (NIST CSF) to categorize identified risks.

Through a combination of interviews, documentation reviews, and guided observations, nine risks were identified. For a risk to be included within the risk report, it must have been identified by at least two independent individuals and/or verified through systematic testing of controls (i.e., policy review, configuration review, report review, etc.). No high or critical risks were identified, the majority of risks scored in the low category. Tevora commented; "Overall, discussions with the LACERA team members showed that the importance of information security was well understood. Information security concepts were found to be well understood and implemented at every level of the organization."

Management achieved consensus of the identified risks and related recommendations. Two of three risk issues identified in the moderate risk category will require enhancing current operational procedures as a

means to reducing risk exposure. The remaining issue in the moderate risk category is the result of legacy systems architecture decisions. Management has addressed this issue with mitigating controls over the years and intends to include full remediation of the issue as an upcoming strategic planning objective. The remaining low risks need to be addressed as time and technology resources permit. In all instances the associated risk rankings resulted from analysis of mitigating controls in place along with the speed and likelihood that the risk could impact LACERA membership or operations should those controls fail.

Attached is Tevora's project summary report. The detailed assessment report (not included) is highly technical and contains information that would compromise LACERA's security if made public.

Internal Audit would like to extend its appreciation to the management and staff of the Systems Division. Their helpful attitude and responsiveness contributed greatly towards the successful completion of this assessment.

Thank you,

Richard

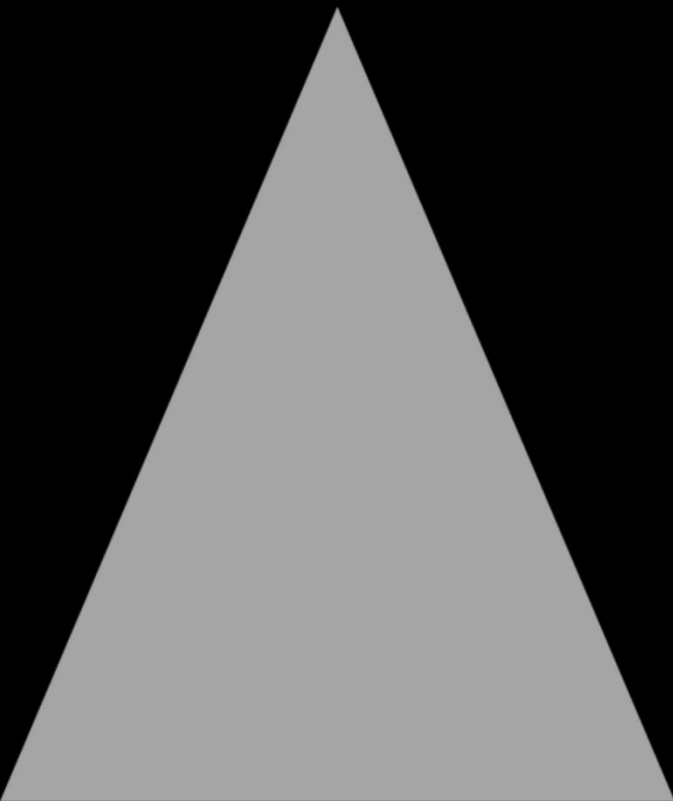


LACERA

2018 Enterprise Security Risk Assessment

Eric Munz

Delivered July 08, 2018



Summary and Observations

A total of nine risks were identified during the assessment. The following table displays the number of risks by their overall risk rating. The details for the risks can be found within the Risk Summary section of this report.

Overall Risk Rating	Risks Identified
Low	6
Moderate	3
High	0
Critical	0
Total	9

Developing a plan of action to implement the recommendations below will allow LACERA to greatly improve its overall security posture. The risks identified in this report were discussed with relevant teams as part of the initial assessment activities and recommendations. LACERA should find that the recommendations provided in this report align with these discussions.

One moderate risk identified is the incomplete encryption of databases containing LACERA member data. Tevora recommends LACERA implement strong encryption surrounding all databases housing the sensitive member data.

Another moderate risk identified is the lack of annual security awareness training and the limited coverage of their internal penetration test. Tevora recommends LACERA implement an annual training process to provide awareness to all employees regarding current threats. Also, Tevora recommends LACERA expand the scope of their current internal penetration testing.

Overall, LACERA was found to have an effective security program in place that encompasses several requirements and security domains defined by the NIST Cybersecurity Framework. As LACERA is looking to strengthen their security posture, implementing the recommendations identified in this report will allow LACERA to develop a more secure operating environment.

Report Content

The following report has been compiled for the exclusive use of LACERA. Care has been taken to ensure that all report content and recommendations are of the highest quality and are based on sound analysis, research, and experience. Please direct any questions or concerns about the content of this report to Eric Munz at emunz@tevora.com.

Eric Munz
Senior Information Security Consultant

Introduction

Purpose

The objective of this Enterprise Security Risk Assessment was to proactively identify, prioritize, and provide remediation recommendations for relevant risks that pose a threat to the confidentiality, integrity, or availability of LACERA enterprise systems, and to determine whether the controls in the enterprise environment adhere to the standards for the protection of confidential or otherwise sensitive information.

This Assessment was also tasked with ensuring that various enterprise systems and processes comply with privacy, legal and regulatory requirements related to the security of sensitive information, which may include electronic protected health information (ePHI), personally identifiable information (PII), intellectual property (IP), and sensitive employee data.

An Enterprise Security Risk Assessment is the first step in developing a risk management program for any organization. Identifying the assets that are critical to an organization and then identifying the various risks which could affect those assets helps prioritize the allocation of resources to security and IT administrative tasks and determine appropriate control frameworks and control implementations.

Periodic risk assessments are also required as part of compliance with several security standards including the Health Insurance Portability and Accountability Act (HIPAA) and standards published by the National Institute of Standards and Technology (NIST). Performing these types of assessments with the assistance of a third-party familiar with those standards ensures that organizations remain in compliance with the requirements for risk assessments in each of those standards.

Scope

LACERA engaged Tevora to conduct an enterprise security risk assessment of the LACERA enterprise environment in accordance with NIST CyberSecurity Standard requirements. This assessment was conducted onsite at the LACERA office from May 29, 2018 to June 1, 2018. The risk assessment was tasked with identifying all potential enterprise risks that pose a threat to the LACERA environment.

In Scope

The following business areas were determined to be in scope and were covered by this assessment:

Business Areas	
<ul style="list-style-type: none"> ▪ Human Resources ▪ Asset Management ▪ Business Continuity Plan ▪ Legal and Compliance ▪ Management ▪ Incident Response ▪ Risk Management ▪ Internal Audit 	<ul style="list-style-type: none"> ▪ Network & Systems Management ▪ IT and Security Management ▪ Product & Service Development ▪ Facilities ▪ Database Administration ▪ Change Management ▪ Legal and Privacy ▪ Data Analytics

Technologies	
<ul style="list-style-type: none"> ▪ Information Technology <ul style="list-style-type: none"> ○ Cloud ○ Microsoft Office 365 ▪ Software Development ▪ Internal Applications ▪ Endpoint Security 	<ul style="list-style-type: none"> ▪ Databases ▪ Logging and Monitoring ▪ Email filtering and Data Loss Prevention ▪ Data Backup ▪ Web Servers ▪ Mainframe

Out of Scope

For the purposes of this assessment, all enterprise wide systems supporting LACERA's infrastructure and processes were deemed in scope to ensure comprehensive analysis of privacy and data security techniques employed.

Risk Assessment Methodology

Framework

This Enterprise Security Risk Assessment was conducted using a modified version of NIST's *Special Publication 800-30, Guide for Conducting Risks Assessments*. The assessment steps are as follows:

- Asset Characterization
- Threat Identification
- Vulnerability Identification
- Control Analysis
- Likelihood Determination
- Impact Analysis
- Risk Determination
- Control Recommendation
- Result Documentation

The framework consists of five main functions:

- Identify
- Protect
- Detect
- Respond
- Recover

Additionally, Tevora uses the NIST CyberSecurity Framework (NIST CSF) to categorize identified risks.

Risk Identification

The first step in any risk assessment is to identify the scope, or context, of the risk assessment. Tevora, in conjunction with the Project Sponsor(s), established the scope of the risk assessment prior to conducting any interviews.

The assessment continued by interviewing relevant business unit employees to obtain asset information and documentation. Following asset identification, subject matter experts (SMEs) for each asset area were interviewed. Interviews focused on the processes and technical controls used to meet HIPPPA requirements and NIST CSF controls. Documentation, such as policies, standards, and procedures, were gathered at this time and reviewed by Tevora. SMEs also assisted in the guided observation of system configurations or technical processes at the request of Tevora.

Through a combination of these interviews, documentation reviews, and guided observations, multiple risks were identified. For a risk to be included within the risk report, it must have been identified by at least two independent individuals and/or verified through systematic testing of controls (i.e., policy review, configuration review, report

review, etc.).

Risk Measurement

Once a risk was identified, Tevora, in conjunction with the Project Sponsor(s), analyzed the risk based on a set of defined criteria to establish the level of severity or opportunity for exploitation. Tevora uses an intelligent risk decision framework known as HydraRisk for measuring and quantifying risk. This five-factor methodology incorporates a quantitative-qualitative hybrid approach to risk decisioning, with an emphasis on quantitative. Tevora’s HydraRisk scoring provides a consistent and measurable risk analysis over time, which is critical to tracking risks throughout their life cycle.

HydraRisk Factors

The following chart describes the elements used within Tevora’s HydraRisk Methodology.

Consequence	• The financial impact of the risk if an event were to occur
Velocity*	• Estimate of how quickly a risk event would impact the organization given failure of existing controls
Probability*	• The likelihood of a risk event actually occurring
Criticality	• The depth and breadth of the impact and overall visibility to the company
Responsiveness	• The likelihood of a successful response to a risk event

**Velocity and probability ratings are based on a subjective analysis of the effectiveness of mitigating controls in place and the speed and likelihood that the risk could impact the organization should those controls fail.*

The following table outlines the ratings scheme for each of the five HydraRisk factors. Each HydraRisk factor is measured on a scale of 1 through 5, with 1 being the lowest risk and 5 being the highest risk. The higher a risk scores, the more serious a risk becomes, and the more attention an organization should focus on it.

The following conditions are used to measure each risk:

Risk Factor	1	2	3	4	5
Consequence	Trivial: <\$50,000	Tolerable: \$50,000-\$250,000	Significant: \$250,000-\$500,000	Intolerable: \$500,000-\$1M	Major: >\$1M
Velocity	Excellent: Within months.	Good: Within weeks.	Fair: Within days.	Poor: Within hours.	Could not detect or respond if an event took place.
Probability	Rare: 0-15%	Low: 16-35%	Moderate: 36-65%	High: 66- 85%	Very High: >85%
Criticality	Trivial: Almost no impact on customers or reputation.	Tolerable: Small impact on customers or reputation.	Significant: Moderate impact on customers or reputation.	Intolerable: Severe impact on customers or reputation.	Major: The survival of the business is in jeopardy.
Responsiveness	Excellent: There are controls and capabilities in place that are viable and tested.	Very Good: There are viable controls and capabilities, but they are not tested or fully formalized.	Good: There are some controls and capabilities, but not enough to complete mitigate the risk impact.	Fair: The organization has some capabilities to respond, but mitigation efforts will be ad hoc or best effort.	Poor: The organization will be unable to effectively mitigate the impact of a risk event that occurs.

Once the risk factors have been scored on a scale from 1 to 5, all five scores are added to create the Composite Risk Score, which determines the Overall Risk Rating:

Composite Risk Score	Overall Risk Rating
5 – 10	Low
11 – 15	Moderate
16 – 20	High
21 – 25	Critical

Executive Summary

Client Overview

The Los Angeles County Employees Retirement Association (LACERA) is an independent Los Angeles County agency that administers and manages the retirement fund for the County.

LACERA's Data Environment

LACERA gathers full personally identifiable information (PII) from county employees. Processing this sensitive information requires a collection of tools to run day-to-day operations. Those tools include:

- Data Management System
- Office Productivity Software
- Cloud Environment
- Intrusion Detection System (IDS)
- Intrusion Prevention System (IPS)
- Logging and Monitoring

IT Infrastructure

LACERA's environment is hosted in Pasadena, California. The environment is made up of the following technologies:

- Microsoft Windows
- Servers
- Web Application Servers
- Mainframe
- Databases

Top Risks

A total of nine risks were identified during the assessment. The following table outlines the number of risks by the Overall Risk Rating. The details for each risk can be found within the Risk Summary section of this report.

Overall Risk Rating	Risks Identified
Low	6
Moderate	3
High	0
Critical	0
Total	9

The following table shows the scored risks for LACERA across all areas of the assessment:

Rank	Area	Risk Name	C	V	P	C	R	Total
1	Process/Technology	Encryption Posture	1	2	2	4	2	11
2	Process	Formal Annual Security Awareness Training	2	2	2	3	2	11
3	Process	Internal Penetration Test Scope	2	2	3	2	2	11
4	Technology	Security Event Management & Logging Improvements	1	3	1	2	3	10
5	Process/Technology	Network Equipment Change Control Process	1	2	2	2	2	9
6	Process	Risk Management Improvements	1	2	2	2	2	9
7	Technology	Production Data in Testing/Staging Environment	1	1	2	3	2	9
8	Process	Lack of Tabletop Exercise for IRP	1	2	1	2	2	8
9	People/Process	Lack of Secure Code Training (Developers)	1	1	1	1	1	5

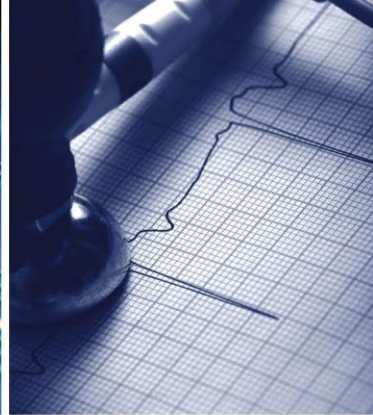
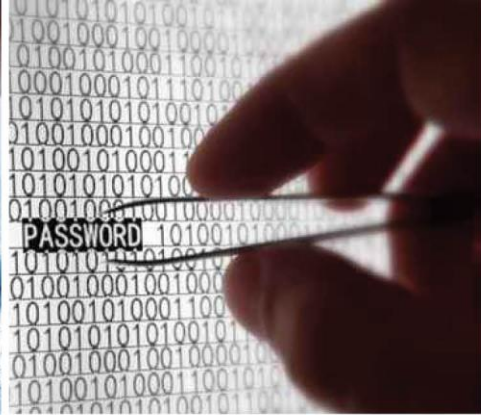
LACERA’s risk distribution can be considered moderate for the ranking of risks identified. A low number of risks were identified with three of the nine risks falling into the moderate measurement. Tevora recommends that efforts are performed to remediate all moderate ranked risks where feasible and move forward with implementing solutions for the low findings that were identified.

General Observations

Overall, discussions with the LACERA team members showed that the importance of information security was well understood. Information security concepts were found to be well understood and implemented at every level of the organization. While a security culture was found to be well imbedded, it was found that much of this culture was self-motivated by individuals rather than being managed and organized centrally by the organization. This can be accounted for due to the limited resources that LACERA must operate with. Due to this limitation, security has imbedded itself into most of the organizations practices, however under limited oversight and management to ensure that security objectives are being met in a consistent manner.

To address this concern, Tevora highly recommends that LACERA work to define and develop a dedicated information security department. At a minimum, this department should be headed up by an information security manager, or CISO, who would report directly to the CIO. This role would be responsible for ensuring that overall security objectives are being met as well as serving as a primary resource for internal information security consulting. Under this role, a few information security analysts are recommended to fulfill information security operation activities which include incident response management, vulnerability management, patch management and logging and monitoring responsibilities. This type of structure would help standardize information security across the organization, ensure that implementation of information security initiatives are consistent and provide the resources required to mature the LACERA information security program from a primary reactive state to a proactive state.

Also, it was noted that LACERA uses legacy operating systems on machines within their infrastructure. These machines are used for their internal printing solution. Although LACERA does not use these legacy operating systems elsewhere, Tevora recommends they develop a plan to migrate to current environments.



ATTACHMENT E

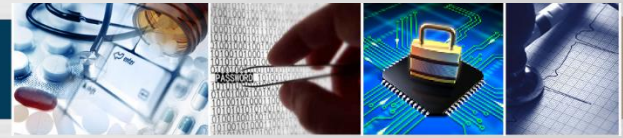
Final Privacy & Data Security Legal Compliance Assessment Report

Submitted by:

Dominique Shelton and Paula Stannard

October 2016

ALSTON & BIRD

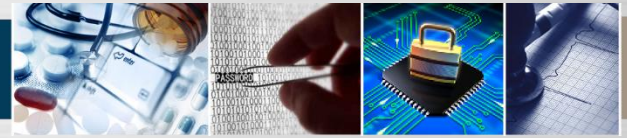


Privacy & Data Security Legal Compliance Summary of Report

Overall:

- LACERA has a culture that values privacy and accomplishes substantial compliance
- Legal landscape around privacy and data security
- Best practice recommendations



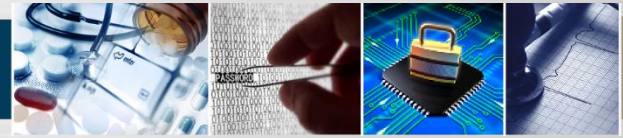


Privacy & Data Security Legal Compliance Summary of Report

HIPAA:

- Status of:
 - *LACERA's Retirement Pension Operations*
 - *LACERA's Disability Retirement Functions*
 - *Retiree Healthcare Program*
 - *LACERA's Retiree Health Care Division*
- HIPAA Recommendations/Best Practices

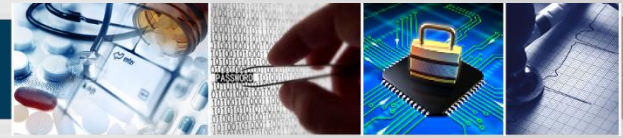




Privacy & Data Security Legal Compliance Summary of Report

- Best Practices vs. Laws
- General Privacy
 - *Website*
 - *Mobile*
- General Data Security
 - *Risk/Threat Landscape*
 - *Policies*
 - *Training*
- Business Critical
 - *Public Records Act*
 - *Policies*
 - *Training*

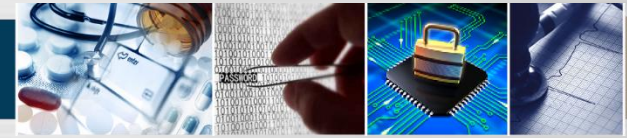




Alston & Bird's Methodology

To Assess LACERA's Policies, Procedures, and Practices, Alston & Bird:

- Conducted 54 interviews, encompassing 76 employees, all of LACERA's operating areas, and selected Board Members from LACERA's Board of Investments and Board of Retirement
- Reviewed 336 documents germane to LACERA's procedures and processes
- Identified 516 data points drawn from federal and state laws, enforcement orders, and government advisories, plus additional HIPAA legal metrics and performed a gap analysis of LACERA's practices against these points
- Shadowed LACERA employees in all divisions in their activities to trace the physical movement and storage of documents as well as to validate employee reports pertaining to the storage of electronic data



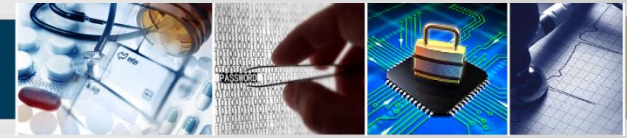
Stroz Friedberg's Deliverables

Work Completed:

- 19 final maps (including diagrams and accompanying summaries) delivered covering all of LACERA's operating areas

Map deliverables based upon Stroz Friedberg's:

- Interviews with approximately 60 employees across LACERA
- Analysis of Alston & Bird interview memos and materials provided by interviewees for additional details to cover as many sources as possible
- Shadowing/physical record validation covering all operating areas dealing with sensitive data, to observe physical security practices and the movement and storage of hard copy documents
- Collaborating with division managers and other LACERA personnel for input in creating detailed diagrams regarding LACERA's data processes
- Collaborating with Alston & Bird to ensure the requisite details for their legal analysis were included and to advise them of select observations of note throughout the interview and shadowing process



HIPAA Status & Compliance

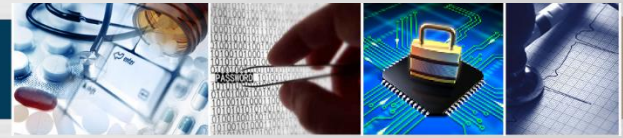
What is HIPAA?

HIPAA regulates Covered Entities and their Business Associates:

- Health Plans, Health Care Clearinghouses, Health Care Providers.
- Entities providing services to Covered Entities involving PHI

HIPAA focuses on the functions that make an entity a Covered Entity or a Business Associate:

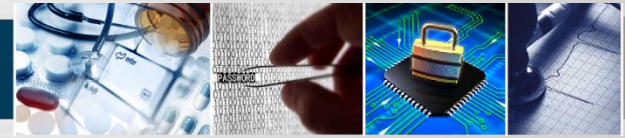
- Provide Health Care
- Pay for Health Care
- Provide services to/on behalf of a covered entity that involve PHI.
- Exceptions include:
 - *Enrollment services/enrollment assistance provided for/on behalf of individuals*
 - *Sponsors of Group Health Plans*



HIPAA Status & Compliance

HIPAA's Application to:

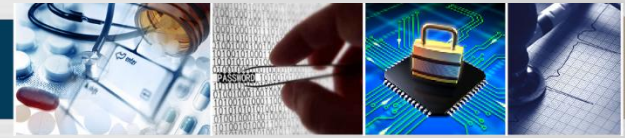
- LACERA's Retirement Pension Operations
 - *HIPAA Does Not Apply*
- LACERA's Disability Retirement Function (Disability Retirement Services, Disability Litigation Division, and Disability Counsel)
 - *HIPAA Does Not Apply*
- County Retiree Healthcare Program
 - *HIPAA Applies, but Does Not Affect LACERA*
- LACERA's Retiree Health Care Division
 - *HIPAA Does Not Apply, because LACERA Can Comply with the Plan Sponsor Exception*
- Why is LACERA's Status Under HIPAA Important?



HIPAA Status & Compliance

Recommendations/Best Practices:

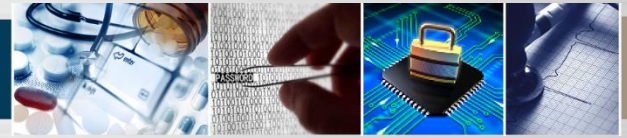
- Plan Sponsor Exception
 - *Appropriate RHC Plan Documents*
 - *Certification of Amendment and Agreement to Comply*
 - *Review and Update RHC Contracts*



HIPAA Status & Compliance

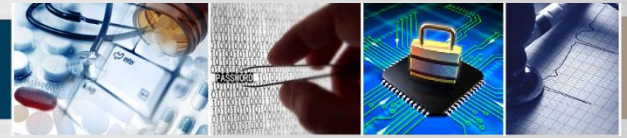
Additional Recommendations/Best Practices:

- Group Health Plan
 - *Notice of Privacy Practices*
 - *Privacy Rule Administrative Provisions*
 - *Security Rule*
- HIPAA Rules Policies and Procedures
- Documentation of Information Security Decisions
- Personal Representatives



HIPAA Status & Compliance

Questions?

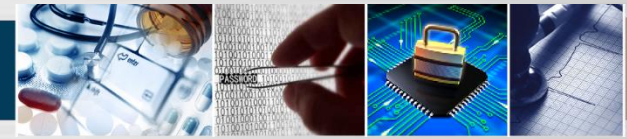


General Privacy & Data Security

Best Practices & Reasonable Security:

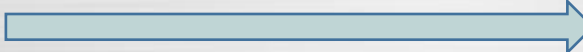
- Security Risk Assessment (SRA)
- Written Information Security Program (WISP)
- Written Policies
- Monitoring and Training



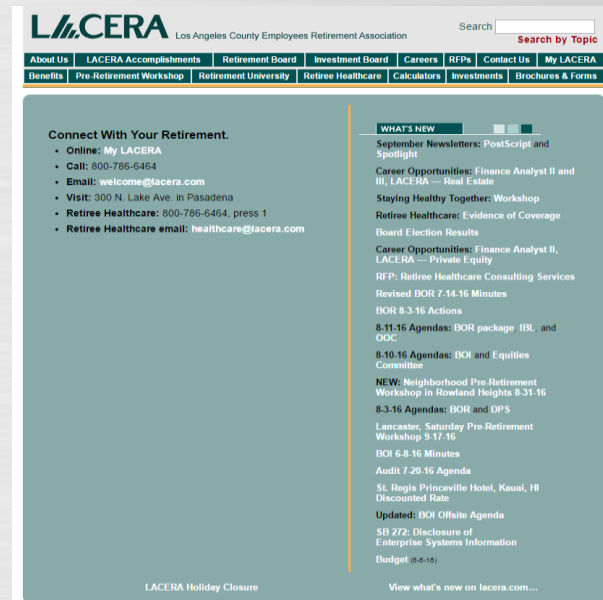


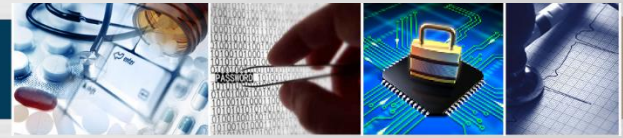
General Privacy – *In Depth*

Best Practices/Considerations:

- Website 

- Member Calls



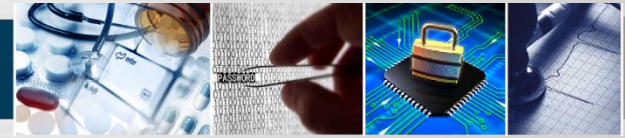


General Data Security – *In Depth*

SSN Recommendation:

- Employee ID Numbers or Other Unique Identifier

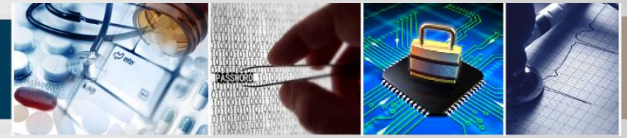




General Data Security – *In Depth*

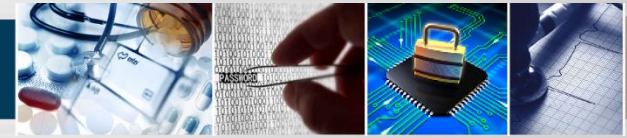
Other Best Practices

- Chief Privacy Officer
- Chief Information Security Officer
- Update Data Maps
- Incidents and Breaches
 - *Data Breach Response Plans*
(*Non-Technical vs. Technical*)
 - *Post-Incident Response*
(*Lessons Learned Process and Documentation*)
- Vendor Contracts & Management
- Role of the Legal Division
- Policy Updates and Staff Policy Committee
- Physical Security
(*Overall, Specific Divisions, Clean Desk Policy*)
- Monitoring
- Training
- Cyber Security Insurance



General Privacy & Data Security

Questions?

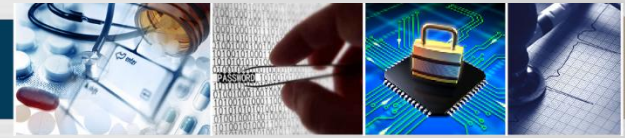


Business Critical Information - *Investments*

Best Practices/Considerations:

- Alston & Bird found good practices already in place in LACERA's Investment Office
- Additional Considerations



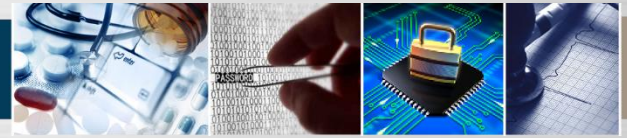


Business Critical Information - *Investments*

Best Practices:

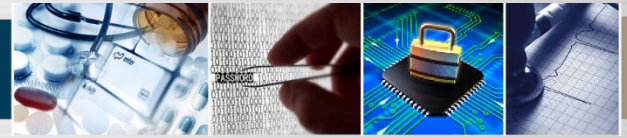
- Written Procedures for Complying with Public Records Requests
- Definition of “Business Critical Information” to LACERA
- Written Policies re: Confidentiality and Security
- Confidentiality Agreements with Service Providers and Investment Managers
- Accessibility
 - *Electronic records*
 - *Physical records*
- Training
- Closed Board Sessions
- Monitoring and Updating Policies



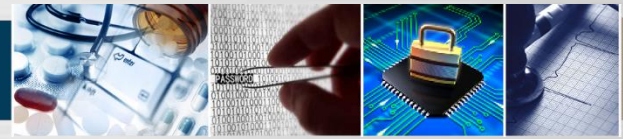


Business Critical Information - *Investments*

Questions?



*Thank you for the opportunity to
be of service to LACERA!*



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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**