

# LIVE VIRTUAL COMMITTEE MEETING



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**Attention:** Public comment requests must be submitted via email to [PublicComment@lacera.com](mailto: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, OCTOBER 21, 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](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 August 19, 2020

### III. PUBLIC COMMENT

(\*\*You may submit written public comments by email to [PublicComment@lacera.com](mailto: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](mailto: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 Kathryn Ton, Senior Internal Auditor and Nathan Amick, Internal Auditor: That the Committee review and discuss Corporate Credit Card Audit 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 October 5, 2020)

B. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Christina Logan, Senior Internal Auditor: That the Committee review and discuss the Executive Summary: Plante Moran Service Organizational Controls Readiness Assessment 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 September 21, 2020)

## V. REPORTS

- A. Strengthening the Audit Committee  
Richard Bendall, Chief Audit Executive  
Leisha Collins, Principal Internal Auditor  
Christina Logan, Senior Internal Auditor  
(Memo dated October 9, 2020)
- B. FYE 2021 Audit Plan Status Report  
Richard Bendall, Chief Audit Executive  
Leisha Collins, Principal Internal Auditor  
(Memo dated October 9, 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 October 9, 2020)
- D. Recommendation Follow-Up Report  
Richard Bendall, Chief Audit Executive  
Gabriel Tafoya, Senior Internal Auditor  
(Memo dated October 9, 2020)
- E. Real Estate Manager Compliance Reviews  
Richard Bendall, Chief Audit Executive  
Leisha Collins, Principal Internal Auditor  
Kathryn Ton, Senior Internal Auditor  
(Memo dated October 9, 2020)  
(For Information Only)
- F. LACERA External Financial Audit Update  
Richard Bendall, Chief Audit Executive  
Christina Logan, Senior Internal Auditor  
(Verbal Presentation)
- G. Staff Activity Report  
Richard Bendall, Chief Audit Executive  
(Verbal Presentation)

October 21, 2020

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## VI. CONSULTANT COMMENTS

Rick Wentzel, Audit Committee Consultant  
(Verbal Presentation)

## VII. GOOD OF THE ORDER

(For Information Purposes Only)

## VIII. 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](mailto: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., WEDNESDAY, AUGUST 19, 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

MEMBERS AT LARGE

Shawn R. Kehoe

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)

Gabriel Tafoya, Senior Internal Auditor

Nathan Amick, Internal Auditor

Kathy Delino, Interim System Division Manager

Summy Voong, Interim Assistant System Division 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 June 25, 2020.

Mr. Santos made a motion, Mr. Knox seconded, to approve the minutes of the Special Audit Committee meeting of June 25, 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 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)

IV. NON-CONSENT ITEMS (Continued)

Mr. Santos 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 approve KPMG LLP as Consultant to Conduct External Assessment of Internal Audit Recommendation Follow-Up Process. (Memo dated July 30, 2020)

Mr. Santos made a motion, Mr. Green seconded, to approve staff's recommendations. 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 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)

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

V. REPORTS

The following items were received and filed.



V. REPORTS (Continued)

- 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)

Mr. Bendall and Mrs. Collins were present to answer questions from the Committee.

- B. FY 2020-2021 Internal Audit Goals  
Richard Bendall, Chief Audit Executive  
Leisha Collins, Principal Internal Auditor  
(Memo dated July 30, 2020)

Mr. Bendall was present to answer questions from the Committee.

- 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)

Messrs. Bendall, Tafoya, and Schlofelt were present to answer questions from the Committee.

- D. Internal Audit Staffing Report  
Richard Bendall, Chief Audit Executive  
(Verbal Presentation)

Mr. Bendall was present to answer questions from the Committee.

VI. ITEMS FOR STAFF REVIEW

There were no Items for Staff Review.

VII. GOOD OF THE ORDER

There was nothing to report during Good of the Order.

## VIII. EXECUTIVE SESSION

### A. Performance Evaluation – CAE Goals Report [Pursuant to Government Code Section 54957(b)(1)]

Title: Chief Audit Executive

The Board met in Executive Session with staff with regard to the Chief Audit Executive's performance evaluation and goals report. There is nothing to report out.

## IX. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 10:54 a.m.



October 9, 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

Kathryn Ton   
Senior Internal Auditor

Nathan Amick   
Internal Auditor

FOR: October 21, 2020 Audit Committee Meeting

SUBJECT: **Corporate Credit Card Audit**

## RECOMMENDATION

In accordance with your current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the following engagement report to take 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.

## ENGAGEMENT REPORTS

- a. Corporate Credit Card Audit  
Kathryn Ton, Senior Internal Auditor  
Nathan Amick, Internal Auditor  
(Report issued: October 5, 2020)



**LACERA INTERNAL AUDIT DIVISION**

**CORPORATE CREDIT CARD AUDIT**

October 5, 2020

**AUDIT PERFORMED BY:**

Kathryn Ton, CPA, CFE  
*Senior Internal Auditor*

Nathan Amick, CIA  
*Internal Auditor*

## AUDIT REPORT

<b>Audit Name:</b>	Corporate Credit Card Audit
<b>Responsible Division:</b>	Financial and Accounting Services Division
<b>Audit Rating*:</b>	Opportunities for Improvement
<b>Prior Audit Rating*:</b>	Not Applicable
<b>Prior Report Date:</b>	February 25, 2019

## BACKGROUND

We reviewed LACERA's corporate credit card program as part of the Fiscal Year 2019-2020 audit plan. The corporate credit card program complements LACERA's overall purchasing strategy to procure goods and services over other methods such as direct payments, purchase orders, and contracts. We last performed a compliance audit of the program in Fiscal Year 2018-2019. An audit report was issued in February 2019 and we validated that the Financial and Accounting Services Division (FASD) had implemented our recommendations regarding quality control over cardholder transactions, updated language to the policy, and cardholder training by June 30 of last year. We are re-auditing this area to ensure continuing compliance with the Corporate Credit Card Policy.

The corporate credit card is a small component of LACERA's purchasing activities. LACERA's credit card expenditures totaled approximately \$551,000 across 16 divisions for the period from July 2019 through April 2020. This represents less than 0.6% percent of total expenditures for Fiscal Year 2019-2020 compared to LACERA's \$94.5 million operating budget. LACERA's largest credit card expenditures were by the Board Executive Assistants (40%), Human Resources (20%), and Administrative Services Division (15%).

The scope of this audit was limited to assessing compliance with the Corporate Credit Card Policy. Our audit scope included interviews with FASD management and staff, and compliance testing on a sample of credit card transactions.

Corporate credit cards are issued to division managers and certain administrative positions who have the appropriate purchasing authority within their divisions. Cardholders must save receipts for all credit card transactions. Personal use of the card is strictly prohibited. Credit card charges must be signed off by cardholders or their designated proxies and an approving manager each month on the Bank of America Online Payment System. In addition, cardholders are required to submit detailed expense reports to the FASD Disbursements Unit within five business days after month-end close. The FASD Disbursements Unit reconciles the credit card statements to the cardholders' expense reports and enforces the Policy when potential issues arise.

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\* See Appendix 1 for Audit Rating

## AUDIT OBJECTIVE AND SCOPE

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The audit objectives are to assess program compliance with LACERA's Corporate Credit Card Policy. The compliance areas reviewed for this audit include verification that:

- Cardholders are authorized for LACERA-issued credit cards.
- Transactions incurred are allowable expenses.
- Sufficient documentary evidence has been provided.
- Expense reports were submitted by the FASD-imposed deadlines.

The audit scope covers the 10-month period from July 2019 through April 2020 and involves:

- Discussions with FASD management and staff about administering the program.
- Review of LACERA's 2019 Corporate Credit Card Policy.
- Review of FASD's desk procedures.
- List of authorized cardholders and credit limits.
- Review of 27 cardholder agreements.
- Data analytics on cardholders' monthly credit card statements.
- Review of cardholders' monthly expense report submissions.
- Transactions testing to determine whether operations are performed according to established procedures.

The audit was performed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

## AUDIT RATING AND SUMMARY OF FINDINGS

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Overall, we found a significant improvement in both cardholder compliance with the Credit Card Policy and FASD's administration of the policy since our last audit. However, we did find some continued non-compliance by cardholders and further **Opportunities for Improvement** by FASD in administering the program and strengthening operational oversight and compliance.

### Summary of Findings

Ref.	Page	Findings	Risk Rating**
F1	5	Policy noncompliance.	Medium
F2	7	Unallowable purchases.	Medium
F3	8	Missing supporting documentation.	Low
F4	9	Informal procedures over terminated/returned credit cards.	Low

The above findings are detailed in the following pages, including our recommendations and management action plans.

We thank the Financial and Accounting Services Division for their cooperation with this audit.

## REVIEWED AND APPROVED

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\*\* See Appendix 2 for Finding's Risk Rating



Richard P. Bendall  
*Chief Audit Executive*

**Date:** October 5, 2020

**REPORT DISTRIBUTION**

2020 Audit Committee	Santos H. Kreimann, CEO	Ted Granger, Interim Chief Financial Officer
2020 Plante Moran Audit Team	J.J. Popowich, AEO	Internal Audit Group
Rick Wentzel, Audit Committee Consultant	Steven Rice, Chief Legal Counsel	

## FINDING #1

<b>Policy noncompliance.</b>	<b>Risk Rating</b>
	<b>Medium</b>

### OBSERVATION

Per the LACERA Corporate Credit Card Policy,

**Section 4.5** *“Each time a Corporate Card purchase is made, either at the point-of-sale or by telephone/Internet, documentation shall be retained as proof of purchase.”*

Based on our testing of the Corporate Credit Card Policy section 4.5, we identified the following:

- Of the 50 credit card purchases sampled and selected for testing, 3 (6%) of the purchases were missing the required support documentation (receipts).

**Section 4.6** *The Cardholder is required to enter the purpose of each expense in the “Note” section on the transaction page of the Bank of America's Online Works System. Examples of documenting the expense purpose:*

- *“Food ordered for December 2018 Brown Bag”*
- *“Parking to attend November 29, 2018 LA Women’s Leadership Conference”*
- *“Registration for 1/20/18 CALCPA webcast”*

Based on our testing of the Corporate Credit Card Policy section 4.6, we identified the following:

- Of the 50 credit card transactions selected for testing, 24 (48%) did not have the required note describing the purpose of each expense within the Bank of America's Online Works System.

**Section 4.6.1** *The Cardholder is responsible for submitting the accompanying receipts, along with the Corporate Card Program Submission of Supporting Documentation to FASD's Disbursements Unit within five (5) business days following each calendar month-end cycle.*

Based on our testing of the Corporate Credit Card Policy section 4.6.1, we identified the following:

- Of the 458 (100%) monthly *Corporate Card Program Submission of Supporting Documentation* submitted over the 10-month period from 7/1/2019 to 4/30/2020, 49 (19%) were submitted late. In some instances, receipts were submitted 6 months after the transaction date.

FASD has an internal process for notifying cardholders when there is noncompliance with the Policy; however, stronger controls should be implemented to prevent repeated noncompliance.

We also noted that FASD last provided training to cardholders in February 2019 but has not provided any training since then, including for new cardholders. FASD providing training for new cardholders, reminders to existing cardholders, and enforcing the Policy are critical to ensuring compliance.

### RISK

The risk of fraud, waste, and abuse increases when credit card purchases lack appropriate supporting documentation. Additionally, failure to ensure card holders understand, adhere to and are held accountable to the Policy may lead to further non-compliance.



## **RECOMMENDATION**

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FASD should:

- 1a. Ensure that cardholders submit all required supporting documentation in compliance with Policy sections 4.5, 4.6, and 4.6.1 by establishing a consistent and objective process for taking corrective action when cardholders are not compliant.
- 1b. Provide continuing training and/or reminders to existing cardholders and ensure that all new cardholders receive appropriate training on the Credit Card Policy.

## **MANAGEMENT'S RESPONSE**

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Management agrees with the observations noted. FASD makes noteworthy efforts to obtain required supporting documentation (receipts) through communication with the cardholders. FASD staff sends out an annual billing cycle schedule with supporting documentation due dates for the 12-month period. Also, monthly reminders are sent to cardholders when the monthly transaction cycle ends. When receipts are missing or have not been submitted, FASD staff follow-up with cardholders individually in an effort to retrieve the transaction documentation so the transactions can be included in the monthly closing process. Management believes it can enhance enforcement tools included in the Policy such as increased communication with cardholders, and escalation procedures for non-compliance. Credit card revocation can also be implemented taking into consideration potential business interruptions if and when recurring services under automatic billing are cancelled.

FASD believes a strong internal control structure involves the cardholder activities and cardholder behavior. Cardholders sign a Corporate Card Agreement which requires that cardholders submit necessary documentation to FASD at the end of each billing cycle. When cardholders do not submit documentation, FASD takes the actions and will use the additional methods identified above.

FASD will (1) establish an escalation process which may include credit card revocation, (2) report cardholder non-compliance to the Executive Office on a regular basis, and (3) provide a regularly scheduled training session to existing cardholders and an orientation session to new cardholders as needed.

## **TARGET COMPLETION DATE**

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December 31, 2020

## FINDING #2

Unallowable purchases.	<b>Risk Rating</b>
	<b>Medium</b>

### **OBSERVATION**

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Per the LACERA Corporate Credit Card Policy,

**Section 4.2** “...of this Policy, all goods and services must be obtained through the Administrative Services Division Procurement Unit. Examples of items that CANNOT be purchased by a LACERA Division with the Corporate Card (other than the Administrative Services Division Procurement Unit) ...#3. Software and IT Supplies”

Based on our testing of the Corporate Credit Card Policy section 4.2, we identified the following:

- Of the 50 credit card purchases sampled and selected for testing, we noted that the Systems Division made 4 software and domain hosting service purchases totaling \$556. Two of those purchases totaling \$353 were subsequently reclassified as Covid-19 disaster related.

While we are aware of discussions by management and the Executive Office in 2019 regarding changes to the Policy that would make these purchases allowable, no changes were incorporated into the Policy.

We also noted that FASD has an internal process for notifying cardholders when there is noncompliance with the Policy; however, stronger controls should be implemented to prevent repeated noncompliance.

### **RISK**

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Unallowable purchases without corrective action will result in continued noncompliance of the Policy.

### **RECOMMENDATION**

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2. FASD should ensure that cardholders comply with section 4.2 of the policy by establishing a consistent and objective process for taking corrective action when cardholders are not compliant.

### **MANAGEMENT’S RESPONSE**

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Management agrees with the observation that the purchases appear to be unallowable. Because the receipts were not submitted timely, additional details regarding the purchases could be not reviewed at that time. FASD has since suspended the cardholders’ accounts.

Management will facilitate a discussion with the Systems Division and Administrative Services so they can develop a process for handling recurring charges that complies with this Corporate Card Policy and the organization’s Purchasing Policy. FASD will (1) establish an escalation process which may include credit card revocation, (2) report cardholder non-compliance to the Executive Office on a regular basis, and (3) provide a regularly scheduled training session to existing cardholders and an orientation session to new cardholders as needed.

### **TARGET COMPLETION DATE**

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December 31, 2020

### FINDING #3

Missing supporting documentation.	<b>Risk Rating</b>
	Low

#### **OBSERVATION**

Per the LACERA Corporate Credit Card Policy,

**Section 4.3** “...In the event of a disaster, the Corporate Card may be used to purchase any goods and services as deemed necessary by the CEO, his/her designee, or the Director of the Recovery Management Team in LACERA’s best interest.”

In March 2020 at the onset of the Covid-19 pandemic, the Systems Division made a software purchase in the amount of \$7,900 for a product to support LACERA staff working remotely. As discussed earlier, the Systems Division also made two software purchases totaling \$353 that were subsequently reclassified as Covid-19 disaster related. We determined that these purchases were approved by Executive Management and are allowable per section 4.3 of the Policy.

However, section 4.3 also states the following:

**Section 4.3** “Within seven calendar days of the purchase, a completed description of the emergency and justification for the purchase must be documented, approved, and submitted to the Administrative Services Division Manager.”

Although the Executive Office was made aware of the purchase, the cardholder failed to submit the description of the disaster related purchase and justification for the said purchase to the Administrative Services Division. Due to the urgency of the Covid-19 situation and numerous other Covid-19 issues the Systems Division was tasked with resolving, the cardholder was remised in submitting the required documentation.

#### **RISK**

Without adherence to the proper reporting of disaster related purchases, there is a risk for unallowable purchases and potential card misuse and abuse.

#### **RECOMMENDATION**

3. FASD obtain documentation that Systems Division has notified Administrative Services of the disaster related purchases made on the credit card and submitted the required documentation.

#### **MANAGEMENT’S RESPONSE**

Management agrees with the observation. FASD has since suspended the cardholder’s account. FASD will follow-up with the System’s Division and request that System’s Division management submit the required approval documentation notifying Administrative Services of the disaster related purchase.

#### **TARGET COMPLETION DATE**

December 31, 2020

**FINDING #4**

<b>Informal procedures over terminated/returned credit cards.</b>	<b>Risk Rating</b>
	<b>Low</b>

**OBSERVATION**

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Per the LACERA Corporate Credit Card Policy,

**Section 6** *“Any changes in the Cardholder’s employment position must be immediately communicated to the Program Administrator. Prior to termination of employment, a Cardholder must immediately return to the Program Administrator the Corporate Card assigned to the Cardholder.”*

While we noted that two managers that retired during the period of the audit did in fact return their cards to the FASD Program Administrators who appropriately terminated the cards, the FASD Disbursements Unit credit card desk procedures do not address the card termination and destruction.

**RISK**

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Without clear procedures over the termination and destruction of credit cards, there is a risk of card misuse or fraud.

**RECOMMENDATION**

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4. FASD should update its desk procedures to account for the proper termination and disposal of returned cards.

**MANAGEMENT’S RESPONSE**

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Management agrees with the observation that there are no formal desk procedures regarding the termination and destruction of the credit cards, however, there is an administrative process in place to which Corporate Card Administrators are well versed. Once management and/or Corporate Card Administrators are notified of changes in the cardholder’s employment, the account is immediately suspended online so no additional activity or unauthorized charges can occur. The cardholder is contacted so the inactive credit card can be retrieved and destroyed.

FASD will update the desk procedures to include the existing process.

**TARGET COMPLETION DATE**

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December 31, 2020

## **APPENDIX 1 AUDIT RATING SCALE**

Internal Audit issues three standard audit report evaluations as defined below:

### **Satisfactory**

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

### **Opportunities for Improvement**

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

### **Unsatisfactory**

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks and the impact may be substantial in size or nature or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.

**APPENDIX 2**  
**FINDING'S RISK RATING SCALE**

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance, or reputational impact that the issue identified could have on LACERA.

<b>Rating</b>	<b>Financial</b>	<b>Internal Controls</b>	<b>Compliance</b>	<b>Reputational</b>	<b>Executive Management</b>
<b>High</b>	<p>Large financial impact to LACERA or members</p> <p>Actions not aligned with fiduciary responsibilities</p>	<p>Missing or inadequate key internal controls</p> <p>Not adequate to identify fraud, noncompliance or misappropriation</p>	<p>Noncompliance with applicable Federal or state laws or LACERA's policies</p>	<p>High probability for external audit issues and/or negative public perception</p>	<p>Important critical business process identified by Exec Office</p> <p>Requires immediate attention</p>
<b>Medium</b>	<p>Moderate financial risk to LACERA or members</p> <p>Actions could be better aligned with fiduciary responsibilities</p>	<p>Partial key internal controls</p> <p>Not adequate to identify noncompliance or misappropriation in timely manner</p>	<p>Inconsistent compliance with applicable Federal or state laws or LACERA's policies</p>	<p>Potential for external audit issues and/or negative public perception</p>	<p>Relatively important</p> <p>May or may not require immediate attention</p>
<b>Low</b>	<p>Low financial impact to LACERA or members</p>	<p>Internal controls in place but not consistently efficient/effective</p> <p>Implementing / enhancing controls could prevent future problems</p>	<p>General compliance with applicable Federal or state laws or LACERA's policies, but some minor discrepancies exist</p>	<p>Low probability for external audit issues and/or negative public perception</p>	<p>Lower significance</p> <p>Does not require immediate attention</p>



September 21, 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

Christina Logan   
Senior Internal Auditor

FOR: October 21, 2020 Audit Committee Meeting

SUBJECT: **Executive Summary: Plante Moran Service Organizational Controls  
Readiness Assessment**

## **BACKGROUND**

In October 2017, Los Angeles County (County) requested to change LACERA's Other Post-Employment Benefits (OPEB) plan structure from a multiple employer plan to an agent multiple employer plan beginning with fiscal year 2018-2019 (FY 2019). The County requested this new reporting structure to separate itself from the other employers and more effectively manage their own healthcare costs. The agent multiple employer plan's cost-sharing structure allows the County and other participating employers the benefit of pooling their assets for investment purposes in the OPEB Trust but while maintaining separate accounting records for their pay-as-you-go costs.

## **SERVICE ORGANIZATION CONTROLS – 1 (SOC -1) EXAMINATION**

With this change to an agent multiply employer plan, LACERA became a service organization as it provides OPEB services (paying premiums for health, vision, and dental insurance for retirees) to clients who have assets within a qualifying trust. LACERA's OPEB clients, include LACERA, Los Angeles County, and Los Angeles Superior Court. These clients and their respective financial auditors need to obtain additional audit evidence to ensure the specific OPEB amounts allocated to them is correct. This additional audit work was discussed and approved by the Audit Committee and Board of Retirement in June 2019 and December 2019, respectively.

For FY 2019 and 2020, LACERA elected to provide its clients and their financial auditors with a Census Attestation, which is an examination engagement of the census data's accuracy, submitted to LACERA's actuary. However, LACERA's management team elected to move to a SOC-1 Examination for FY 2021. The SOC-1 Examination provides assurance on the design and operating effectiveness of LACERA's system of internal controls around the preparation of OPEB financial statements. For the initial year, the SOC-1 Examination will be for a 9-month period, October 1, 2020 through June 30, 2021. At the conclusion of the period, Plante Moran (PM) will provide a report on the results of that examination which we will share with your Committee.

## **SOC READINESS ASSESSMENT**

In preparation for the SOC-1 Examination, LACERA engaged PM to perform a SOC Readiness Assessment in February 2020. Division managers from Retiree Healthcare, Benefits, Systems, Human Resources, and Financial & Accounting Services provided PM descriptions and walk-throughs of their respective control environments, in relation to the preparation of OPEB financial statements. PM then assessed the stated controls and overall control environment, and where deficiencies were identified, provided recommendations to be addressed.

## **RECOMMENDATIONS**

PM identified 10 recommendations to improve the internal control environment in relation to not only the preparation of OPEB financial statements, but LACERA's overall controls environment. PM did not provide a risk ranking for each recommendation but to ensure an unqualified opinion on the upcoming SOC-1 Examination report, each recommendation must be addressed within FY 2021.

Nine of the 10 recommendations are deemed sensitive to LACERA's information systems and/or security and have been categorized by Information Technology General Control (ITGC). 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. The following is a summary of the SOC Readiness Assessment 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.
- **3 Logical Access** recommendations– Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
- **1 System Development & Change Management** recommendations – 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.
- **1 System Monitoring & Maintenance** recommendations – 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.



The 10<sup>th</sup> recommendation was to improve Internal Audit's recommendation follow-up process, especially related to sensitive IT audit projects. In July 2020, Internal Audit enhanced its Recommendation Follow-Up process for all audit projects to more effectively track and report recommendations. In August 2020, Internal Audit revised the process to include sensitive IT projects and reporting to the Audit Committee.

## MANAGEMENT ACTION PLANS

Systems management has reviewed the nine recommendations and agrees with them. They have committed to addressing them within FY 2021, to ensure the SOC-1 Examination is successful. Internal Audit will add these nine recommendations to our database and will communicate the status of them to the Audit Committee using the Memo: Recommendation Follow-Up for Sensitive Information Technology Areas.

We would like to thank all the divisions who participated in the SOC Readiness Assessment.

## REVIEWED AND APPROVED



Richard Bendall  
*Chief Audit Executive*

Date: September 21, 2020

## MEMORANDUM DISTRIBUTION


2020 Audit Committee	Santos H. Kreimann, Chief Executive Officer	Kathy Delino, Interim Systems Division Manager
Internal Audit Group	J.J. Popowich, Assistant Executive Officer	Summy Voong, Interim Assistant Systems Manager
Rick Wentzel, Audit Committee Consultant	Steven Rice, Chief Legal Counsel	Bob Schlofelt, Chief Information Security Officer



October 9, 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

FOR: October 21, 2020 Audit Committee Meeting

SUBJECT: **Strengthening the Audit Committee**

Staff will provide the attached presentation, on Strengthening the Audit Committee, at the October 2020 Audit Committee meeting.

Attachments

RPB

# Strengthening the Audit Committee



Audit Committee  
October 21, 2020

# Strong Audit Committees

Why are strong audit committees important?

“Strong audit committees **build TRUST** and **CONFIDENCE** in how organizations are managed and strengthen independence of the audit activity.” IIA

How do you build a strong audit committee?

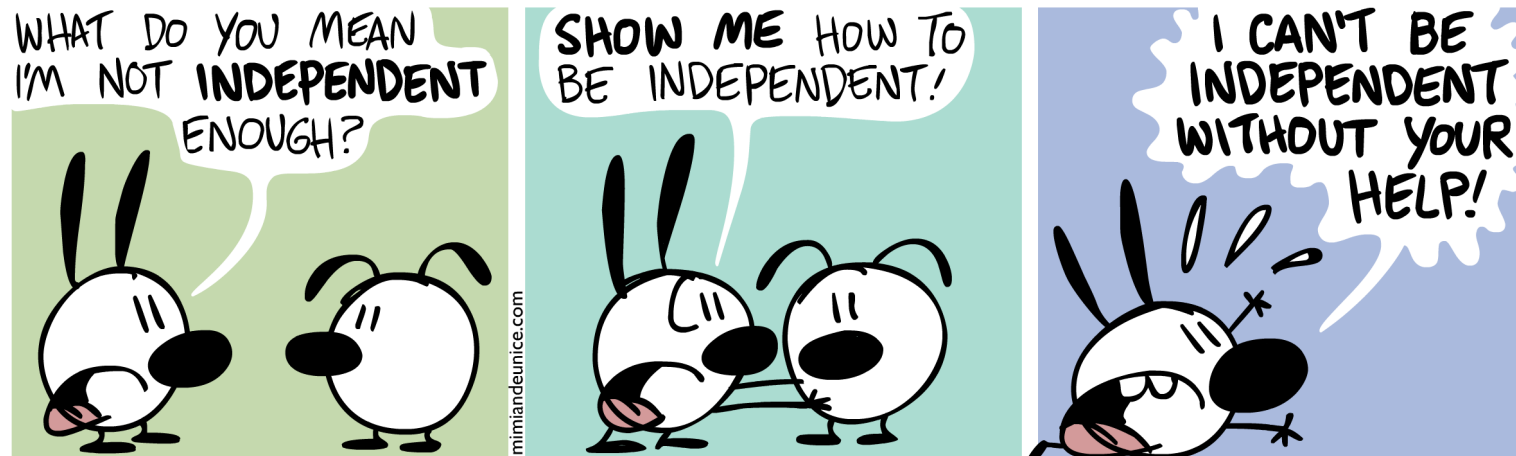
**“Accountability & Independence”** Grant Thornton



# Accountability & Independence

## Questions to Consider:

- What does accountability look like for audit committees?
- Who is the Audit Committee accountable to?
- How is Audit Committee accountability demonstrated?
  
- What does independence look like?
- What impairs independence?
- How do we ensure independence?



# Best Practice Guidance

Researched best practice guidance:

- Institute of Internal Auditors (IIA)
- Deloitte's Center for Board Effectiveness
- Grant Thornton's Not-For-Profit Audit Committee Guide
- KPMG's Audit Committee Guide
- PwC's Governance Insight Center



**Deloitte.**



# Evolving Expectations for Audit Committees

Sarbanes-Oxley Act of 2002

1. Appointing, monitoring, and compensating external financial auditor
2. Hiring of consultants / advisors within its scope of duties
3. Monitoring of Whistleblower and Corporate Ethics policies and procedures

Why were these changes made?



What was the goal?

**ACCOUNTABILITY & INDEPENDENCE**

# Evolving Expectations for Audit Committees

“The expectations of audit committees are higher than ever. Shareholders rely on audit committees to maintain oversight while keeping up with increasingly complex financial reporting requirements and a changing regulatory landscape. **Setting the appropriate tone at the top has never been more important for audit committees and boards as a whole.**” Deloitte

Today’s boards are increasingly being asked to up their game—by regulators, investors and proxy advisors. Audit committee **workloads are growing and often include overseeing complex areas such as cybersecurity.** PwC

“Audit committees play a **significant role in improving and providing transparency** around governance, risk management, and internal control practices of public sector organizations.” IIA



# Evolving Expectations for Audit Committees

“Independent Audit Committees help public sector organizations meet taxpayers’ increasing demands for **transparency and accountability** by providing oversight over the following management practices:”

Internal Audit Activity	External Assurance Providers	Values & Ethics	Organizational Governance
Financial Statements & Public Accountability Reports	Management Action Plans	Internal Controls Framework	Risk Management

“In addition to being independent from the organization, audit committee members are expected to:

- Conduct their work in a diligent and professional manner
- Demonstrate inquisitiveness, outspokenness, and courageousness
- Collectively be knowledgeable of finance and accounting, business, auditing, risk management, compliance, and information technology.” IIA

# Goal: Strengthen the Audit Committee

Based on the evolving expectations for audit committees, we created a phased approach to address these expectations and in turn strengthen the Audit Committee:

Phase	Description of Work	Status
1	<b>Identify, clarify, &amp; document new responsibilities</b> <ul style="list-style-type: none"><li>• Researched IIA Model Charter, best practices, and peer charters</li><li>• Revised Audit Committee Charter</li></ul>	Completed June 2020
2	<b>Determine how to address new responsibilities</b> <ul style="list-style-type: none"><li>• Researched IIA best practices and guidance, Public Accounting Firms guidance</li></ul>	In Process
3	<b>Implement changes</b>	January 2021
4	<b>Assess effectiveness of changes</b>	December 2021

# Phase 1: Identify, Clarify, & Document New Responsibilities

The Audit Committee Charter was revised and approved by the Audit Committee, Board of Retirement, and Board of Investments in June 2020 to address the new expectations.

Revisions included:

- Defining the “Principles of the Audit Committee”
- Aligning with Sarbanes-Oxley so the Committee approves the appointment of the Financial Auditor
- Clarifying the Committee’s “Responsibilities,” especially regarding “Values and Ethics” and “Organizational Governance”

# Phase 2: Determine How to Address New Responsibilities

## Collective Knowledge

### Expectation

1. “Collectively (be) knowledgeable of finance and accounting, business, auditing, risk management, compliance, and information technology.” IIA
2. Address emerging risks
3. Address evolving areas of responsibilities

### Best Practice Guidance

“To rise to these challenges, it is critical for audit committees to stay informed as the pace of change accelerates.” Deloitte

### Suggestion for Consideration

To increase accountability, develop an Annual Audit Committee Education Plan to address these expectations as an Audit Committee.

## Phase 2: Determine How to Address New Responsibilities

### Demonstrate Independence

#### Best Practice Guidance

“If the audit committee or its members are involved in making decisions, **its objectivity may be impaired**, which, in turn, may negatively impact its ability to remain independent.” IIA

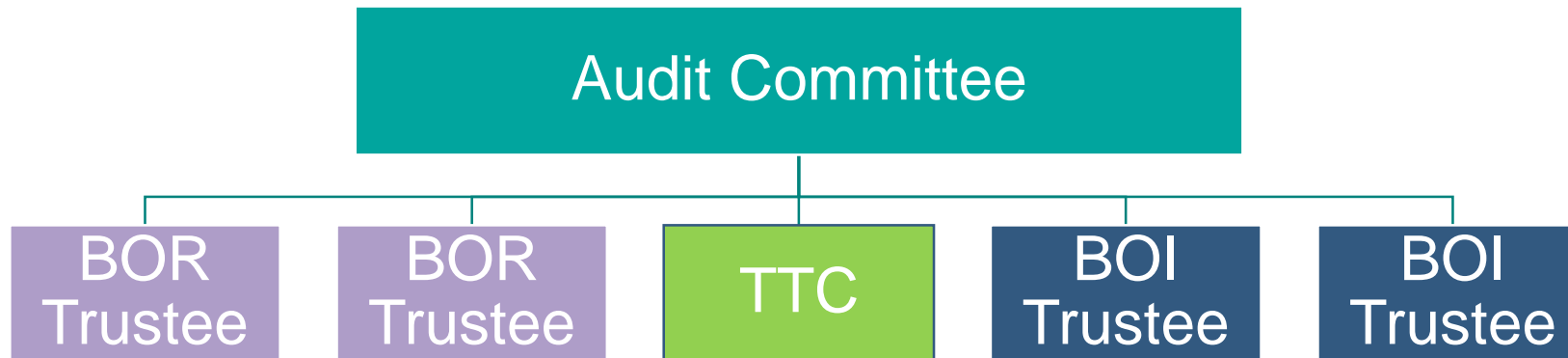
“Furthermore, in order for the Audit Committee to act as the conscience of the organization, it is important that it be independent of relationships that could compromise this integrity. Therefore, **it is best that no officers of the board serve on the audit committee...**” Grant Thornton

#### Suggestion for Consideration

To demonstrate independence, Audit Committee composition should exclude current Board officers.

# Phase 2: Determine How to Address New Responsibilities

## Audit Committee Composition



### Suggestion for Consideration

- Each Board will elect two trustees to participate on the Audit Committee
- Treasurer Tax Collector (TTC) will become a permanent member of the Audit Committee
  - ❖ Brings a solid business perspective of key operations: Internal Controls Administration, Banking, Finance, Investments and Information Technology


# Questions / Comments / Feedback






October 9, 2020

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

FROM: Richard P. Bendall   
Chief Audit Executive

Leisha E. Collins   
Principal Internal Auditor

FOR: October 21, 2020 Audit Committee Meeting

**SUBJECT: FYE 2021 Audit Plan Status Report**

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 developed the FYE 2021 Audit Plan (Audit Plan). The Audit Plan is designed to ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization.

The FYE 2021 Audit Plan consists of forty-three (43) projects in the areas of assurance, consulting, advisory and other Internal Audit activities. Two additional unplanned projects, requiring a substantial amount of staff resources were added to the Audit Plan, bring the total projects to forty-five (45). As of September 30, 2020, twenty-five (25) projects have been initiated and are in various stages of progress towards completion. The attached report contains the status on all projects undertaken including the estimated versus actual hours, and a brief description of the scope and objective of each project.

I would like to thank our team for all their hard work and the Audit Committee for your continued support of Internal Audit.



**INTERNAL AUDIT PLAN FYE 2021**

A description of each audit area is included in Exhibit A.

	<b>Audit Projects</b>	<b>Project Type</b>	<b>Est. Hours</b>	<b>Actual Hours</b>	<b>Status</b>
	<b>EXECUTIVE / LEGAL / ORGANIZATION</b>				
1	Audit Committee Composition	Advisory	150	122	In Progress
2	LA County Audit – Recommendation Oversight	Consulting	100	12	In Progress
3	Form 700 Compliance Audit	Assurance	200	17	Q2 Assignment
4	Fiduciary Review Planning	Advisory	250	-	Q3 Assignment
5	Business Continuity / Disaster Recovery	Assurance	300	4	Q4 Assignment
6	Ethical Cultural Assessment	Consulting	300		Q4 Assignment
7	SOC 1 Type 2 Engagement (External)	Assurance	400	11	In Progress
8	Governance, Risk, Ethics, Fraud, Compliance	Consulting	1000	23	Ongoing
9	Ethics Hotline & Investigations	Consulting	200	17	Ongoing
	<b>ADMINISTRATION</b>				
10	IT End-User Manual	Advisory	150	63	Completed
11	Penetration Tests (External)	Assurance	150	-	TBD
12	Contract Compliance / Third Party Data Security	Assurance	300	-	Q2 Assignment
13	Security Incident Management Review (External)	Assurance	100	3	Q2 Assignment
14	Privilege Access Review	Assurance	100	-	Q2 Assignment
15	Updated Inventory Process	Consulting	150	-	Q3 Assignment
16	Employee Salary Bonuses	Assurance	200	-	Q4 Assignment
17	Continuous Auditing Program - Administration	Assurance	500	2	In Progress
	<b>INVESTMENTS &amp; FASD</b>				
18	Accounts Payables	Assurance	150	122	In Progress
19	Corporate Credit Cards	Assurance	300	387	Report 10/5/2020
20	Investments Due Diligence	Assurance	400	25	Q2 Assignment
21	Oversight of Actuarial Services (External)	Assurance	150	75	In Progress
22	Oversight of Financial Audit (External)	Assurance	450	318	In Progress
23	Oversight of THC RE Financial Audits	Assurance	150	55	In Progress
24	Real Estate Manager Reviews	Assurance	200	118	In Progress
25	Custodial Bank Services	Advisory	100	-	Ongoing
26	Updated Wire Transfer Process	Advisory	150	-	Q4 Assignment
	<b>OPERATIONS</b>				
27	Death Legal Process Audit	Assurance	200	-	Q2 Assignment
28	LA County Rehired Retirees	Assurance	200	18	Q2 Assignment
29	Member Benefits Calculation Audit / Database	Assurance	300	-	Q2 Assignment
30	Quality Assurance Operations Review	Consulting	450	98	In Progress
31	Foreign Payee Audit	Assurance	150	-	Q3 Assignment
32	Governance, Risk, and Controls - Benefits	Consulting	400	-	Q3 Assignment
33	Governance, Risk, and Controls - RHC	Consulting	250	-	Q3 Assignment
34	Account Settlement Collections (ASC)	Advisory	150	-	Q4 Assignment
35	Continuous Audit Program - Operations	Assurance	500	178	In Progress
	<b>IA ADMINISTRATION PROJECTS</b>				
36	Audit Pool – RFP	Assurance	200	2	In Progress
37	TeamMate Optimization	Admin	100	135	In Progress
38	Annual Risk Assessment & Audit Plan	Assurance	300	137	Ongoing
39	External Quality Assessment Review	Admin	100	7	Q4 Assignment
40	Audit Committee Meeting/Support	Admin	300	109	Ongoing
41	Professional Development	Admin	250	59	Ongoing
42	Quality Assurance & Improvement Program	Admin	300	40	Ongoing
43	Recommendation Follow-Up	Assurance	250	208	Ongoing
	<b>UNPLANNED PROJECTS</b>				
44	KPMG Reco Follow-up	Admin	-	160	In Progress
45	Real Estate THC Deposit Review	Assurance	-	72	In Progress

**AUDIT PLAN FYE 2021**

The following table provides a description of each audit area included in the FYE 2021 Audit Plan.

	<b>Audit Projects</b>	<b>Description of Project</b>
<b>EXECUTIVE / LEGAL / ORGANIZATION</b>		
1	Audit Committee Composition	Review AC best practices and industry trends. Suggest and facilitate changes.
2	LAC Audit – Recommendation Oversight	Internal Audit provided oversight of the LA County audit and currently tracks and reports to the Exec Office the status of recommendations.
3	Form 700 Compliance Audit	Audit of Form 700s to assess Board and Staff compliance.
4	Fiduciary Review Planning (Year 1 of 2)	The planning phase of the review will be done in FY 2021. The purpose of review is to assess the effectiveness of LACERA governance and operations.
5	Business Continuity / DRP	Audit of BC plans to ensure they are complete, reviewed and approved, and staff has been trained on them. Participation in DR testing.
6	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.
7	Systems & Organization Change -1 (SOC 1) - Type 2	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.
8	Governance, Risk, Ethics, Fraud, Compliance	Working with Exec. Management to assess and guide LACERA's development of formalized governance, risks, ethics, fraud, and compliance programs.
9	Ethics Hotline & Investigations	Monitor and administer the Ethics Hotline. Provide AC summary of incidents.
<b>ADMINISTRATION</b>		
10	IT End-User Manual	Facilitate group meetings/discussion in the development of the IT End-User Manual.
11	Penetration Tests	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.
12	Contract Compliance / Third Party Data Security	Follow-up on Contract Management System audit from FY 2020, perform compliance testing of a broad sample of contracts, including a review of third-party data security.
13	Security Incident Event Management Review (SIEM) (External)	Review SIEM processes to ensure good practices exist for analyzing log-event data used to monitor threats and facilitate timely incident response.
14	Privilege Access Review / Segregation of Duties	Review the creation, monitoring, and maintenance of privileged access credentials for compliance with best practice guidelines.
15	Updated Inventory Process	Review the updated inventory control process for completeness and efficiency.
16	Employee Salary Bonuses	Audit of employee bonuses since management recently revised its process based on recommendations from the LA County's audit.
17	Continuous Automated Process (CAP) - Administration	CAP consists of testing transactions and information systems, provides continuous assurance in key areas of compliance, and includes fraud detection audits.
<b>INVESTMENTS &amp; FASD</b>		
18	Accounts Payables	Audit of accounts payables, payment vouchers, and ACH transactions for accuracy.
19	Corporate Credit Cards	Audit credit card usage to verify compliance with LACERA's Corporate Credit Card Policy.
20	Investments Due Diligence	Review due diligence practices relating to all asset classes for efficiency and effectiveness.

FYE 2021 Audit Plan Status Report

October 9, 2020

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	<b>Audit Projects</b>	<b>Description of Project</b>
	<b>INVESTMENTS &amp; FASD</b>	
21	Oversight of Actuarial Services	Internal Audit manages the relationship with the Actuarial Consultant and Auditor for services relating to actuarial projects.
22	Oversight of Financial Audit	Internal Audit manages the relationship with LACERA's external financial auditors for LACERA's annual financial statement audit.
23	Oversight of THC RE Financial Audits	Internal Audit manages the relationship with the real estate external auditors who perform the real estate THC financial audits.
24	Real Estate Manager Reviews (External)	External audit firms conduct real estate manager contract compliance and operational reviews on an as-needed basis.
25	Custodial Bank Services	Participating on a consulting basis with the Investments Office and FASD in operational improvements of custodial bank services.
26	Updated Wire Transfer Process	Participating on a consulting basis with the Investments Office and FASD in operational updates and improvements to the wire transfer process.
	<b>OPERATIONS</b>	
27	Death Legal Process Audit	Review Benefits, Member Services, and Legal divisions' processes for tracking and processing member death and legal split cases.
28	LA County Rehired Retirees	Audit of LA County's rehired retirees to ensure compliance with PEPRA.
29	Member Benefits Calculation Audit / Database	Audit member benefit calculations (on a risk basis) for accuracy and completeness.
30	Quality Assurance Operations Review	Review QA operations for auditing benefit transactions and reporting audit results.
31	Foreign Payee Audit	Periodic audit that confirms the living status of retirees living abroad.
32	Governance, Risk, and Controls Benefits Division	Working with division to gain a deeper understanding of its governance, risks, and controls.
33	Governance, Risk, and Controls RHC	Working with division to gain a deeper understanding of its governance, risks, and controls.
34	Account Settlement Collections	The audit will serve as a follow-up of management's progress in addressing areas of concern and deficiencies from the FY 2019 review.
35	Continuous Automated Process (CAP) - Operations	CAP testing is automated testing of LACERA's transactions and information systems. CAP provides continuous assurance in key areas of compliance and includes fraud detection audits.
	<b>IA ADMINISTRATION PROJECTS</b>	
36	Audit Pool – RFP	RFP for audit firms to assist with specialized audit work.
37	TeamMate Optimization	Working and training to re-configure internal audit software, TeamMate, for improved efficiency and effectiveness.
38	Annual Risk Assessment & Audit Plan	Updating Audit Universe, analyzing Risk Assessments, and developing Audit Plan.
39	External Quality Assessment Review	Working with an external independent reviewer for the required Quality Assessment Review.
40	Audit Committee Meeting	Preparation of Audit Committee materials and attendance at meetings.
41	Professional Development	Annual self-assessment, developing self-development program, and allocation of hours for annual training per staff.
42	Quality Assurance & Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA performance through periodic and ongoing internal self-assessments, client surveys, and communication of results to key stakeholders.
43	Recommendation Follow-Up	Quarterly review of outstanding recommendations.
	<b>UNPLANNED PROJECTS</b>	
44	KPMG Reco Follow-up	Staff time related to KPMG engagement to review IA Recommendation Follow-Up.
45	Real Estate THC Deposit Review	Incident follow-up to review internal controls.


RPB:lec




October 9, 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

Gabriel Tafoya   
Senior Internal Auditor

Christina Logan   
Senior Internal Auditor

FOR: October 21, 2020 Audit Committee Meeting

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

## **BACKGROUND**

As part of each Audit Plan, Internal Audit hires highly qualified technical consultants to conduct system and network security audits and assessments. Due to the confidentiality and sensitive nature of these engagements, at the conclusion of these types of engagements, Internal Audit provides the Audit Committee with an executive summary of the findings and recommendations. Like all recommendations, we track and monitor these in TeamMate, our internal audit management software, but we report on these recommendations at a summary level in this memo.

Currently, Internal Audit is monitoring recommendations from seven sensitive information technology (IT) engagements, detailed in Tables 1 and 2 on the following pages.

## **RECOMMENDATIONS STATUS**

As of July 2020, Systems Division Management (Systems) has been addressing all recommendations in a comprehensive and effective manner. Internal Audit and Systems are meeting monthly to review the status of open recommendations.

Recommendation Follow-Up for Sensitive Information Technology Areas

October 9, 2020

Page 2 of 5

**Table 1: Recommendations Status – By Audit Engagement**

Recommendation Status by Risk Level (High, Medium, Low)				
Engagement Name Report Date Recommendation Status by Risk Level:	In Progress	Implemented During Period	Completed in Prior Periods	Total # of Recos
PM SOC Readiness Assessment Feb 2020				
High	-	-	-	-
Medium	6	3	1	10
Low	-	-	-	-
Clear Skies Penetration Test and VeraCode Report March 2020				
High	1	-	-	1
Medium	25	-	-	25
Low	17	-	-	17
Net Force Engagement May 2019				
No Risk Levels	8	4	-	12
Tevora 2019 Penetration Test June 2019				
High	-	-	-	-
Medium	-	-	-	-
Low	3	2	-	5
Tevora 2019 Social Engineering Test May 2019				
No Risk Levels	1	-	-	1
Tevora 2018 Security Risk Assessment July 2018				
High	-	-	-	-
Medium	3	-	-	3
Low	6	-	-	6
Alston & Bird Privacy Audit (attorney- client privileged) October 2016				
No Risk Levels	5	1	1	7
<b>Total # Recos by Implementation Status</b>	<b>75</b>	<b>10</b>	<b>2</b>	<b>87</b>

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:

- The Executive Office hired a Chief Information Security Officer in August 2020 to help address many of the recommendations below. Internal Audit has met with him to review the open recommendations and he is formalizing plans to address several high priority items.
- 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 November 2020.
- Systems is working with Human Resources to formalize its Security Awareness Training by January 2021.
- Systems management has begun to address many of the Tavora and Clear Skies Penetration Tests recommendations through a re-design of LACERA.com and the development life cycle for the member portal. They expect to address most of the high and medium priority items by December 2020.

Recommendations which are listed as **Implemented During Period**, during the current period, Systems Management provided supporting documentation to substantiate their position, which Internal Audit reviewed and approved. A few significant recommendations that were completed during this period were:

- In September 2020, Systems revised its Mobile Device Management policy.
- In October 2020, an Information Security (InfoSec) End-User was approved. This was a joint project with Systems, Legal, Human Resources, and Internal Audit.

Recommendations which are listed as **Completed During Prior Periods**, were implemented during a prior period.

## **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. To provide additional insight into these sensitive recommendations, we categorized the recommendations from sensitive IT engagements into the following ITGC areas:

Recommendation Follow-Up for Sensitive Information Technology Areas

October 9, 2020

Page 4 of 5

ITGC	Description of control
<b>Data Backup and Recovery</b>	Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.
<b>Environmental</b>	Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
<b>Information Security</b>	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
<b>Logical Access</b>	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
<b>Physical Security</b>	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.
<b>System Development &amp; Change Management</b>	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.
<b>System Monitoring &amp; Maintenance</b>	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.

**Table 2: Recommendations Status – By IT General Control Areas (description table above)**

*IT General Control Areas	In Progress	Implemented During Period	Completed During Prior Periods	Total # Recos by Category
Data Back Up & Recovery	1	-	-	1
Environmental	-	-	-	-
Information Security	13	6	-	19
Logical Access	42	4	-	46
Physical Security	-	-	-	-
System Development & Change Management	3	-	-	3
System Monitoring & Maintenance	16	-	2	18
<b>Total # Recos by Implementation Status</b>	<b>75</b>	<b>10</b>	<b>2</b>	<b>87</b>

Recommendation Follow-Up for Sensitive Information Technology Areas

October 9, 2020

Page 5 of 5

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

RPB:gt:cl






October 9, 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

Gabriel Tafoya   
Senior Internal Auditor

FOR: October 21, 2020 Audit Committee

**SUBJECT: Recommendation Follow-Up Report**

During the audit process, Internal Audit may identify findings or make recommendations to address risks or improve a process. The responsible division manager and Assistant Executive Officer review the findings and recommendations, and then the division manager provides management responses indicating how and when planned improvements will be made. These findings, recommendations, and Management's responses are documented in our Findings Disposition Report (FDR) and included in the audit report.

The Institute of Internal Auditors' (IIA) Performance Standard 2500 requires the Chief Audit Executive (CAE) establish and maintain a follow-up process to monitor and ensure recommendations have been effectively implemented or executive management has accepted the risk of not addressing the finding.

Internal Audit tracks all recommendations through TeamMate, our audit management software, and follows up with Management to ensure recommendations are being addressed. Internal Audit is responsible for ensuring that Management's action plans have been effectively implemented, or in the case of action plans that have yet to be implemented, ensures that Management remains aware of the risks it has accepted by not taking action. On a quarterly basis, Internal Audit reports the status of all outstanding audit recommendations to the Audit Committee (Attachment A).

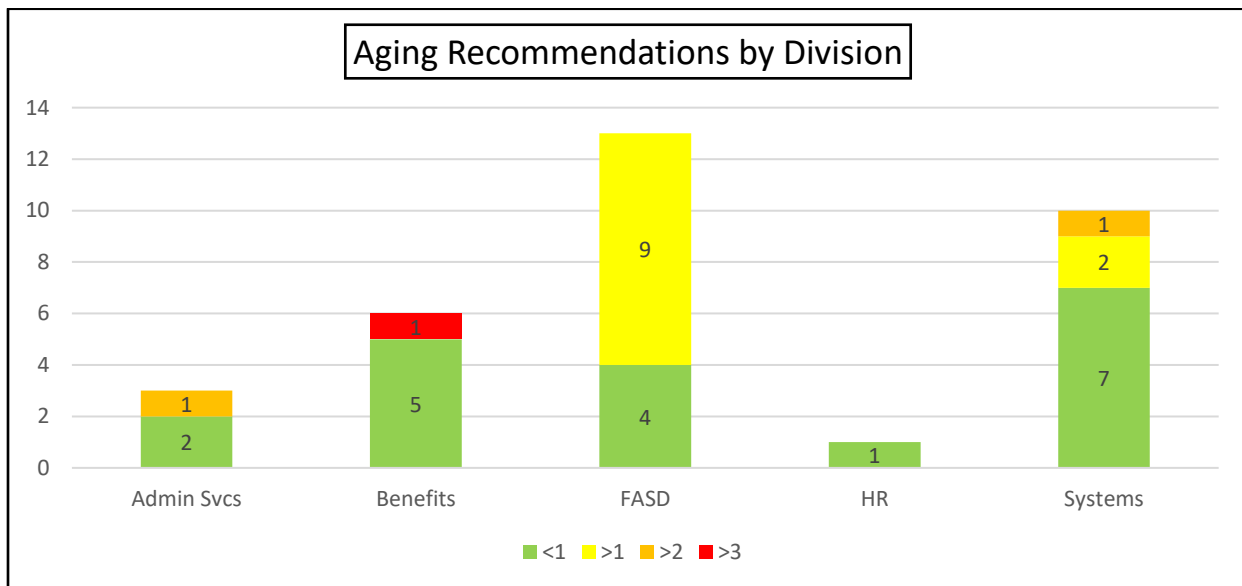
A breakdown of outstanding recommendations by Division is represented in the following matrix with activity since the August 2020 report to the Audit Committee.

	Admin Services	Benefits	FASD	HR	Investments	Systems	Total
Beginning	3	7	10	1	1	12	34
New	0	0	4	0	0	0	4
Implemented	0	-1	-1	0	-1	-2	-5
<b>Ending</b>	<b>3</b>	<b>6</b>	<b>13</b>	<b>1</b>	<b>0</b>	<b>10</b>	<b>33</b>

The current aging of recommendations is reflected in the following color-coded chart:

Internal Audit Issues Tracking	Status of Open Findings					Implemented Since Last AC Meeting
	< 1 Year	> 1 Year	> 2 Years	> 3 Years	Total Open	
	19	11	2	1	33	

The chart below presents this same aging of current outstanding recommendations by division:



We have verified with Management that all recommendations outstanding longer than two (2) years will be implemented by December 31, 2020.

Staff from the respective divisions will be present at the October 21, 2020 Audit Committee meeting to address any questions.

**Audit Recommendations Follow Up**

**Attachment A**

Project Name	Risk Area / Division	Finding	Risk Rating	Management Response	Responsible Party(s)	Responsible Division(s)	Original Implementation Date / Past Revision Dates	Current Status
<b>Administrative Services Division</b>								
Contract Monitoring Program	Administrative Services Division 6/19/2018	<p><b>Description of Finding:</b> One area that can be improved is the database management system used to track invoice payments, which is separate from the CMS. The Administrative Services Division uses a Microsoft Access database to monitor the cumulative balances paid to a vendor. These balances are tracked outside of Microsoft Great Plains, LACERA's accounts payables system. Using Microsoft Access creates additional work, because Administrative Services staff must re- enter information from the invoices into an Access database after the information was already entered by Financial and Accounting Services Division ("FASD") staff. FASD staff enters invoice information into Microsoft Great Plains in order to pay invoices.</p> <p><b>Recommendation:</b> Systems Division to work with Administrative Services to integrate Microsoft Great Plains with CMS where practical to minimize redundant work.</p>		<p><b>Original Management Response:</b> Systems Division agrees with the recommendation and will work with Admin Services to integrate Microsoft Great Plains with CMS where practical to minimize redundant work. The estimated date for implementing this recommendation is October 31, 2018.</p> <p><b>Current Status:</b> Administrative Services and Systems staff met and developed an implementation plan that will provide integration and reduced redundancy. Because of COVID-19 and new priorities, we expect to complete this project by 12/31/2020.</p>	Kimberly Hines, Administrative Services Division Kathy Delino, Systems Division Ted Granger, FASD	Administrative Services Division Systems Division	10/31/2018 6/30/2020	Pending 12/31/2020
Contract Management Audit	Administrative Services Division 6/11/2020	<p><b>Description of Finding:</b> Strengthen controls in the administration of the current CMS application.</p> <p><b>Recommendation:</b> 1a. Ensure that contract managers perform periodic reviews, at least quarterly, of data in the CMS for which they are responsible and confirm the accuracy of the data. 1b. Complete the intended implementation of the current CMS system's functionality by activating the direct email function of reminders/prompts from the CMS to contract managers. 1c. Provide comprehensive training to all division managers and their delegated contract managers.</p>	Medium	<p><b>Original Management Response:</b> Administrative Services will: 1a. Implement a quarterly review process with contract managers to confirm that the data in the CMS is accurate. 1b. Implement/activate the CMS functionality related to automatically sending email reminders/prompts to contract managers. 1c. Provide comprehensive training to all division managers and their delegated contract managers. Recommendations planned for completion by 12/31/2020</p> <p><b>Current Status:</b> On track with original Management response</p>	Kimberly Hines, Administrative Services Division	Administrative Services Division Systems Division	N/A	Pending 12/31/2020
Contract Management Audit	Administrative Services Division 6/11/2020	<p><b>Description of Finding:</b> Our survey of contract managers also identified a desire to enhance the current CMS application. Beyond the additional functionality that is planned for the existing system, a number of contract managers expressed interest in a more comprehensive system which includes features such as automated workflows to facilitate contract development and approvals, facilitation of contract compliance monitoring, and a system which connects contracts to LACERA's budgeting and payment systems for tracking and monitoring of contracts.</p> <p><b>Recommendation:</b> 2. Administrative Services should evaluate the needs of the contract managers and the organization, and provide a written report to the Executive Office with recommendations to enhance the current CMS application or a recommendation to seek another product that will meet LACERA's needs.</p>	Low	<p><b>Original Management Response:</b> Administrative Services will evaluate the needs of the contract managers and the organization. A written report with recommendations will be provided to the Executive Office with recommendations to either enhance the current CMS application or to seek another product that will meet LACERA's needs. Recommendation planned for completion by 11/30/2020</p> <p><b>Current Status:</b> On track with original Management response</p>	Kimberly Hines, Administrative Services Division Kathy Delino, Systems Division	Administrative Services Division Systems Division	N/A	Pending 11/30/2020

Benefits Division								
Member Minor Survivor Compliance	Benefits Division 6/29/2016	<p><b>Description of Finding:</b> We identified three instances where LACERA staff did not obtain one of the required documents prior to paying the minor survivor. Specifically, we noted: Two instances where the minor's account did not have a birth certificate on file. One instance where the minor's account did not have a claim form on file. We also noted that staff did not have desk procedures to determine which documents were required to determine the minor's eligibility.</p> <p><b>Recommendation:</b> We recommend that the Benefits Division develop a procedural manual, provide staff additional training, and improve the review and approval process to ensure all required documents for minor survivor payees are valid and on file prior to payments being initiated.</p>		<p><b>Original Management Response:</b> The Benefits Division Process Management Group and the Special Benefits Services Section is currently developing the documented procedures and training material to address the recommendation to provide staff additional training, and improve the review and approval process to ensure all required documents for minor survivor payees are valid and on file. Procedures and training materials will be created and implemented by June 30, 2017, approximately.</p> <p><b>Current Status:</b> We consider and have verified that this recommendation has been completed as of 9/30/2020. Desk procedures and training on the new procedures have been completed. Since automation is not part of this recommendation, this is deemed to be completed. The automation portion will be addressed as a follow-up item.</p>	Bernie Buenafior, Benefits Division Kathy Delino, Systems Division	Benefits Division Systems Division	6/30/2017 11/9/2017 7/2/2018 2/14/2019 10/31/2019 6/30/2020 9/30/2020	Implemented 9/30/2020
Duplicate Member Payments	Benefits Division 1/19/2017	<p><b>Description of Finding:</b> To enhance the efficiency and effectiveness of the special payment approval process, we recommend that the Benefits Division work with the Systems Division to automate the remaining special payments processes that are currently approved manually. We also recommend that the Benefits and Systems Divisions work with Internal Audit during its development to help ensure that proper internal controls are designed into the automation process and that necessary data points are captured that will assist with post-transaction analytics and reporting.</p> <p><b>Recommendation:</b> 1. Benefits Division work with the Systems Division to automate the approval of those special payments processes where approvals are currently performed manually. 2. Benefits and Systems Divisions work with Internal Audit during its development to help ensure proper controls are designed into the automation process and that proper data points are captured that will assist with post-transaction analytics and reporting.</p>		<p><b>Original Management Response:</b> Automating the approval process for special payments is feasible; however, special payments are initiated from multiple sources in Workspace. Each source will need to be analyzed and then specifications developed and tailored to each individual source. As such, the approval process would need to be implemented in a phased approach. Internal Audit will be included in the implementation process to ensure proper controls and reporting. There are some significant organizational goals that need to be completed before this modification can be addressed. It is estimated that determining the requirements and the level of effort can begin in the next fiscal year, July, 2017. The results of the requirement gathering will be reported to management by December 31, 2017, so that the project can be prioritized.</p> <p><b>Current Status:</b> Systems is developing an automated process, similar to the Withdrawal Workspace process, to help manage and control this process. Systems will provide an updated status to Internal Audit on 10/31/2020, and anticipates a completion date of 11/30/2020.</p>	Bernie Buenafior, Benefits Division Kathy Delino, Systems Division	Benefits Division Systems Division	12/31/2017 10/31/2018 10/7/2019 6/30/2020 9/30/2020	Pending 11/30/2020
Benefits Exception Report Audit	Benefits Division 11/22/2019	<p><b>Description of Finding:</b> During our discussions with staff regarding their exception reports review procedures and as part of our report testing, we noted several instances where data on the exception reports lacked completeness, accuracy, and usefulness. Internal Audit performed a detailed review of records for at least one exception report in five of the six Account Integrity Services (AIS) and Special Benefits Services (SBS) teams, as the Benefits Protection Unit currently does not receive exception reports. Based on our analysis, we identified errors in each of the reports ranging from false positives, inaccurately classified records, missing time periods or unknown error types. Due to the completeness and accuracy issues as noted, in addition to the unknown error types printed on the reports, staff in AIS and SBS have determined that all records in an exception report would require validation, however time, resource constraints and competing priorities limited staffs' ability to consistently perform this function.</p> <p><b>Recommendation:</b> Benefits and Systems management should collaboratively implement a consistent process to evaluate exception reports data for completeness, accuracy, and usefulness. The process should include steps to maintain an inventory of current reports and error types and identify reports that have inaccurate or irrelevant data. This will enhance staff's understanding of the content in the exception reports and ensure information that management and staff rely upon to make judgments regarding member accounts are meaningful and does not negatively impact LACERA's fiduciary duty to maintain the fund.</p>		<p><b>Management Response:</b> Management agrees with the recommendation and will establish a system for routinely reviewing and, as needed, modifying systems-generated exception reports used by the Benefits Division. The Benefits Process Management Group will work in conjunction with LACERA's Compliance Office and Systems to address this challenge within the framework of LACERA's Compliance Program and LACERA's strategic vision. Management anticipates completing an evaluation of the key exception reports by June 30, 2020. Management also anticipates performing an ongoing analysis of exception reports as part of a future project to reengineer the application that produces the exception reports. The project is currently in the planning stage and is part of LACERA's long-term strategic plan.</p> <p><b>Current Status:</b> Process Management and Systems are implementing a new Exceptions Management System (EMS) which uses a three-pronged approach to address system data exceptions as follows: 1) Workspace work objects; 2) DB2 data warehouse; and 3) Member-centric Workspace Exceptions screens. In this system, Process Management will manage the systematic review and import of existing and proposed exception reports into the new EMS. They will monitor the EMS and conduct periodic reviews to ensure the reports in the EMS remain accurate, relevant and effective. The anticipated production launch date for this new EMS system is December 31, 2020.</p>	Bernie Buenafior, Benefits Division Kathy Delino, Systems Division	Benefits Division Systems Division	6/30/2020	Pending 12/31/2020

Benefits Exception Report Audit	Benefits Division 11/22/2019	<p><b>Description of Finding:</b> In addition to the exception reports that alert staff to errors in the automated batch jobs, other reports are routinely generated that identify certain instances where a member's account may need further staff review such as the "Missing Contributions," "Outlawed Checks" and "Deferred/Inactive Member" files. The "Missing Contributions" file contains members who could be underpaying their required contributions, while the "Outlawed Checks" file contains a listing of outstanding stale dated checks and the "Deferred/Inactive Member" file contains members who could potentially be required to take a minimum distribution for federal tax purposes. Per inquiry with staff in Account Settlement Unit, Internal Audit noted that due to competing priorities, false positive records as previously identified, time constraints, and limited staff resources, staff would often prioritize reviewing reports and processes that affect the on-time benefit payment for retired members over these reports. By doing so, there is an increased risk that significant errors are missed and not corrected which eventually become financially detrimental to our members. Internal Audit further noted, prior to our audit, the Benefits Division was already aware of the potential risk of not reviewing these reports and had already begun separate special projects to address the underlying issues in lieu of focusing on validating records in the exception reports. The Process Management Group (PMG) in Benefits is currently managing these special projects.</p> <p><b>Recommendation:</b> Benefits management should continue working with the PMG group to evaluate and refine the exceptions reports review process however, management should also consider developing a process that includes:</p> <ul style="list-style-type: none"> <li>a. Identifying a complete population of key reports and documenting the purpose of each report.</li> <li>b. Documenting LACERA's exposure to additional risks and liabilities associated with the information in those key reports.</li> <li>c. Defining procedures to consistently validate the completeness and accuracy for those reports when changes occur to business rules or the law.</li> </ul>	<p><b>Management Response:</b> Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Management anticipates completing this recommendation by June 30, 2020.</p> <p><b>Current Status:</b> As detailed under 1) above, the new Exceptions Management System includes the continuous monitoring and periodic review of exception reports. Planned for completion by 12/31/2020.</p>	Bernie Buenaflor, Benefits Division	Benefits Division	6/30/2020	Pending 12/31/2020
Benefits Exception Report Audit	Benefits Division 11/22/2019	<p><b>Description of Finding:</b> The Report Control Center (RCC) is the Benefits process for managing the large volume of reports that automatically print throughout the month. Staff assigned to the RCC are responsible only for collecting and sorting the printed reports, distributing them to the appropriate staff for review, and filing the reports that staff signed off. During our walkthrough of the RCC process, we observed that hard copies of the reports for the current and prior fiscal years are stored in locked cabinets in the Benefits Division suite due to the sensitive member data contained in each report. We confirmed that staff generally keep the cabinets locked at all times, including during normal business hours, and only a select number of staff have access to the cabinet keys. While this practice ensures that visitors and other employees who are not authorized do not inadvertently access sensitive information, we noted however that older RCC reports were exposed to such risks during the archiving process. RCC reports when archived to the basement of the building or off-site to Iron Mountain are placed into boxes that are not further secured and removed by staff in Administrative Services or the vendor.</p> <p><b>Recommendation:</b> Benefits management should review and establish retention cut-off dates in the Report Control Center (RCC) to ensure that reports are destroyed after a certain time period to mitigate any potential information security risks. Benefits should also perform an inventory of currently stored reports and destroy reports no longer needed.</p>	<p><b>Management Response:</b> Management agrees with the recommendation and will enforce LACERA's document retention policies in the Report Control Center (RCC). Management has instructed staff to work with the Records and Information Management (RIM) Unit to compile an inventory of all stored reports by December 31, 2019 and destroy reports no longer needed by March 31, 2020.</p> <p><b>Current Status:</b> As detailed under 1) above, the new Exceptions Management System will phase out the use of hard copy reports. In the meantime, Report Control will enforce LACERA's established records retention policies. Planned for completion by 12/31/2020.</p>	Bernie Buenaflor, Benefits Division	Benefits Division	3/31/2020	Pending 12/31/2020
Benefits Exception Report Audit	Benefits Division 11/22/2019	<p><b>Description of Finding:</b> To determine timely deletion of obsolete or invalid exception reports, Internal Audit requested a listing of all current, retired, and transferred staff in both the Account Integrity Services and Special Benefit Services groups and a list of all reports sent those individuals. We noted two employees, who retired from LACERA during the first quarter of 2019, were still listed as active recipients. We noted a contributing factor for the error was the lack of documented policies and procedures for consistently reviewing exception report content, report recipients and notifying Systems when a report was obsolete or a user should stop receiving a report. Prior to our audit, the Benefits Division had recognized the need to develop procedures for cleaning up the high volume of exception reports sent to the Division and currently has plans to work with Systems to define an appropriate process going forward. We should also note that the two retired staff members Internal Audit identified have since been removed from the active recipient lists for those reports.</p> <p><b>Recommendation:</b> Benefits and Systems management should implement a formal periodic review process to evaluate exception reports data and recipients and establish policies and procedures to delete obsolete exception reports and recipients. A formalized review process, policies and procedures would help ensure that reports continue to assist the business unit achieve its operational objectives, obsolete reports are deleted timely and recipients only receive reports commensurate with their job responsibilities.</p>	<p><b>Management Response:</b> Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Management anticipates defining the review process, policy and procedures, as well as implementing this recommendation by June 30, 2020.</p> <p><b>Current Status:</b> As described under 1) above, reports will be vetted and updated before input into the new EMS, and will be reviewed periodically thereafter. Planned for completion by 12/31/2020.</p>	Bernie Buenaflor, Benefits Division	Benefits Division	6/30/2020	Pending 12/31/2020

Benefits Exception Report Audit	Benefits Division 11/22/2019	<p><b>Description of Finding:</b> Internal Audit noted during our discussions as well as during our sample report testing, several instances where exception reports containing hundreds of pages of data as well as numerous cover pages automatically print. One report in particular contained over 450+ pages and was configured to print twice a month while another report that printed daily had a total of 69 pages of which 38 contained cover page type information such as report name, recipient and database name. Per inquiry with staff in the Report Control Center as well as other areas that receive automatically printed reports, we noted that Benefit's staff have dedicated portions of their day to ensure the printers had paper at all times and that all exception reports pages were collected and sorted. Furthermore, Systems helpdesk staff would often automatically replace the ink and toner for those printers on a set schedule.</p> <p><b>Recommendation:</b> Benefits and Systems management should collaboratively work to determine if all hard copy reports can be limited to electronic copy and allow staff to print only the reports and/or pages of the report that are needed.</p>	<p><b>Management Response:</b> Management agrees with the recommendation and will consider these factors as it establishes a system for managing the exception reports. Benefits management anticipates completing an evaluation of the hard copy exception reports and Systems management has confirmed it is ready to convert those reports to electronic copies at the direction of Benefits by June 30, 2020.</p> <p><b>Current Status:</b> As detailed under 1) above, the new Exceptions Management System will phase out the use of hard copy reports and ensure that exceptions are handled as efficiently as possible. Planned for completion by 12/31/2020.</p>	Bernie Buenaflor, Benefits Division	Benefits Division	6/30/2020	Pending 12/31/2020
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Financial Accounting Services Division (FASD)								
Board and Staff Education & Travel	Financial Accounting Services Division 6/20/2019	<p><b>Description of Finding:</b> Audit test work identified areas where travelers did not follow Policy and related payment processes: pre-approval of educational conference, lodging upgrades, reimbursement of meal per diems, and ground transportation.</p> <p><b>Recommendation:</b> FASD management should assess the need to obtain missing documentation and/or recover amounts from travelers for noncompliant transactions that were identified during the audit.</p>		<p><b>Original Management Response:</b> Management concurs with the recommendation. FASD management will have staff review the audit exceptions, and follow-up with travelers to obtain missing documentation and/or recover any amounts owed, as applicable, due to non-compliant transactions.</p> <p><b>Current Status:</b> FASD, Exec Management, and Legal met to discuss the cost benefit of pursuing past recoveries. The decision was made to focus on improving future compliance. We verified this and consider this recommendation to have been addressed and completed as of 9/30/2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	1/31/2020	Implemented 9/30/2020
Board and Staff Education & Travel	Financial Accounting Services Division  6/20/2019	<p><b>Description of Finding:</b> Audit test work identified areas where travelers did not follow Policy and related payment processes: pre-approval of educational conference, lodging upgrades, reimbursement of meal per diems, and ground transportation.</p> <p><b>Recommendation:</b> Management should periodically provide training to the Boards and staff on the Policy to ensure travelers and approvers are aware and compliant with the Policy requirements.</p>		<p><b>Original Management Response:</b> Management concurs with the recommendation. FASD will work with the Executive and Legal Offices to schedule Travel Policy training for the Boards and staff at least annually or when the Policy is revised.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	6/30/2020 9/30/2020	Pending 12/31/2020
Board and Staff Education & Travel	Financial Accounting Services Division  6/20/2019	<p><b>Description of Finding:</b> Audit test work identified areas where travelers did not follow Policy and related payment processes: pre-approval of educational conference, lodging upgrades, reimbursement of meal per diems, and ground transportation.</p> <p><b>Recommendation:</b> To be consistent with the section "Authorized Expenses" (705.02) of the Policy, that expenses should be "reasonable and necessary," Boards and management should: a. Revise the Policy to reflect current economical transportation services, like public transportation, taxis, or ride-share services. The Policy should still require the traveler to provide written justification for using an upgraded ground transportation service if used. b. Update the Policy to address if and when the use of an executive car service is acceptable.</p>		<p><b>Original Management Response:</b> Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	1/31/2020 9/30/2020	Pending 12/31/2020
Board and Staff Education & Travel	Financial Accounting Services Division 6/20/2019	<p><b>Description of Finding:</b> FASD does not have a complete physical or electronic file for each travel event but instead maintains several platforms of information; a binder with all approved conferences and related agendas, a corporate credit card database, and Great Plains, a financial and accounting software system. Not having a complete file for each travel event decreases the effectiveness of the review process, an operational risk. Furthermore, incomplete travel files makes it more difficult for FASD to provide accurate numbers on the Travel Reports.</p> <p><b>Recommendation:</b> To improve the effectiveness and efficiency of FASD's review process, FASD should provide instructions for the Travel Expense Voucher (payment request), so travelers can provide a complete travel file.</p>		<p><b>Original Management Response:</b> Management concurs with the recommendation. FASD will update the Travel Expense Voucher to include clear written instructions for completing the document.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	6/30/2020 9/30/2020	Pending 12/31/2020
Board and Staff Education & Travel	Financial Accounting Services Division 6/20/2019	<p><b>Description of Finding:</b> FASD does not have a complete physical or electronic file for each travel event but instead maintains several platforms of information; a binder with all approved conferences and related agendas, a corporate credit card database, and Great Plains, a financial and accounting software system. Not having a complete file for each travel event decreases the effectiveness of the review process, an operational risk. Furthermore, incomplete travel files makes it more difficult for FASD to provide accurate numbers on the Travel Reports.</p> <p><b>Recommendation:</b> To improve the effectiveness and efficiency of FASD's review process, FASD should work with the Systems Division and the Executive Office to explore solutions that would allow travelers to upload and allocate travel receipts, and that would allow FASD to review and store complete travel files in a central location.</p>		<p><b>Original Management Response:</b> Management concurs with the recommendation. FASD held preliminary discussions with the Systems Division and the Executive Office to evaluate the feasibility of implementing a travel receipt capture and storage tool.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	6/30/2020 9/30/2020	Pending 12/31/2020



Board and Staff Education & Travel	Financial Accounting Services Division 6/20/2019	<p><b>Description of Finding:</b> Quarterly Travel Reports did not accurately reflect the travel expenditures for a traveler's trip. In addition to the inaccuracies that Internal Audit identified, we learned from discussions with FASD, the Executive Board Assistants, and the Legal Office that the FY 2018 Quarterly Travel Reports were significantly revised for inaccurate reporting of travel expenditures before a public data request was fulfilled. Based on discussions with FASD, many of the inaccuracies in the Reports were caused by having a key member of FASD's Disbursements Unit out of the office for the majority of the year, and not having a complete travel file, as discussed in the prior section.</p> <p><b>Recommendation:</b> To improve the accuracy of the Quarterly Travel Reports, FASD should instruct travelers on providing a complete travel file, and work with the Systems Division and the Executive Office to explore having traveler's upload and allocate travel receipts to a central location.</p>		<p><b>Original Management Response:</b> Management agrees with the recommendation. FASD will provide instructions for complete travel files to travelers. In addition, FASD held preliminary discussions with the Systems Division and the Executive Office to evaluate the feasibility of implementing a travel receipt capture and storage tool.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	6/30/2020 9/30/2020	Pending 12/31/2020
Board and Staff Education & Travel	Financial Accounting Services Division 6/20/2019	<p><b>Description of Finding:</b> The current Policy does not clearly address the definition of administrative travel, how administrative meetings should be categorized, or if administrative travel should count towards a Board member's annual conference limit. Staff excluded administrative travel from the annual conference limits. Staff consistently applied this interpretation to all Board members and all Travel Reports have reflected this interpretation since July 2014. However, during our audit, we noted stakeholders were unclear if staff's interpretation of the Policy was correct. The Policy should be revised to more clearly address "Administrative Travel."</p> <p><b>Recommendation:</b> To strengthen the Policy, the Boards and management should revise the Policy to clarify "Administrative Travel" to define controls regarding when administrative travel is authorized, if there is a limit to administrative travel, and how administrative travel should be categorized for Board members.</p>		<p><b>Original Management Response:</b> Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	1/31/2020 9/30/2020	Pending 12/31/2020
Board and Staff Education & Travel	Financial Accounting Services Division 6/20/2019	<p><b>Description of Finding:</b> Per the Policy, local educational conferences are conferences where there is no common carrier travel and lodging is under \$1,500, and these conferences should not be counted towards the annual 8/12 conference limit. We observed that it is difficult to categorize which conferences should be considered "local educational conferences", not subject to the 8/12 limit, as this determination needs to be made for each traveler's individual travel expenditures. We reviewed the 4th Quarter FY 2018 Travel Report, and noted that staff had categorized several trips as "local educational conferences" but these trips included either airfare or lodging was over \$1,500.</p> <p><b>Recommendation:</b> To ensure conferences are consistently and accurately categorized, conference limitations are applied, and to assist Board members in planning their educational conferences, Boards and management should revise the Policy to provide a standardized definition of "local educational conferences" – for example, limiting these to Los Angeles County, Southern California, or a set distance from LACERA.</p>		<p><b>Original Management Response:</b> Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	1/31/2020 9/30/2020	Pending 12/31/2020
Board and Staff Education & Travel	Financial Accounting Services Division 6/20/2019	<p><b>Description of Finding:</b> We reviewed industry best practices, compared other public pension funds' education and travel policies and if available, published travel reports, and recent media articles regarding travel by governmental agencies. In our assessment of the current Policy, we noted it does not have an overarching educational strategy that focuses on developing and improving key skills that fiduciaries generally need.</p> <p><b>Recommendation:</b> To improve the effectiveness and adequacy of the Policy, Boards and management should:</p> <p>a. Review the Clapman report's education policy for a template of best practices.</p> <p>b. Consider adopting an organizational-wide educational strategy and incorporating the "Trustee (Fiduciary) Knowledge Self-Assessment." Texas Teacher Retirement System and CalSTRS have both hired a consultant to assess the organizations' requirements and preferences and to provide guidance in developing an effective educational strategy.</p> <p>c. Consider working with LACERA's Training Coordinator to develop a process to create a stakeholder's educational plan, monitor the broader educational needs of the Board for in- house training opportunities, and review and evaluate educational conferences.</p>		<p><b>Original Management Response:</b> Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	1/31/2020 9/30/2020	Pending 12/31/2020



Board and Staff Education & Travel	Financial Accounting Services Division 6/20/2019	<p><b>Description of Finding:</b> Internal Audit analyzed the costs of registration, airfare, and lodging, for the last four fiscal years to gain a better understanding of the increase in Board education travel expenditures. Based on the analysis, the cost of airfare has sharply increased, and we believe LACERA's airfare costs could be reasonably reduced. We observed from our testing that refundable tickets were purchased for some travel events. Since the current Policy does not address if or when purchasing refundable tickets is allowed, the purchases were not out of compliance with the Policy. However, since refundable tickets are often two to three times the cost of non-refundable tickets, it seems inconsistent with the Policy's general commentary on Attachment A of the Policy, "Travelers are encouraged to schedule travel in a way that minimizes LACERA's travel expenses." Additionally, we noted that prudent procurement practices, such as comparing prices among at least three airlines flying to the destination, modifying dates and times of travel, and prohibiting Board members from limiting their travel to one specific airline, are not encouraged or enforced.</p> <p><b>Recommendation:</b> To reduce LACERA's total airfare costs, Boards and management should: a. Re-evaluate the use of business class airfare. b. Evaluate stronger enforcement of prudent procurement practices as described above, including prohibiting the purchase of refundable tickets.</p>		<p><b>Original Management Response:</b> Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.</p> <p><b>Current Status:</b> Based on the JT Board meeting on Wednesday, September 30th and our discussion today with CEO, Chief Legal Counsel, Interim CFO, and CAE, we will address these recommendations with the Mosaic recommendations. The tentative plan is to first address developing an Education Policy that is more principle based, and then secondly on addressing Travel Procedures. The target implementation date will be December 31, 2020.</p>	Ted Granger, FASD	Financial Accounting Services Division	1/31/2020 9/30/2020	Pending 12/31/2020
Corporate Credit Card Compliance	Financial Accounting Services Division 10/05/2020	<p><b>Description of Finding:</b> Section 4.5 "Each time a Corporate Card purchase is made, either at the point-of-sale or by telephone/Internet, documentation shall be retained as proof of purchase." Based on our testing of the Corporate Credit Card Policy section 4.5, we identified the following: •Of the 50 credit card purchases sampled and selected for testing, 3 (6%) of the purchases were missing the required support documentation (receipts). Section 4.6 The Cardholder is required to enter the purpose of each expense in the "Note" section on the transaction page of the Bank of America's Online Works System. Based on our testing of the Corporate Credit Card Policy section 4.6, we identified the following: •Of the 50 credit card transactions selected for testing, 24 (48%) did not have the required note describing the purpose of each expense within the Bank of America's Online Works System.  Section 4.6.1 The Cardholder is responsible for submitting the accompanying receipts, along with the Corporate Card Program Submission of Supporting Documentation to FASD's Disbursements Unit within five (5) business days following each calendar month-end cycle.  Based on our testing of the Corporate Credit Card Policy section 4.6.1, we identified the following: •Of the 458 (100%) monthly Corporate Card Program Submission of Supporting Documentation submitted over the 10-month period from 7/1/2019 to 4/30/2020, 49 (19%) were submitted late. We also noted that FASD last provided training to cardholders in February 2019 but has not provided any training since then, including for new cardholders. FASD providing training for new cardholders, reminders to existing cardholders, and enforcing the Policy are critical to ensuring compliance. <b>Recommendation:</b> 1a. Ensure that cardholders submit all required supporting documentation in compliance with Policy sections 4.5, 4.6, and 4.6.1 by establishing a consistent and objective process for taking corrective action when cardholders are not compliant. 1b. Provide continuing training and/or reminders to existing cardholders and ensure that all new cardholders receive appropriate training on the Credit Card Policy.</p>	Medium	<p><b>Original Management Response:</b> FASD will (1) establish an escalation process which may include credit card revocation, (2) report cardholder non-compliance to the Executive Office on a regular basis. Recommendations planned for completion by 12/31/2020</p>	Ted Granger, FASD	Financial Accounting Services Division	N/A	Pending 12/31/2020
Corporate Credit Card Compliance	Financial Accounting Services Division 10/05/2020	<p><b>Description of Finding:</b> Section 4.2 "...of this Policy, all goods and services must be obtained through the Administrative Services Division Procurement Unit. Examples of items that CANNOT be purchased by a LACERA Division with the Corporate Card (other than the Administrative Services Division Procurement Unit) ...#3. Software and IT Supplies" Based on our testing of the Corporate Credit Card Policy section 4.2, we identified the following: •Of the 50 credit card purchases sampled and selected for testing, we noted that the Systems Division made 4 software and domain hosting service purchases totaling \$556. Two of those purchases totaling \$353 were subsequently reclassified as Covid-19 disaster related. <b>Recommendation:</b> FASD should ensure that cardholders comply with section 4.2 of the policy by establishing a consistent and objective process for taking corrective action when cardholders are not compliant.</p>	Medium	<p><b>Original Management Response:</b> Management will facilitate a discussion with the Systems Division and Administrative Services so they can develop a process for handling recurring charges that complies with this Corporate Card Policy and the organization's Purchasing Policy. FASD will (1) establish an escalation process which may include credit card revocation, (2) report cardholder non-compliance to the Executive Office on a regular basis, and (3) provide a regularly scheduled training session to existing cardholders and an orientation session to new cardholders as needed. Recommendations planned for completion by 12/31/2020</p>	Ted Granger, FASD	Financial Accounting Services Division	N/A	Pending 12/31/2020

Corporate Credit Card Compliance	Financial Accounting Services Division 10/05/2020	<p><b>Description of Finding:</b> Section 4.3 "Within seven calendar days of the purchase, a completed description of the emergency and justification for the purchase must be documented, approved, and submitted to the Administrative Services Division Manager."</p> <p>cardholder failed to submit the description of the disaster related purchase and justification for the said purchase to the Administrative Services Division. Due to the urgency of the Covid-19 situation and numerous other Covid-19 issues the Systems Division was tasked with resolving, the cardholder was remised in submitting the required documentation.</p> <p><b>Recommendation:</b> FASD obtain documentation that Systems Division has notified Administrative Services of the disaster related purchases made on the credit card and submitted the required documentation.</p>	Low	<p><b>Original Management Response:</b> Management agrees with the observation. FASD has since suspended the cardholder's account. FASD will follow-up with the System's Division and request that System's Division management submit the required approval documentation notifying Administrative Services of the disaster related purchase. Recommendations planned for completion by 12/31/2020</p>	Ted Granger, FASD	Financial Accounting Services Division	N/A	Pending 12/31/2020
Corporate Credit Card Compliance	Financial Accounting Services Division 10/05/2020	<p><b>Description of Finding:</b> Section 6 "Any changes in the Cardholder's employment position must be immediately communicated to the Program Administrator. Prior to termination of employment, a Cardholder must immediately return to the Program Administrator the Corporate Card assigned to the Cardholder."</p> <p>While we noted that two managers that retired during the period of the audit did in fact return their cards to the FASD Program Administrators who appropriately terminated the cards, the FASD Disbursements Unit credit card desk procedures do not address the card termination and destruction.</p> <p><b>Recommendation:</b> FASD should update its desk procedures to account for the proper termination and disposal of returned cards.</p>	Low	<p><b>Original Management Response:</b> FASD will update the desk procedures to include the existing process. Recommendations planned for completion by 12/31/2020</p>	Ted Granger, FASD	Financial Accounting Services Division	N/A	Pending 12/31/2020

Human Resources Division								
Timekeeping Audit	Human Resources Division 11/22/2019	<p><b>Description of Finding:</b> LACERA does not have a standard set of timekeeping policies or procedures. Human Resources (HR) management is responsible for designing control activities through formal policies and procedures that are written, dated, and signed. It would reduce potential risks such as inaccurate hours being recorded in the eHR system, inaccurate pay codes used for leaves or absences, and most importantly, inaccurate payroll.</p> <p><b>Recommendation:</b> HR should develop formal timekeeping policies and procedures to promote consistency and compliance within LACERA. This includes understanding which Los Angeles County human resources laws and policies are applicable to LACERA.</p>		<p><b>Original Management Response:</b> Management agrees with the recommendations. Human Resources Division developed a draft timekeeping policy and procedures along with a draft guide to timesheet coding and submission that is pending release of the new employee handbook. The estimated completion date is March 31, 2020.</p> <p><b>Current Status:</b> HR Division has developed a formal timekeeping policy that is in the process of being reviewed and approved. The estimated completion date for the implementation of this audit recommendation is 12/31/2020.</p>	Carly Ntoya, Human Resource Division	Human Resources Division	3/31/2020 7/31/2020	Pending 12/31/2020

Investments Division									
Securities Lending	Investments Division 5/30/2018	<p><b>Description of Finding:</b> In an April 2017 memorandum to the Board of Investments, management expressed the need to periodically rebid the securities lending program as a good measure. It is good a practice to understand the fee implications of using third-party lending agents and the impact on program cost and performance. During our review, we observed two cases when LACERA incurred additional costs for using GSAL as a third-party lending agent. Even though LACERA incurred additional costs for using GSAL as a third-party lending agent, it would be difficult to quantify or contend that LACERA is better off using a single lender over multiple third-party lenders. LACERA may benefit from un-bundling each SSB service offering and pricing it individually. In doing so, management can understand the costs-benefits its of using third- party agents, and determine the best course of action for LACERA and the program going forward.</p> <p><b>Recommendation:</b> Investments Office to assess the fee implications of working with third-party agents to provide securities lending services.</p>		<p><b>Original Management Response:</b> Subject to BOI approval, Staff anticipates issuing an RFP for securities lending services in fiscal year 2018/2019, and that search will include an assessment of all related fees, including for third-party agents.</p> <p><b>Current Status:</b> We consider and have verified that this recommendation has been completed as of 7/30/2020. At its June 10, 2020 meeting, under Agenda Item XI.A.2, the Board again met in closed session under Government Code Section 54956.81. A motion was moved and seconded, and the Board unanimously voted to engage State Street as LACERA's sole securities lending agent. State Street previously was responsible only for lending non-US equities, US Treasuries, and US agency securities. As a result of the Board's action, LACERA's agreement with Goldman Sachs Agency Lending for securities lending services for corporate bonds and domestic equities will terminate, and State Street will also have responsibility for these lending activities in addition to continuing with its prior areas of responsibility.</p>	Jon Grabel, Investments Division	Investments Division	6/30/2019 3/31/2019 11/30/2020	Implemented 7/30/2020	

Systems Division								
Data Backup/ Retention Testing	Systems Division 2/14/2018	<p><b>Description of Finding:</b> Recent technology upgrades of desktops computers and server systems rely upon live interface to Cloud Services, operating and email systems. Recovery of these services at a remote processing facility has not been tested in conjunction with recovery of LACERA's core membership system.</p> <p><b>Recommendation:</b> Perform a recovery exercise of mission critical operations at a remote location as soon as practical to validate recovery procedures and capture learnings for potential disruptions.</p>		<p><b>Original Management Response:</b> Mission critical membership payroll, accounting and investment data processing functions will be replicated offsite in a disaster recovery scenario during the fourth calendar quarter of 2018.</p> <p><b>Current Status:</b> Currently, fundamental systems can be recovered. The Boulder backup site is unchanged and communications can be established from the Mesa backup site location or hotel depending on needs. Data Backup testing will depend on when social distancing eases/location resources re-open. Currently, the Boulder, CO site is closed due to COVID. Testing is scheduled to be completed by 1/31/2021.</p>	Kathy Delino, Systems Division	Systems Division	12/31/2018 7/31/2018 9/30/2020	Pending 1/31/2021
Member Applications Change Control	Systems Division 10/30/2018	<p><b>Description of Finding:</b> We noted that there were no management reports available for use to monitor or detect changes to application code deployed to the production system. In a well-controlled Change Management environment, administrative reports are used to monitor the movement of application code changes thru development to final production status. These reports help ensure necessary testing, documentation, provisioning and authorizations occurred, and changes to systems are introduced in a controlled and coordinated manner.</p> <p>Management has established segregation of responsibilities for application code changes and relies upon staff to follow established code development, testing and management approval review procedures prior to presenting application code changes to other responsible staff for promoting to production. However, historically, due to staffing shortages, some staff have had the ability to develop and promote code into production potentially without management oversight. This situation presents a risk that erroneous or malicious code could be introduced into production without detection.</p> <p><b>Recommendation:</b> Systems Division management should develop a system generated report for monitoring changes in application code. Management review of this report should ensure code changes deployed into production are appropriate and approved.</p>		<p><b>Original Management Response:</b> We plan to develop a system generated Deployment Monitoring Report that will identify any instances when code is deployed into production. Management plans to complete an analysis and evaluation to determine if feasible based on current project priorities and resources. This evaluation is planned for completion by the end of June 2019, and if feasible will be planned for implementation by the end of December 2019.</p> <p><b>Current Status:</b> Systems has hired a full-time staff person to address completion of this recommendation. Planned for completion by 12/31/2020.</p>	Kathy Delino, Systems Division	Systems Division	12/31/2019 6/30/2020	Pending 12/31/2020
Member Applications Change Control	Systems Division 10/30/2018	<p><b>Description of Finding:</b> A formal policy does not exist to provide guidelines for granting staff administrator access and system management privileges.</p> <p><b>Recommendation:</b> The Systems Division management should develop a formal Administrator Access Policy that applies to staff who are granted "Administrator" access on LACERA's systems, and management of privileged group membership.</p>		<p><b>Original Management Response:</b> Systems Division management should develop a formal Administrator Access Policy that applies to staff who are granted "Administrator" access on LACERA's systems, and management of privileged group membership.</p> <p><b>Current Status:</b> Currently, we have provided the Systems division Roles policy to Internal Audit. The supplement policy titled "Privileged Access Policy" will address this recommendation for closure. The CISO plans to review and sign off on this policy and procedures. Planned for completion by 11/30/2020.</p>	Kathy Delino, Systems Division	Systems Division	6/30/2019 2/28/2020 9/30/2020	Pending 11/30/2020
Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> LACERA currently has four (4) separate mobile device policies, with three (3) designated for staff (one iPad Policy and two versions of a cell phone policy) and one (1) general mobile device policy specifically for Trustees. After reviewing the policies, we determined the policies were incomplete, outdated and did not include the following:</p> <ul style="list-style-type: none"> <li>Type of information or devices permitted to access organizational information including standards and criteria for mobile device security, issuance, and management.</li> <li>Guidelines and standards defining the authorization, purchasing, maintenance, inventory process, and disposing of mobile devices.</li> </ul> <p><b>Recommendation:</b> 1. Systems Division management should develop a comprehensive and consolidated organizational mobile device management policy to be approved by the Executive Office. The policy should include the following:</p> <ul style="list-style-type: none"> <li>Data classification or information security standards that govern the level of security settings configured on each device.</li> <li>Device monitoring requirements that includes regular assessments of mobile devices for excessive, personal, reimbursable or exception usage.</li> <li>Documented cost control monitoring and follow-up.</li> <li>Device issuance, specification, configuration and returns standards that align with business need criteria and job-related duties and functions.</li> </ul>	High	<p><b>Original Management Response:</b> Management agrees with the recommendation and plans to complete implementation by September 30, 2020. The Systems Division created a draft Wireless Policy and Procedures document in February 2020 in response to the LA County audit. The finalization of the policy and procedures has been delayed as the result of the COVID-19 pandemic; however, Systems will review that policy and include items from this recommendation.</p> <p><b>Current Status:</b> A policy and procedures document titled "Mobile Device Management Policy and Operating Standards" has been developed, approved, and signed off by Systems and Exec Office management. We consider and have verified that this recommendation has been completed as of 9/30/2020.</p>	Kathy Delino, Systems Division	Systems Division	9/30/2020	Implemented 9/30/2020

Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> LACERA has over 270 mobile devices, consisting of 140 laptops, notebooks or netbooks, and 130 smartphones, tablets, and wireless hotspots. Administrative Services registers all laptops, notebooks, and netbooks in the Great Plains Fixed Asset Register. However, prior to October 2019, mobile phones and tablets were not recorded or tracked in Great Plains per prior Executive Office direction. Systems internally tracked those assets separately using excel spreadsheets. Per review of Systems' internal listings, we noted Systems had not completed a physical inventory, including spare, vacant, or test devices. Our review further identified areas to strengthen segregation of duties and controls around the mobile device inventory process.</p> <p><b>Recommendation:</b> 3a. Systems Division management create a current mobile device master listing that includes all active, inactive, vacant, and test devices issued by LACERA. Systems work with Administrative Services to record all mobile devices in Great Plains. 3b. Administrative Services and Systems management develop and implement a control-based mobile device inventory process. The process should include:</p> <ul style="list-style-type: none"> <li>• Require execution of a formalized and documented annual inventory that includes active, inactive, vacant, and test devices.</li> <li>• Documented responsibility for mobile device inventory asset accountability and tracking, device master listing maintenance, asset reconciliations and verification counts.</li> </ul>	High	<p><b>Original Management Response:</b> Management agrees with the recommendations and plans to complete implementation by December 31, 2020. The Systems Division plans to continue maintaining the mobile device master listing outside of Great Plains to ensure appropriate recording of device information such as inactive, vacant, and test statuses. However, Systems will work with Administrative Services to ensure changes to the master listing are timely updated in Great Plains by Administrative Services. Recommendations planned for completion by 12/31/2020</p> <p><b>Current Status:</b> On track with original Management response</p>	Kathy Delino, Systems Division	Systems Division	N/A	Pending 12/31/2020
Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> LACERA does not register all organization issued mobile devices to the respective MDM tools. Specifically, we noted approximately 20 mobile phones or tablets were not registered to MaaS360, and only 21 of 138 laptops were registered to Intune.</p> <p><b>Recommendation:</b> 4. Systems Division management define the organizational mobile device management (MDM) registration policy to be approved by the Executive Office. This should include documented exceptions to the policy, if any, approved by the Executive Office.</p>	Medium	<p><b>Original Management Response:</b> Management agrees with the recommendation and plans to complete implementation by October 31, 2020. Systems Division management will work with the Executive Office to define the appropriate organizational MDM registration policy for all devices including spare or test devices. Recommendations planned for completion by 10/31/2020</p> <p><b>Current Status:</b> On track with original Management response</p>	Kathy Delino, Systems Division	Systems Division	N/A	Pending 10/31/2020
Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> We observed that Systems has six (6) different security configurations in the IBM MaaS360 tool; for example, a unique configuration for Board iPads, staff iPads, staff iPhones vs. test iPhones, etc. Generally, Systems Division management is also focused on security and while they may have created these configurations with specific intent, it was not defined and documented. Further, we compared the settings against LACERA's Unsafe Computer Practices Policy, Federal standards as defined by the National Institute of Standards and Technology (NIST), and industry best practices. Our analysis determined that functions were not restricted within the various configurations to ensure compliance with LACERA's Unsafe Computer Practices Policy.</p> <p><b>Recommendation:</b> 5a. Systems management in conjunction with the Executive Office define organizational baseline mobile device management (MDM) usage and security configurations to strengthen device security. This should include limiting or restricting any high-risk functions with documented exceptions to the policy. 5b. Establish periodic review of policy settings to ensure they remain current with industry standards and best practices.</p>	Medium	<p><b>Original Management Response:</b> Management agrees with these recommendations and plans to complete implementation by October 31, 2020. The Systems Division evaluates security considerations in all implementation decisions and will work with the Executive Office to ensure appropriate operations objectives are met during this process.</p> <p><b>Current Status:</b> Planned for completion by 10/31/2020.</p>	Kathy Delino, Systems Division	Systems Division	N/A	Pending 10/31/2020

Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> LACERA adopted a standard of using and deploying Apple devices for mobile use. However, we noted that this was an informal decision by the Executive Office that was not documented. Based on our analysis of System's wireless cellular list, we determined there were also sixteen (16) Android devices assigned to Systems staff and one Trustee in addition to their Apple devices. Systems management stated it was not the intention to include Android devices for mass deployment and those devices served testing and long-term evaluation purposes. However, we noted again that testing of these devices was informal without any documented purpose, plan or reporting of results, and was done without any formal Executive Office approval. We verified six (6) individuals in the Systems Division were assigned more than one test device of the same type (e.g., two iPads) and often with the same wireless carrier and for an undetermined and extended period of time. Further, we noted Trustees typically receive an iPad and a laptop. We determined, however, one Trustee had 5 mobile devices including two tablets, one of them a Samsung android tablet test device, two laptops, and an active wireless hotspot still assigned to them but related to a previously returned laptop.</p> <p><b>Recommendation:</b> 6a. Systems Division Management should formalize and obtain Executive Office approval of mobile device issuance standards for staff and trustees and any exceptions to those standards should be documented and approved by the Executive Office. 6b. Systems Division Management should formalize and obtain Executive Office approval of a procedure for testing mobile devices.</p>	High	<p><b>Original Management Response:</b> Management agrees with the recommendations and plans to complete implementation by October 31, 2020. The Systems Division will work with the Executive Office to define the mobile device issuance standards for staff, trustees, and test mobile devices. ecommendations planned for completion by 10/31/2020</p> <p><b>Current Status:</b> On track with original Management response</p>	Kathy Delino, Systems Division	Systems Division	N/A	Pending 10/31/2020
Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> There are currently four (4) separate mobile device policies, which are incomplete and outdated. The staff policies include an area for signature/user acknowledgment, but we determined it was not obtained in practice. Alternatively, the Systems Division maintains a separate Property Designation Form for end users to sign when taking possession of the device. Systems provided the signed Property Designations Forms for our audit testing as evidence that users acknowledge and abide by LACERA's mobile device policies. We noted that the form only contains acknowledgment of the quantity and type of devices issued and does not include acknowledgement that the user has read and will abide by LACERA's policies. Further, we determined that these acknowledgements are only obtained the first time a person receives a mobile device. No further acknowledgment was obtained either annually or when a similar device was replaced for the same user.</p> <p><b>Recommendation:</b> 7. Systems Division management should improve the administrative process over mobile device acknowledgement and usage forms. The process should include the following:  <ul style="list-style-type: none"> <li>• Inclusion of the Form in the comprehensive and consolidated Mobile Device Management Policy.</li> <li>• Requirement that staff and Trustees re-sign a mobile device acknowledgement form annually and whenever provided a new device.</li> </ul> </p>	High	<p><b>Original Management Response:</b> Management agrees with the recommendation and plans to complete implementation by October 31, 2020.</p> <p><b>Current Status:</b> On track with original Management response</p>	Kathy Delino, Systems Division	Systems Division	N/A	Pending 10/31/2020
Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> We analyzed all wireless bills for 2019 and noted the organization had an average of 189 wireless service lines, of which approximately 87 or 46% had limited or zero usage. Specifically, 15 wireless lines had usage fewer than 30 minutes and 72 had zero usage during 2019. Further, we noted 40 of the 87 limited or zero usage lines (46%) were designated as vacant or belonged to former staff or Trustees. In addition to limited or zero usage devices, we also reviewed the wireless bills for abnormal charges. Our review of the August 2019 billing cycle specifically identified abnormal international data roaming charges were incurred totaling \$5,875. Appropriate documentation validating the costs and Executive Office approval for the additional charges was not retained.</p> <p><b>Recommendation:</b> 8. Systems Division management establish guidelines approved by the Executive Office over the management and monitoring of wireless lines.</p>	High	<p><b>Original Management Response:</b> Management agrees with the recommendation and plans to complete implementation by September 30, 2020. The Systems Division has performed a reconciliation of wireless service lines in March 2020 to enhance documentation of some zero and limited usage lines as standby, backup, quick availability, and those maintained for legal holds. The finalization of further action items from the reconciliation has been delayed as the result of the COVID-19 pandemic; however, System's will complete those steps during implementation of this recommendation.</p> <p><b>Current Status:</b> We consider and have verified that this recommendation has been completed as of 9/30/2020. A policy and procedures document titled "Mobile Device Management Policy and Operating Standards" has been developed, approved, and signed off by Systems and Exec Office management.</p>	Kathy Delino, Systems Division	Systems Division	9/30/2020	Implemented 9/30/2020

Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> To determine timely deactivation of wireless services and proper disposal of mobile devices, we examined the 2019 monthly wireless services bills for all carriers and inquired with staff regarding disposal procedures. We determined LACERA had approximately 40 wireless lines designated as "vacant" or belonged to former staff and Trustees who were no longer associated with LACERA for up to five (5) years. We further identified the following disposal procedures that required improvement:</p> <ul style="list-style-type: none"> <li>• LACERA has not disposed of any old or obsolete tablets or smartphones since inception of the mobile device program.</li> <li>• Formal documentation to validate that old or obsolete devices returned by staff were appropriately reset to factory settings or the data was wiped is not maintained.</li> <li>• A former Trustee's iPad is still considered outstanding according to the most recent Trustee inventory count performed by the Board Offices in December 2019.</li> <li>• Former Trustees could purchase their LACERA issued iPad. However, documentation outlining the approval and process was not maintained.</li> </ul> <p><b>Recommendation:</b> 9. Systems Division management develop a formal procedure approved by the Executive Office over the deactivation, reassignment, disposal and/or sale of mobile devices taken out of service. Additionally, this procedure should include the following:</p> <ul style="list-style-type: none"> <li>• A timeframe and methodology for the disposal of devices.</li> <li>• Formal documentation to validate that old, obsolete devices are appropriately reset to factory settings and wiped with a copy provided to the end user and Administrative Services.</li> <li>• An accurate inventory of out of service devices is maintained.</li> </ul>	High	<p><b>Original Management Response:</b> Management agrees with the recommendation and plans to complete implementation by October 31, 2020.</p> <p><b>Current Status:</b> On track with original Management response</p>	Kathy Delino, Systems Division	Systems Division	N/A	Pending 10/31/2020
Mobile Device Management Controls	Systems Division 6/4/2020	<p><b>Description of Finding:</b> Internal Audit noted the default LACERA workstation configuration enables USB access on all workstations. Systems then deploys a separate Group Policy Object (GPO), that disables USB access to individual workstations. This process indicates that Systems must maintain a deny USB GPO list of 498 workstations and a more effective approach would be to change the default setting to disable USB access during configuration and deploy a GPO that enables USB access. This will reduce the USB GPO listing to only approved workstations and assist Systems with performing a periodic review of approved workstations. Further, we found that there is no requirement or process to ensure that only encrypted USB devices are used for LACERA business.</p> <p><b>Recommendation:</b> 10. Systems Division management strengthen the process for managing workstations that have USB access enabled. The process should include:</p> <ul style="list-style-type: none"> <li>• A periodic review of USB enabled workstations to ensure such access is still appropriate.</li> <li>• A periodic reconciliation of the deny USB access listing against Administrative Services Fixed Asset Register.</li> <li>• Encryption required for USB devices connected to LACERA workstations.</li> </ul>	Medium	<p><b>Original Management Response:</b> Management agrees with the recommendation and plans to complete implementation by October 31, 2020.</p> <p><b>Current Status:</b> On track with original Management response</p>	Kathy Delino, Systems Division	Systems Division	N/A	Pending 10/31/2020



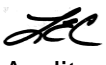
**FOR INFORMATION ONLY**

October 9, 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

Leisha E. Collins   
Principal Internal Auditor

Kathryn Ton   
Senior Internal Auditor

FOR: October 21, 2020 Audit Committee Meeting

**SUBJECT: Real Estate Manager Compliance Reviews**

Internal Audit hired four audit firms to perform compliance and consulting reviews of LACERA's real estate investment managers on an as-needed basis. These engagements are designed to assist LACERA in determining if managers are in compliance with specific provisions of their internal business controls and contractual business policies and procedures established under their Master Real Estate Investment Advisor Agreement.

This memorandum is to inform the Committee of manager reviews completed since the August 2020 meeting.

- Kreischer Miller completed a manager review of RREEF America, LLC. There were six findings related to compliance with the statement of work and one finding in each of the following areas: asset management fees, Securities Organization Control (SOC) 1 report, authorized signors list, and routine SEC examination. The manager has provided an action plan to address the findings and recommendations. The report was discussed with LACERA's Investment Office. The Investments Office will monitor the status of the recommendations and notify Internal Audit at the completion and/or closeout of the recommendations.

- Conrad LLP completed a property management review of Avison Young. There were five findings related to accounting and financial procedures, two findings related to leasing and tenant procedures, and one finding related to an operations and maintenance procedure. The property manager has provided an action plan to address the findings and recommendations. The report was discussed with LACERA's Investment Office. The Investments Office will monitor the status of the recommendations and notify Internal Audit at the completion and/or closeout of the recommendations.

Internal Audit has now completed these audits of six of the eight investment managers in the past three years. We anticipate having audits performed of the remaining two managers as part of our current Fiscal Years audit plan.

We plan to continue having external auditors to conduct these real estate manager compliance reviews on at least a five-year cycle unless significant issues arise requiring a review of a manager on a more frequent basis. Staff will continue to provide updates to the Committee regarding future manager audits.

RPB:lec:kt