

LIVE VIRTUAL COMMITTEE MEETING



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

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

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

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

AGENDA

A SPECIAL MEETING OF THE AUDIT COMMITTEE

AND BOARD OF RETIREMENT AND BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

9:00 A.M., FRIDAY, FEBRUARY 19, 2021

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

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

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

2021 AUDIT COMMITTEE MEMBERS

Alan J. Bernstein
Vivian H. Gray
Shawn R. Kehoe
Joseph Kelly
Keith Knox
Ronald A. Okum
Gina V. Sanchez

AUDIT COMMITTEE CONSULTANT

Robert H. Griffin

I. CALL TO ORDER

II. ELECTION OF OFFICERS (Election of Chair, Vice Chair, and Secretary)

III. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Special Audit Committee Meeting of December 11, 2020.

IV. PUBLIC COMMENT

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

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

V. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Audit Committee review the 2021 meeting calendar and schedule Audit Committee Meetings for April, June, August, October and December of 2021. (Memo dated February 1, 2021)

- B. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor and Christina Logan, Principal Internal Auditor: That the Audit Committee approve the Internal Audit Proposed FYE 2022 Budget and a contingent budget for additional work related audit findings or other unplanned work. (Memo dated February 2, 2021)

- C. Recommendation as submitted by Steven P. Rice, Chief Counsel: That the Committee review and approve the KPMG Recommendation Follow-Up 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 February 9, 2021)

V. NON-CONSENT ITEMS (Continued)

D. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and George Lunde, Senior Internal Auditor: That the Committee review and approve the Social Security Number Verification System 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 February 3, 2021)

E. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Nathan K. Amick, Internal Auditor: That the Committee review and discuss the Death Legal Unit 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 February 5, 2021)

VI. REPORTS

A. Information Security Update
Robert Schlotfeldt, Interim Chief Information Security Officer
(Presentation and Memo dated February 1, 2021)

B. Audit Planning for Fiscal Year 2021-2022
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
Kristina Sun, Senior Internal Auditor
(Presentation and Memo dated February 02, 2021)

VI. REPORTS (Continued)

- C. FYE 2021 Audit Plan Status Report
Richard P. Bendall, Chief Audit Executive
Leisha E. Collins, Principal Internal Auditor
(Memo dated February 2, 2021)

- D. Recommendation Follow-Up Information Technology Areas
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Memo dated February 2, 2021)

- E. Recommendation Follow-Up
Richard P. Bendall, Chief Audit Executive
Gabriel Tafoya, Senior Internal Auditor
(Memo dated February 10, 2021)

- F. Continuous Auditing Program (CAP)
Richard P. Bendall, Chief Audit Executive
Gabriel Tafoya, Senior Internal Auditor
Nathan K. Amick, Internal Auditor
(Memo dated February 3, 2021)

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

- H. Internal Audit Staffing Activity Report
Richard P. Bendall, Chief Audit Executive
(Verbal Presentation)

- I. Real Estate Administration and Performance Conversion Update
Esmeralda del Bosque, Senior Investment Officer
Trina Sanders, Investment Officer
Cindy Rivera, Senior Investment Analyst
Calvin Chang, Senior Investment Analyst
Michael Huang, Accounting Officer II
Margaret Lei Chwa, Senior Accountant
(For Information Only) (Memo dated February 5, 2021)

VI. REPORTS (Continued)

J. Real Estate Manager Review Report
Richard P. Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated January 29, 2021)

K. Ethics Hotline Status Report
Richard P. Bendall, Chief Audit Executive
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated January 29, 2021)

VII. CONSULTANT COMMENTS

Robert H. Griffin, Audit Committee Consultant
(Verbal Presentation)

VIII. REPORT ON STAFF ACTION ITEMS

There were no requests for Items for Staff Review

IX. GOOD OF THE ORDER

(For Information Purposes Only)

X. ADJOURNMENT

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

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

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

MINUTES OF THE SPECIAL MEETING OF THE AUDIT COMMITTEE OF THE

BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

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

8:00 A.M., FRIDAY, DECEMBER 11, 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 (8:02 a.m.)
David Green

STAFF, ADVISORS, PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer
Richard Bendall, Chief Audit Executive
Steven P. Rice, Chief Counsel
Christina Logan, Senior Internal Auditor
Jonathan Gabel, Chief Investment Officer
Kathy Delino, Interim Systems Division Manager
Robert Schlotfeld, Interim Chief Information Security Officer
Raoul Ménès, Ménès Consulting Group, Managing Director

STAFF, ADVISORS, PARTICIPANTS (Continued)

Kory Hoggan, Moss Adams, Partner

Mark Steranka, Moss Adams, Partner

Drummond Kahn, TAP International, Director

Robert Griffin, Williams Adley, Managing Partner

Michelle Watterworth, Plante & Moran, Partner

Jean Young, Plante & Moran, Partner

Amanda Cronk, Plante & Moran, Senior 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 December 11, 2020.

Mr. Santos made a motion, Mr. Knox seconded, to approve the revised minutes of the Special Audit Committee meeting of December 11, 2020 to reflect the following 1) to clarify the Audit Committee Charter to change Staff Recommendations to Audit Committee Recommendations and 2) to adopt the Tax Collector as the ex-officio permanent member of the Audit Committee. The motion passed (roll call) with Messrs. Green, Knox, Santos, Ms. Gray and Ms. Sanchez voting yes.

III. PUBLIC COMMENT

Joseph Kelly provided written comments regarding agenda items II. A. and IV. A.

IV. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Christina Logan, Senior Internal Auditor: That the Committee approve the Revisions to Audit Committee Charter.

(Memo dated November 30, 2020)

Mr. Knox 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.

- B. Recommendation as submitted by Richard Bendall, Chief Audit Executive and Leisha Collins, Principal Internal Auditor: That the Committee interview candidates and select an Audit Committee Consultant.

(Memo dated December 3, 2020)

Ms. Gray made a motion, Mr. Green seconded, to appoint Robert Griffin from Williams Adley as the Audit Committee Consultant. The motion passed (roll call) with Messrs. Green, Knox, Santos, Ms. Gray and Ms. Sanchez voting yes.

V. REPORTS

- A. Plante Moran's Audit Results

- Presentation of the Results of the Financial Audit by Michelle Watterworth, Partner, Jean Young, Partner, and Amanda Cronk, Senior Manager
- LACERA's 2020 Audited Financial Statements and Required Communications to those Charged with Governance for FYE June 30, 2020
- GASB 68 Disclosure Report, Schedule of Employer Allocations and Schedule of Pension Amounts by Employer for FYE June 30, 2019

V. REPORTS (Continued)

- GASB 75 Disclosure Report, Statement of Changes in Fiduciary Net Position by Employer for FYE June 30, 2019
- Census Attestation Related to the Total OPEB Liability under GASB 75 for FYE June 30, 2018
(Memo dated November 30, 2020)

Michelle Watterworth, Jean Young and Amanda Cronk from Plante & Moran

presented a brief presentation and answered questions from the Committee.

- B. Management Response to Plante Moran's Comments to Management
Santos H. Kreimann, Chief Executive Officer
Richard P. Bendall, Chief Auditor Executive
(Memo dated December 4, 2020)

Messrs. Kreimann, Bendall, Grabel, and Ms. Delino were present and answered questions from the Committee.

- C. Presentation of Information Security (InfoSec) Report
Robert Schlotfelt, Interim Chief Information Security Officer
(Memo dated December 4, 2020)

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

The following items were received and filed.

- D. Audit Plan Status Report Update
Richard P. Bendall, Chief Audit Executive
Leisha E. Collins, Principal Internal Auditor
(Memo dated November 30, 2020)
- E. Status of Other External Audits Not Conducted at the Discretion of Internal Audit
Richard Bendall, Chief Audit Executive
(Verbal Presentation)
- F. Staffing Activity Report
Richard Bendall, Chief Audit Executive
(Verbal Presentation)

V. REPORTS (Continued)

G. Update on Real Estate Manager Review Reports

Richard Bendall, Chief Audit Executive

Kathryn Ton, Senior Internal Auditor

(Memo dated November 30, 2020)

(For Information Only)

H. Request for Proposal for Auditing and Consulting Services Pool

Richard Bendall, Chief Audit Executive

Kathryn Ton, Senior Internal Auditor

(Memo dated November 30, 2020)

(For Information Only)

I. Ethics Hotline Status Report

Richard Bendall, Chief Audit Executive

(Memo dated November 30, 2020)

(For Information Only)

VI. CONSULTANT COMMENTS

Rick Wentzel, Audit Committee Consultant

(Verbal Presentation)

Mr. Wentzel thanked the Committee

VII. REPORT ON STAFF ACTION ITEMS

The Committee requested that the Investments team provide an update on the implementation of the real estate administrative service provider.

VIII. GOOD OF THE ORDER

(For Information Purposes Only)

The Committee thanked Mr. Wentzel for his services.

IX. ADJOURNMENT


There being no further business to come before the Committee, the meeting was adjourned at 10:57 a.m.




February 1, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

SUBJECT: **Proposed 2021 Committee Meeting Dates**

RECOMMENDATION:

The Audit Committee review and approve the proposed 2021 Audit Committee Meeting dates.

AUDIT COMMITTEE DATES:

The current Audit Committee Charter (Attachment A) states that the Audit Committee will conduct “regular meetings at least four times per year, with the authority to convene additional meetings, as circumstances require. The time frame between Audit Committee meetings should not exceed four months.”

Based on direction from last year’s Committee, we are proposing the meetings be held during the third week of every second month, except for December. By having the meetings scheduled for the third week in the month, Internal Audit will have adequate time to provide updates to Recommendation Follow-Up and the Audit Plan for the complete previous month.

Based on our review of the Board Calendar (Attachment B) to ensure the proposed meeting dates do not currently conflict with any other Board scheduled events, we are proposing the Audit Committee meet the following days at 9am.

Day	Date
Friday	April 23, 2021
Thursday	June 24, 2021
Thursday	August 26, 2021
Thursday	October 21, 2021
Friday	December 2, 2021

RPB:/cl

Attachments:

- A: December 2020 Audit Committee Charter
- B: Board Calendar

ATTACHMENT A

LACERA
Los Angeles County Employees Retirement Association

Audit Committee Charter

December 2020



2020



AUDIT COMMITTEE CHARTER

Table of Contents

I. CHARTER 2

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES 2

III. PRINCIPLES OF THE AUDIT COMMITTEE 2

IV. AUTHORITY 3

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT 3

VI. AUDIT COMMITTEE MEETINGS 4

VII. RESPONSIBILITIES 5

VIII. APPROVAL 9



AUDIT COMMITTEE CHARTER

I. CHARTER

This Charter establishes the authority and responsibilities of the Audit Committee, as assigned by Los Angeles County Employees Retirement Association's (LACERA) Board of Retirement and Board of Investments (Boards). The Audit Committee Charter is a living document and should be reviewed at least every three years.

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

In November 2003, LACERA's Boards established the LACERA Audit Committee.

The purpose of the Audit Committee is to assist the Boards in fulfilling their fiduciary oversight duties for the:

- A.** Internal Audit Activity
- B.** Professional Service Provider Activity
- C.** Financial Reporting Process
- D.** Values and Ethics, and
- E.** Organizational Governance

III. PRINCIPLES OF THE AUDIT COMMITTEE

The Audit Committee will conduct itself in accordance with LACERA's Code of Ethical Conduct and the following core principles from the Institute of Internal Auditors' (IIA) Code of Ethics. The Audit Committee expects the Boards, Management, and staff will also adhere to these requirements.

Integrity – The Audit Committee Members will perform their work with honesty, diligence, and responsibility. The Audit Committee expects and will encourage transparency when fulfilling its duties. Communications between Committee Members, Management, staff, and/or Professional Service Providers will be open, direct, and complete. Subject to applicable laws and organizational limitations, Internal Audit will regularly provide the Audit Committee with updates on audit and consulting projects completed and related findings and follow-up.

Independence & Objectivity - The Audit Committee will perform its responsibilities in an independent manner and in compliance with fiduciary duty without exception. Audit Committee Members will disclose any conflicts of interest (actual or perceived) to the Committee.

Confidentiality – The Audit Committee Members will be prudent in the use and protection of information acquired during the course of its duties.



Competency - Audit Committee Members will receive formal orientation training on the purpose and mandate of the Committee and LACERA's objectives. Audit Committee Members are obligated to prepare for and participate in Committee meetings.

Professional Standards - The Audit Committee will ensure all related work will be handled with the highest professional standards consistent with auditing standards of practice and industry guidelines.

IV. AUTHORITY

The Audit Committee will have unrestricted access to Management and staff, and any relevant information it considers necessary to discharge its duties. All employees are directed to cooperate with the Committee and its requests. If access to requested information is denied due to legal or confidentiality reasons, the Audit Committee and/or CAE will follow a prescribed, Board approved mechanism for resolution of the matter.

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of duties, including engaging independent counsel and/or other advisors it deems necessary.

The Audit Committee is empowered to:

1. Approve the appointment, compensation, and work of the Financial Auditor hired to audit LACERA's financial statements.
2. Approve the appointment, compensation, and work of other Professional Service Providers to perform non-financial statement audits, reviews, or investigations, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Resolve any significant disagreements regarding risks, findings, and/or payment between Management and the Financial and/or Other Service Providers.

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of seven members: three elected annually from each Board and the ex-officio member of both Boards, the LA County's Treasurer and Tax Collector. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of their term, the Board of the departing member, will elect a new Audit Committee member at the next regularly scheduled Board meeting.



The Committee shall have the authority to approve the hiring of the Audit Committee Consultant as an advisor through a Request for Proposal process. The Audit Committee Consultant will be designated as the audit technical and financial expert, to advise the Committee on audit and financial matters. The Audit Committee Consultant's contract will be for three years.

At the first Committee meeting of each calendar year, the Committee shall elect a Chairman, Vice Chair and Secretary, each to serve for a term of one year or until his or her successor is duly elected and qualified, whichever is less. In the event of a vacancy in the office of Chair, the Vice Chair shall immediately assume the office of Chair for the remainder of the term. In the event of a vacancy in the office of Vice Chair or Secretary, the Committee shall elect one of its members to fill such vacancy for the remainder of the term, at its next regular meeting.

VI. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least four times per year, with authority to convene additional meetings, as circumstances require. The time frame between Audit Committee meetings should not exceed four months.

All Committee Members are expected to attend each meeting.

All meetings of the Audit Committee shall be as noticed as joint meetings with the Board of Retirement and Board of Investments to allow for participation of all trustees in open and closed session Audit Committee discussions, provided that non-committee trustees may not make or second motions or vote and provided further that closed sessions to discuss the CAE's annual assessment and the Committee's recommendation to the Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE shall be noticed for attendance by Committee members only.

Regular meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee. The Committee will invite members of Management, Internal Auditors, Financial Auditors, all other Professional Service Providers, and/or others to attend meetings and provide pertinent information, as necessary.

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

Robert's Rules of Order, except as otherwise provided herein, shall guide the Committee in its proceedings; however, the Chair of the Committee shall have the same rights to vote and participate in discussions as any other member of the Committee without relinquishing the chair. The order of business shall be as determined by formal action of the Committee. Four members of the seven-member Audit Committee, excluding the Audit Committee Consultant, constitute a quorum.



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

VII. RESPONSIBILITIES

A. Internal Audit Activity

1. Internal Audit Strategy and Annual Plan
 - a. Review and provide input on Internal Audit's annual risk assessment
 - b. Review and approve Internal Audit's Annual Audit Plan (Plan) and resource plan, make recommendations concerning audit projects.
 - c. Recommend to the Boards a budget to achieve the Plan plus a contingent budget for additional work related to audit findings or other unplanned work.
 - d. Review and monitor Internal Audit's activity relative to its Plan. Review and approve all major changes to the Plan.
2. Internal Audit Engagement & Follow-Up
 - a. Review and discuss engagement reports to take the following action(s):
 - i. accept and file report,
 - ii. instruct staff to forward report to Boards or Committees,
 - iii. make recommendations to the Boards or Committees regarding actions as may be required based on audit findings and/or,
 - iv. provide further instruction to staff.
 - b. Monitor Internal Audit's recommendations to ensure Management has adequately and timely addressed the risk(s) identified, either through implementing a new policy, procedure, or process, or accepting the associated risk.
 - c. Inquire whether any evidence of fraud has been identified during internal or external audit engagements, and evaluate what additional actions, if any, should be taken.
 - d. Inquire whether any audit or non-audit engagements have been completed but not reported to the Audit Committee; if so, inquire whether any matters of significance arose from such work.
 - e. Review and advise Management and the Boards on the results of any special investigations.



3. Standards Conformance
 - a. Approve the Internal Audit Charter.
 - b. Ensure the Internal Audit Division conforms with the IIA's International Standards for the Professional Practice of Internal Audit, particularly the independence of Internal Audit and its organizational structure.
 - c. Ensure the Internal Audit Division has a quality assurance and improvement program (QAIP), and that the results of these periodic assessments are presented to the Audit Committee.
 - d. Ensure the Internal Audit Division has an external quality assurance review every five years. Review the results of the external quality assurance review and monitor the implementation of related recommendations.

Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.

4. Chief Audit Executive (CAE)

Since the CAE reports to the Chief Executive Officer (CEO) for administrative purposes, but to the Audit Committee for functional purposes, the Audit Committee will be responsible for the following:

- a. Make recommendations to both Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE, which will be addressed by the Boards in a joint meeting. Both Boards will make the final decisions as to the appointment, discipline, dismissal, and/or removal of the CAE. The CEO has authority to administer minor discipline, which is limited to counseling memos and written warnings, with notice of such discipline to be provided to the Committee and the Boards at their next meetings. Consideration by the Boards and the Committee concerning the appointment, discipline, dismissal, and/or removal of the CAE will be made in executive session under Government Code Section 54957(b).
- b. Perform the CAE's annual assessment with qualitative input from the CAE and CEO. The Committee's discussion regarding the CAE's annual performance evaluation will be made in executive session under Government Code Section 54957(b).
- c. Administer the CAE's annual salary adjustment using the Boards' established compensation structure.

B. Professional Service Provider Activity

The Audit Committee is responsible for the oversight of all work performed by professional service providers (Service Providers) for audits, reviews, or investigations, including the audit of LACERA's financial statements.



1. Approve the appointment and compensation of the External Financial Auditor, hired to perform an independent audit of LACERA's financial statements. Oversee the work of the Financial Auditor, including review of the Financial Auditor's proposed audit scope and approach, as well as coordination with Internal Audit and Management.
2. Approve the appointment and compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Review the Professional Service Providers, including the Financial Auditor, and Management the results of the work performed, any findings and recommendations, Management's responses, and actions taken to implement the audit recommendations.

C. Financial Reporting Process

The Audit Committee is responsible for the oversight of the independent audit of LACERA's financial statement, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and understand their impact on the financial statements.
2. Review with Management and the Financial Auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements, consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
4. Review with Management and the Financial Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

D. Values and Ethics

1. Review and assess LACERA's Code of Ethical Conduct established by the Boards and Management.
2. Annually, review Management's process for communicating LACERA's Code of Ethical Conduct to Trustees, Management, and staff, and for monitoring compliance therewith.



3. Review reports received relating to conflicts of interest and ethics issues, and if appropriate, make a recommendation to the Boards.

E. Organizational Governance

To obtain reasonable assurance with respect to LACERA's governance process, the Audit Committee will review and provide advice on the governance process established and maintained, and the procedures in place to ensure they are operating as intended.

1. Risk Management

- a. Annually review LACERA's risk profile.
- b. Obtain from the CAE an annual report on Management's implementation and maintenance of an appropriate enterprise wide risk management process. Provide advice on the risk management processes established and maintained, and the procedures in place to ensure that they are operating as intended.
- c. Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Management and the Boards.

2. Fraud

- a. Oversee Management's arrangements for the prevention and detection of fraud, including ensuring adequate time is spent discussing and raising awareness about fraud and the Hotline.
- b. Review a summary of Hotline reports, and if appropriate make a recommendation to the Boards.

3. System of Internal Controls

- a. Consider the effectiveness of LACERA's internal control system, including information technology security and control, as well as all other aspects of LACERA's operations.
- b. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.
- c. Review and provide advice on control of LACERA as a whole and its individual divisions.

4. System of Compliance

- a. Annually, review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.



- b. As needed, review the observations and findings of any examinations by regulatory agencies.
- c. Obtain regular updates from Management and LACERA’s Legal Office regarding compliance matters.
- d. At least annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.

F. Other Responsibilities

- 1. Report to the Boards as needed about the Audit Committee’s activities, issues, and related recommendations.
- 2. Provide an open avenue of communication between Internal Audit, all Professional Service Providers, including the Financial Auditor, Management, and the Boards.
- 3. Perform other activities related to this Charter as requested by the Boards.
- 4. Review and assess the adequacy of the Committee’s Charter at least every three years, requesting the Boards’ approval for proposed changes.

VIII. APPROVAL

This Charter was reviewed by the Audit Committee on December 11, 2020 and approved by the Board of Investments and Board of Retirement on December 16, 2020. This Charter is thereby effective December 16, 2020 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

<i>Gina Sanchez</i>	12/17/2020
_____	_____
Gina Sanchez <i>Chair, Audit Committee</i>	Date
<i>David Green</i>	12/17/2020
_____	_____
David Green <i>Chair, Board of Investments</i>	Date
<i>Herman Santos</i>	12/17/2020
_____	_____
Herman Santos <i>Chair, Board of Retirement</i>	Date

ATTACHMENT B

FEBRUARY 2021						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
31	1	2	3 BOR	4	5	6
		NCPERS Fall Conference (Virtual)				
7	8	9	10 BOI	11 BOR	12	13
14 Valentine's Day	15 Presidents' Day	16	17	18	19 AUDIT COMMITTEE	20
		PPI Winter Roundtable (Virtual)				
21	22	23	24	25	26	27
28	1	2	3	4	5	6

APRIL 2021

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
28	29	30	31	1	2 Good Friday	3
4 Easter Sunday	5	6	7 BOR	8	9	10
11	12	13	14 BOI	15 BOR	16	17
World Health Care Congress - Washington, DC						
18	19	20	21	22 JOGC	23 AUDIT COMMITTEE	24
25	26	27	28	29	30	1

JUNE 2021

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
30	31	1	2 BOR	3	4	5
6	7	8	9 BOI	10 BOR	11	12
13	14	15	16	17	18	19
Wharton Investment Strategies and Portfolio Management – Philadelphia, PA						
20 Father's Day	21	22	23	24 AUDIT COMMITTEE	25	26
27	28	29	30	1	2	3

AUGUST 2021

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4 BOR	5	6	7
8	9	10	11 BOI	12 BOR	13	14
15	16	17	18	19	20	21
22	23	24	25	26 AUDIT COMMITTEE	27	28
29	30	31	1	2	3	4

OCTOBER 2021

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
26	27	28	29	30	1	2
3	4	5	6 BOR	7	8	9
		ICGN Conference – Seoul, South Korea				
10	11 Indigenous People’s Day	12	13 BOI	14 BOR	15	16
17	18	19	20	21 AUDIT COMMITTEE	22	23
IFEBP Employee Benefits Conference – Denver, CO						
24	25	26	27	28	29	30
	PREA Institutional Investor Conference – Chicago, IL					
PPI Executive Seminar – Tokyo, Japan			PPI Asia Pacific Roundtable – Tokyo, Japan			
31 Halloween	1	2	3	4	5	6

DECEMBER 2021


Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
28	29	30	1 BOR	2 AUDIT COMMITTEE	3	4
5	6 Hanukkah Ends	7	8 BOI	9 BOR	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24 Christmas Eve Holiday	25 Christmas
26	27	28	29	30	31 New Year's Eve	1

February 2, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

FOR: February 19, 2021 Committee Meeting

SUBJECT: **Internal Audit Proposed FYE 2022 Budget**

RECOMMENDATION:

Audit Committee:

- A. Review and approve the Proposed Internal Audit FY 2022 Budget Request to be presented to the Boards for approval.
- B. Provide direction to staff on the amount of contingency funding to be requested to fund the Audit Reserve Fund.

BACKGROUND

As part of LACERA's Budget Process, each fiscal year, the Chief Audit Executive prepares an Internal Audit Budget Request (Budget) for the Executive Office to review and approve. Refer to Attachment A for Internal Audit's proposed FY 2022 Budget (Budget). In the past, the Audit Committee was not formally included in Internal Audit's budget process. However, as a result of one of the 2020 updates to the Audit Committee Charter (Charter), the Committees' roles and responsibilities expanded to better align with the Institute of Internal Auditor (IIA) Model Charter and best practices. Among the Charter revisions was section V.A.1.c which now states that the Committee is to "recommend to the Boards, a budget to achieve the Audit Plan plus a contingent budget for additional work related to audit findings or other unplanned work." Refer to page 5 of the Charter, Attachment B.

FY 2022 Proposed Budget

As indicated in the Charter, the Audit Plan is used as a basis for the Budget. However, due to the timing of the organization’s budget process and Internal Audit’s timeline for the risk assessment and audit planning, we could not finalize the FY 2022 Audit Plan by the February Committee meeting. Therefore, we are providing a draft Audit Plan (Attachment C) as a reference and basis for the Budget. The final FY 2022 Audit Plan will be provided to the Committee for approval at the June 2021 meeting. Going forward, we plan to provide the Committee the proposed budget and audit plan at the same time.

The draft Audit Plan provides a framework of the allocation of audit resources and is based on past experience, a review of the Audit Committee and Internal Audit charters, recently completed audits and recommendations and knowledge of the amount of time needed to complete audit work and projects. We do not anticipate that the final FY 2022 Audit Plan will affect the Budget. However, if budget changes are necessary after the Committee has reviewed and approved the Audit Plan at the June meeting, we will provide adjustments to the Executive Office to be included in the organizational Mid-Year Budget adjustments.

For FY 2022, we anticipate that Internal Audit Salaries and Employee Benefits will remain consistent with FY 2021 and have not proposed any increases. We have proposed a slight increase to Services and Supplies (S&S) from \$457,900, to \$470,500. Of note, is that the amount proposed for Professional and Specialized Services which is \$400,000 and the largest portion of our S&S, will remain the same as last fiscal year. The following table includes a breakdown of external audit service cost that are typically incurred.

Audit/Project	Est. Cost
External Audit for FYE 2021	135,000
Real Estate Manager Audits	75,000
IT Penetration Audits	50,000
IT Risks/Network Security Audit	40,000
External Quality Assurance & Improvement Program Review	25,000
Audits Performed by External Audit Pool	75,000
TOTAL	400,000

FY 2022 Contingency Reserve

As stated in the Charter, the Audit Committee should recommend a contingent budget for additional work related to audit findings or other unplanned work. We propose that the Committee provide direction to staff on the amount of contingency funding to be requested for the Audit Reserve Fund for Board approval during the budget process. If approved, the Committee will have delegated authority to access such funds in its sole discretion to conduct further audit work based on a preliminary finding from existing audit activities overseen by Internal Audit which merits additional investigation. For Fiscal 2021, the Committee recommended, and the Boards approved, an allocation of \$500,000 for the Audit Reserve fund.

CONCLUSION

The Audit Committee review and approve the Proposed Internal Audit FY 2022 Budget Request and provide direction to staff on amount of contingency funding to request for the Audit Reserve Fund.

RPB;lec

Attachments:

- A. Internal Audit FY 2022 Budget Request
- B. Audit Committee Charter
- C. Draft Audit Plan

ATTCHMENT A

**INTERNAL AUDIT
SERVICES**

**FISCAL YEAR 2021-2022
BUDGET REQUEST**

RICHARD BENDALL

INTERNAL AUDIT
FISCAL YEAR 2021-2022

Mission

To support LACERA's mission, through independent, objective assurance and consulting activities.

INTRODUCTION

The purpose of Internal Audit is to provide independent and objective assurance services, and consulting services designed to add value and improve LACERA's operations. The mission of Internal Audit is to enhance and protect LACERA's organizational values by providing risk-based and objective assurance, advice, and insight. Internal Audit brings a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes to help LACERA accomplish its mission.

Internal Audit assists the organization in meeting its control objectives through:

- Evaluating risk exposure relating to achievement of LACERA's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, procedures, laws, and regulations, which could have a significant impact on LACERA.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operation or programs are being carried out as planned.
- Monitoring and evaluating governance processes.

NOTABLE ACHIEVEMENTS AND CONTRIBUTIONS

All staff within Internal Audit are Certified Public Accountants, Certified Internal Auditors, or Certified Information Systems Auditors. Some have more than one certification and other relevant certifications such as certified fraud examiner and certified information security designations. Included in the performance of our

annual audit plan, Internal Audit developed, oversaw, or contributed significantly, in a consulting capacity, to the following notable achievements and ongoing efforts within LACERA.

- Initiated SOC1 over OPEB Census data
- Consulted on the Establishment of an End-User InfoSec Manual
- Oversaw ongoing actuarial audit activities
- Oversaw Real Estate Advisor Compliance and Operational Audits
- Oversaw Audit Committee Charter Revisions and Hiring of New Audit Committee Consultant
- Established a fully functional remote audit team
- Enhanced and formalized the Recommendation Follow-up Process
- Performed a Quality Assurance Improvement Program (QAIP) over Internal Audit Operations
- Upgraded Internal Audit's Automated Audit Management System

STAFFING

Our budget for staffing the office remains the same. However, we look forward to participating in LACERA's internship program and are planning to employ an intern to work on a special project during the Fiscal Year.

A compensation study has been requested for the Principal Internal Auditor Classification.

SERVICES AND SUPPLIES

Each fiscal year, Internal Audit prepares a risk-based Audit Plan, approved by the Audit Committee. The Audit Plan defines the allocation of audit resources and communicates Internal Audit planned activities and resource requirements. This provides the basis for the Chief Audit Executive (CAE) and the Audit Committee to ensure that Internal Audit resources are appropriate, sufficient, and effectively deployed.

Internal Audit continues to leverage the use of external resources to better meet the needs of the organization and address the Audit Plan. The cost associated with these resources are a significant portion of the budget, \$400,000. Of this, approximately \$150,000 is for the external financial audit. The remaining \$250,000 is used to perform external IT audits, real estate advisor audits, and other external audits as needed to address the Audit Plan.

Our total S&S budget remains steady, a slight increase above our mid-year approved current Fiscal Year budget of \$457,900 to \$470,500 for Fiscal Year 2021-2022.

INTERNAL AUDIT SERVICES
SERVICES AND SUPPLIES
FY 2021-2022 BUDGET REQUEST

ACCOUNT	DESCRIPTION	ACTUAL FY 2017-2018	ACTUAL FY 2018-2019	ACTUAL FY 2019-2020	APPROVED BUDGET FY 2020-2021	PROJECTION FY 2020-2021	DIVISION REQUEST FY 2021-2022	NOTES
TRANSPORTATION AND TRAVEL								
9181	TRANSPORTATION	\$2,414	\$1,058	\$1,333	\$1,200	\$900	\$2,000	APFA, SACRS, IIA, Roundtable, etc.
9182	TRAVEL	15,936	8,742	8,059	7,400	4,100	15,000	APFA, SACRS, IIA, Roundtable, etc.
	TOTAL	18,350	9,800	9,392	8,600	5,000	17,000	
OFFICE SUPPLIES AND EQUIPMENT								
9302	SPECIAL ORDERS/MINOR EQUIP	1,572	1,164	751	1,700	800	1,500	For new staff member
	TOTAL	1,572	1,164	751	1,700	800	1,500	
PROFESSIONAL AND SPECIALIZED SERVICES								
9541	AUDITS	212,376	312,476	279,411	400,000	400,000	400,000	Plante Moran, Ethical & Cultural Audit, IT, etc.
9702	AUDIT COMMITTEE CONSULTANT	69,915	8,600	7,350	21,000	21,000	21,000	Robert Griffin for audit committee consultant
	TOTAL	282,291	321,076	286,761	421,000	421,000	421,000	
EDUCATIONAL EXPENSES								
9961	MEMBERSHIPS	8,057	3,125	6,530	7,500	7,000	8,000	For new staff member
9962	REGISTRATION FEES	18,736	16,976	4,139	14,300	12,000	20,000	Governance Risks & Control, Ethics, APFA,
9963	EDUCATIONAL MATERIALS	3,812	3,228	1,076	4,000	1,500	2,500	SACRS, IIA, Enterprise Risk & Pension Fund Roundtable, Temmate Automated Training, etc.
	TOTAL	30,606	23,329	11,745	25,800	20,500	30,500	
MISCELLANEOUS								
9986	MISCELLANEOUS	776	341	192	800	400	500	
	TOTAL	776	341	192	800	400	500	
GRAND TOTAL		\$333,594	\$355,709	\$308,840	\$457,900	\$447,700	\$470,500	5% more than projected & 2.7% more than FY 20-21 Mid-Year approved budget

ATTACHMENT B

LACERA
Los Angeles County Employees Retirement Association

Audit Committee Charter

December 2020



2020



AUDIT COMMITTEE CHARTER

Table of Contents

I. CHARTER 2

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES 2

III. PRINCIPLES OF THE AUDIT COMMITTEE 2

IV. AUTHORITY 3

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT 3

VI. AUDIT COMMITTEE MEETINGS 4

VII. RESPONSIBILITIES 5

VIII. APPROVAL 9



AUDIT COMMITTEE CHARTER

I. CHARTER

This Charter establishes the authority and responsibilities of the Audit Committee, as assigned by Los Angeles County Employees Retirement Association's (LACERA) Board of Retirement and Board of Investments (Boards). The Audit Committee Charter is a living document and should be reviewed at least every three years.

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

In November 2003, LACERA's Boards established the LACERA Audit Committee.

The purpose of the Audit Committee is to assist the Boards in fulfilling their fiduciary oversight duties for the:

- A.** Internal Audit Activity
- B.** Professional Service Provider Activity
- C.** Financial Reporting Process
- D.** Values and Ethics, and
- E.** Organizational Governance

III. PRINCIPLES OF THE AUDIT COMMITTEE

The Audit Committee will conduct itself in accordance with LACERA's Code of Ethical Conduct and the following core principles from the Institute of Internal Auditors' (IIA) Code of Ethics. The Audit Committee expects the Boards, Management, and staff will also adhere to these requirements.

Integrity – The Audit Committee Members will perform their work with honesty, diligence, and responsibility. The Audit Committee expects and will encourage transparency when fulfilling its duties. Communications between Committee Members, Management, staff, and/or Professional Service Providers will be open, direct, and complete. Subject to applicable laws and organizational limitations, Internal Audit will regularly provide the Audit Committee with updates on audit and consulting projects completed and related findings and follow-up.

Independence & Objectivity - The Audit Committee will perform its responsibilities in an independent manner and in compliance with fiduciary duty without exception. Audit Committee Members will disclose any conflicts of interest (actual or perceived) to the Committee.

Confidentiality – The Audit Committee Members will be prudent in the use and protection of information acquired during the course of its duties.



Competency - Audit Committee Members will receive formal orientation training on the purpose and mandate of the Committee and LACERA's objectives. Audit Committee Members are obligated to prepare for and participate in Committee meetings.

Professional Standards - The Audit Committee will ensure all related work will be handled with the highest professional standards consistent with auditing standards of practice and industry guidelines.

IV. AUTHORITY

The Audit Committee will have unrestricted access to Management and staff, and any relevant information it considers necessary to discharge its duties. All employees are directed to cooperate with the Committee and its requests. If access to requested information is denied due to legal or confidentiality reasons, the Audit Committee and/or CAE will follow a prescribed, Board approved mechanism for resolution of the matter.

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of duties, including engaging independent counsel and/or other advisors it deems necessary.

The Audit Committee is empowered to:

1. Approve the appointment, compensation, and work of the Financial Auditor hired to audit LACERA's financial statements.
2. Approve the appointment, compensation, and work of other Professional Service Providers to perform non-financial statement audits, reviews, or investigations, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Resolve any significant disagreements regarding risks, findings, and/or payment between Management and the Financial and/or Other Service Providers.

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of seven members: three elected annually from each Board and the ex-officio member of both Boards, the LA County's Treasurer and Tax Collector. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of their term, the Board of the departing member, will elect a new Audit Committee member at the next regularly scheduled Board meeting.



The Committee shall have the authority to approve the hiring of the Audit Committee Consultant as an advisor through a Request for Proposal process. The Audit Committee Consultant will be designated as the audit technical and financial expert, to advise the Committee on audit and financial matters. The Audit Committee Consultant's contract will be for three years.

At the first Committee meeting of each calendar year, the Committee shall elect a Chairman, Vice Chair and Secretary, each to serve for a term of one year or until his or her successor is duly elected and qualified, whichever is less. In the event of a vacancy in the office of Chair, the Vice Chair shall immediately assume the office of Chair for the remainder of the term. In the event of a vacancy in the office of Vice Chair or Secretary, the Committee shall elect one of its members to fill such vacancy for the remainder of the term, at its next regular meeting.

VI. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least four times per year, with authority to convene additional meetings, as circumstances require. The time frame between Audit Committee meetings should not exceed four months.

All Committee Members are expected to attend each meeting.

All meetings of the Audit Committee shall be as noticed as joint meetings with the Board of Retirement and Board of Investments to allow for participation of all trustees in open and closed session Audit Committee discussions, provided that non-committee trustees may not make or second motions or vote and provided further that closed sessions to discuss the CAE's annual assessment and the Committee's recommendation to the Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE shall be noticed for attendance by Committee members only.

Regular meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee. The Committee will invite members of Management, Internal Auditors, Financial Auditors, all other Professional Service Providers, and/or others to attend meetings and provide pertinent information, as necessary.

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

Robert's Rules of Order, except as otherwise provided herein, shall guide the Committee in its proceedings; however, the Chair of the Committee shall have the same rights to vote and participate in discussions as any other member of the Committee without relinquishing the chair. The order of business shall be as determined by formal action of the Committee. Four members of the seven-member Audit Committee, excluding the Audit Committee Consultant, constitute a quorum.



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

VII. RESPONSIBILITIES

A. Internal Audit Activity

1. Internal Audit Strategy and Annual Plan
 - a. Review and provide input on Internal Audit's annual risk assessment
 - b. Review and approve Internal Audit's Annual Audit Plan (Plan) and resource plan, make recommendations concerning audit projects.
 - c. Recommend to the Boards a budget to achieve the Plan plus a contingent budget for additional work related to audit findings or other unplanned work.
 - d. Review and monitor Internal Audit's activity relative to its Plan. Review and approve all major changes to the Plan.
2. Internal Audit Engagement & Follow-Up
 - a. Review and discuss engagement reports to take the following action(s):
 - i. accept and file report,
 - ii. instruct staff to forward report to Boards or Committees,
 - iii. make recommendations to the Boards or Committees regarding actions as may be required based on audit findings and/or,
 - iv. provide further instruction to staff.
 - b. Monitor Internal Audit's recommendations to ensure Management has adequately and timely addressed the risk(s) identified, either through implementing a new policy, procedure, or process, or accepting the associated risk.
 - c. Inquire whether any evidence of fraud has been identified during internal or external audit engagements, and evaluate what additional actions, if any, should be taken.
 - d. Inquire whether any audit or non-audit engagements have been completed but not reported to the Audit Committee; if so, inquire whether any matters of significance arose from such work.
 - e. Review and advise Management and the Boards on the results of any special investigations.



3. Standards Conformance
 - a. Approve the Internal Audit Charter.
 - b. Ensure the Internal Audit Division conforms with the IIA's International Standards for the Professional Practice of Internal Audit, particularly the independence of Internal Audit and its organizational structure.
 - c. Ensure the Internal Audit Division has a quality assurance and improvement program (QAIP), and that the results of these periodic assessments are presented to the Audit Committee.
 - d. Ensure the Internal Audit Division has an external quality assurance review every five years. Review the results of the external quality assurance review and monitor the implementation of related recommendations.

Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.

4. Chief Audit Executive (CAE)

Since the CAE reports to the Chief Executive Officer (CEO) for administrative purposes, but to the Audit Committee for functional purposes, the Audit Committee will be responsible for the following:

- a. Make recommendations to both Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE, which will be addressed by the Boards in a joint meeting. Both Boards will make the final decisions as to the appointment, discipline, dismissal, and/or removal of the CAE. The CEO has authority to administer minor discipline, which is limited to counseling memos and written warnings, with notice of such discipline to be provided to the Committee and the Boards at their next meetings. Consideration by the Boards and the Committee concerning the appointment, discipline, dismissal, and/or removal of the CAE will be made in executive session under Government Code Section 54957(b).
- b. Perform the CAE's annual assessment with qualitative input from the CAE and CEO. The Committee's discussion regarding the CAE's annual performance evaluation will be made in executive session under Government Code Section 54957(b).
- c. Administer the CAE's annual salary adjustment using the Boards' established compensation structure.

B. Professional Service Provider Activity

The Audit Committee is responsible for the oversight of all work performed by professional service providers (Service Providers) for audits, reviews, or investigations, including the audit of LACERA's financial statements.



1. Approve the appointment and compensation of the External Financial Auditor, hired to perform an independent audit of LACERA's financial statements. Oversee the work of the Financial Auditor, including review of the Financial Auditor's proposed audit scope and approach, as well as coordination with Internal Audit and Management.
2. Approve the appointment and compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Review the Professional Service Providers, including the Financial Auditor, and Management the results of the work performed, any findings and recommendations, Management's responses, and actions taken to implement the audit recommendations.

C. Financial Reporting Process

The Audit Committee is responsible for the oversight of the independent audit of LACERA's financial statement, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and understand their impact on the financial statements.
2. Review with Management and the Financial Auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements, consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
4. Review with Management and the Financial Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

D. Values and Ethics

1. Review and assess LACERA's Code of Ethical Conduct established by the Boards and Management.
2. Annually, review Management's process for communicating LACERA's Code of Ethical Conduct to Trustees, Management, and staff, and for monitoring compliance therewith.



3. Review reports received relating to conflicts of interest and ethics issues, and if appropriate, make a recommendation to the Boards.

E. Organizational Governance

To obtain reasonable assurance with respect to LACERA's governance process, the Audit Committee will review and provide advice on the governance process established and maintained, and the procedures in place to ensure they are operating as intended.

1. Risk Management

- a. Annually review LACERA's risk profile.
- b. Obtain from the CAE an annual report on Management's implementation and maintenance of an appropriate enterprise wide risk management process. Provide advice on the risk management processes established and maintained, and the procedures in place to ensure that they are operating as intended.
- c. Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Management and the Boards.

2. Fraud

- a. Oversee Management's arrangements for the prevention and detection of fraud, including ensuring adequate time is spent discussing and raising awareness about fraud and the Hotline.
- b. Review a summary of Hotline reports, and if appropriate make a recommendation to the Boards.

3. System of Internal Controls

- a. Consider the effectiveness of LACERA's internal control system, including information technology security and control, as well as all other aspects of LACERA's operations.
- b. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.
- c. Review and provide advice on control of LACERA as a whole and its individual divisions.

4. System of Compliance

- a. Annually, review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.



- b. As needed, review the observations and findings of any examinations by regulatory agencies.
- c. Obtain regular updates from Management and LACERA’s Legal Office regarding compliance matters.
- d. At least annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.

F. Other Responsibilities

- 1. Report to the Boards as needed about the Audit Committee’s activities, issues, and related recommendations.
- 2. Provide an open avenue of communication between Internal Audit, all Professional Service Providers, including the Financial Auditor, Management, and the Boards.
- 3. Perform other activities related to this Charter as requested by the Boards.
- 4. Review and assess the adequacy of the Committee’s Charter at least every three years, requesting the Boards’ approval for proposed changes.

VIII. APPROVAL

This Charter was reviewed by the Audit Committee on December 11, 2020 and approved by the Board of Investments and Board of Retirement on December 16, 2020. This Charter is thereby effective December 16, 2020 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

<i>Gina Sanchez</i>	12/17/2020
Gina Sanchez <i>Chair, Audit Committee</i>	Date
<i>David Green</i>	12/17/2020
David Green <i>Chair, Board of Investments</i>	Date
<i>Herman Santos</i>	12/17/2020
Herman Santos <i>Chair, Board of Retirement</i>	Date

ATTACHMENT C

Fiscal Year 2021-2022 DRAFT AUDIT PLAN

	DRAFT ANNUAL AUDIT PLAN	Division	Service Type	Period
EXECUTIVE / LEGAL / ORGANIZATION				
1	Recommendation Follow Up	Organizational	Assurance	Continous
2	Code of Ethical Conduct Review	Organizational	Assurance	Annual
3	Organizational Governance Review	Organizational	Assurance	Annual
4	Business Continuity / Disaster Recovery	Organizational	Assurance	Annual
5	SOC-1 Type 2 _ Facilitation	Organizational	Assurance	Annual
6	Ethics Hotline & Investigations	Organizational	Consulting	Annual
7	Fiduciary Review (Year 1 of 2) Planning	Organizational	Advisory	
8	Executive / Legal / Organization Audits *TBD	Organizational	Assurance	TBD
Estimated Hours				2000
ADMINISTRATION - Admin, HR, Systems				
9	Recommendation Follow Up	ADMINISTRATION	Assurance	Continous
10	Continous Auditing Program	ADMINISTRATION	Assurance	Continous
11	Contract Compliance / Third Party Data Security Review	Admin Serv	Assurance	Annual
12	GRC _ Admin Services	Admin Serv	Assurance	TBD
13	GRC _ Human Resouces	Human Resources	Assurance	TBD
14	ADMINISTRATION Audits * TBD	Human Resources	Assurance	TBD
Estimated Hours				2500
INVESTMENTS & FASD				
15	Recommendation Follow Up	FASD / Invest	Assurance	Continous
16	THC RE Financial Audits	FASD / Invest	Advisory	Annual
17	Real Estate Manager Reviews	FASD / Invest	Advisory	Annual
18	Actuarial Services _Facilitation	FASD	Advisory	Annual
19	Financial Audit _Facilitation	FASD	Advisory	Annual
20	Corporate Credit Card Audit	FASD	Assurance	Annual
21	INVESTMENTS & FASD Audits*TBD	INVESTMENTS / FASD	Assurance	TBD
Estimated Hours				2500
OPERATIONS - Benefits, DRS, RHC, Member Services, QA				
22	Recommendation Follow Up	OPERATIONS	Assurance	Continous
23	Continous Audit Program	OPERATIONS	Assurance	Continous
24	LA County Rehired Retirees	Benefits	Assurance	Annual
25	OPERATIONS Audits *TBD	OPERATIONS	DRAFT	TBD
Estimated Hours				2000

Total Estimated Hours	9000
------------------------------	-------------

February 9, 2021

TO: 2021 Audit Committee
Alan J. Bernstein
Vivian H. Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald A. Okum
Gina V. Sanchez

FROM: Gina V. Sanchez
Audit Committee Member

Santos H. Kreimann *SHK*
Chief Executive Officer

Steven P. Rice *SPR*
Chief Counsel

FOR: February 19, 2021 Audit Committee Meeting

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

RECOMMENDATION

In accordance with the current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the KPMG LLP (KPMG) engagement report (Attachment A) 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 the review findings: and/or
4. Provide further instruction to staff.

LEGAL AUTHORITY

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

ATTACHMENT A
KPMG Review Report



Los Angeles County Employee Retirement Association (LACERA)

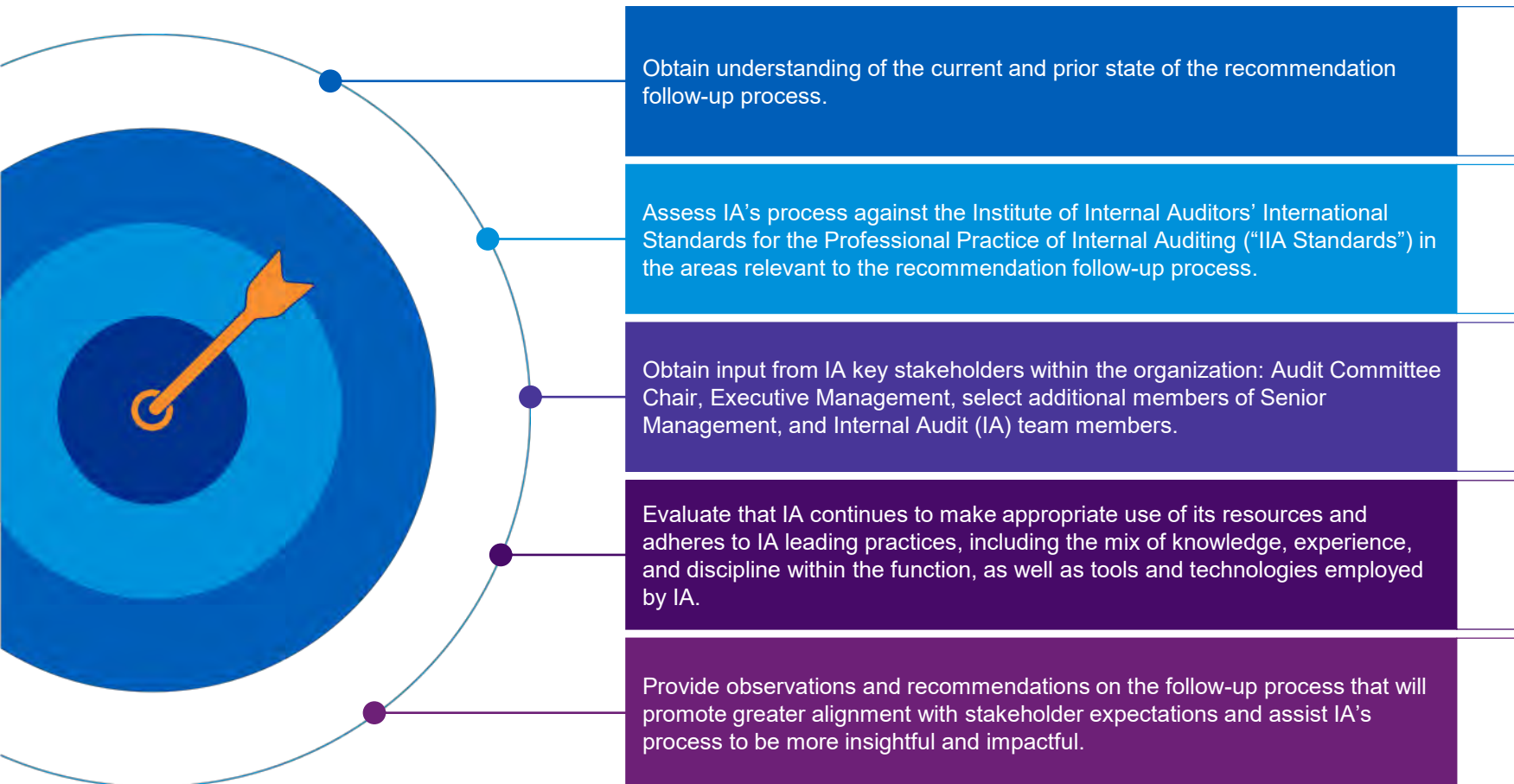
**External Quality Assessment (EQA) of Internal
Audit's Recommendation Follow-up Process**

December 31, 2020



Objectives

KPMG's assessment of LACERA's Internal Audit Recommendation Follow-up process focused on the following:



Background and Scope

Background

LACERA's recommendation follow-up process has gone through two evolutions during the period of 2014 – 2020. Prior to July 2020, LACERA's Internal Audit (IA) program did not have documented or consistently implemented procedures regarding how to appropriately manage and follow-up on recommendations issued to management as a result of findings identified during internal audits.

There were contributing factors to the inconsistency in process and aged audit findings during the period under audit, 2014 – 2020. The Chief Audit Executive (CAE) was on medical leave from December 2017 – October 2018. In addition, throughout the period, key stakeholders interviewed noted that LACERA's organizational culture posed a compliance obstacle to management acting on remediation items, particularly where the remediation required collaboration and support of the IT organization.

In March 2019, the Internal Audit function enhanced Audit Committee reporting regarding outstanding audit findings to include a color coding system to better identify recommendation status, management responses and separate reporting for each recommendation. Per inquiry with the CAE, the enhancements to the reporting were adopted by Internal Audit to highlight the problem surrounding the aged audit findings. The additional detail provided in these reports better equipped the Audit Committee and senior management to hold management accountable for their agreed remediation actions.

In November 2019, we understand that the Internal Audit function initiated a Quality Assurance Improvement Program (QAIP), which identified potential enhancements to the recommendation follow-up process and began to re-design and document the process. This led to a retroactive review of the remediation of audit findings from 2017 – 2019 (which was completed in 2020, during our review), establishment of a formalized recommendation follow-up process in July 2020, and more detailed review by the CAE of remediation on a finding basis, which was previously conducted at a higher level.

During the period of October 2018 – July 2020, while IA was undergoing efforts to enhance the recommendation follow-up process, the process was not formally documented to facilitate compliance and consistency. This led to minimum observable improvement from the pre-2018 process, with the exception of the enhanced Audit Committee reporting and reported reduction in longstanding open remediation items. No standard process or detailed oversight was in place; the recommendation follow-up process was open to auditor discretion.

In July 2020, the enhanced recommendation follow-up process was formalized, providing high level guidance from finding identification through finding remediation, establishing standards such as: the appropriate timeline for management to remediate a finding for each respective risk level, auditor's responsibility to follow-up and manage the recommendation's status throughout remediation, and high-level requirements to close a recommendation. These changes were first reflected in the June 2020 recommendation follow-up report to the Audit Committee. As part of our scope, we have reviewed the new procedures and identified opportunities for further enhancements which are detailed in this report. We were also able to review the remediation validation process by IA under the new process for 3 findings closed since July 2020, and noted no exceptions.

Background and Scope (continued)

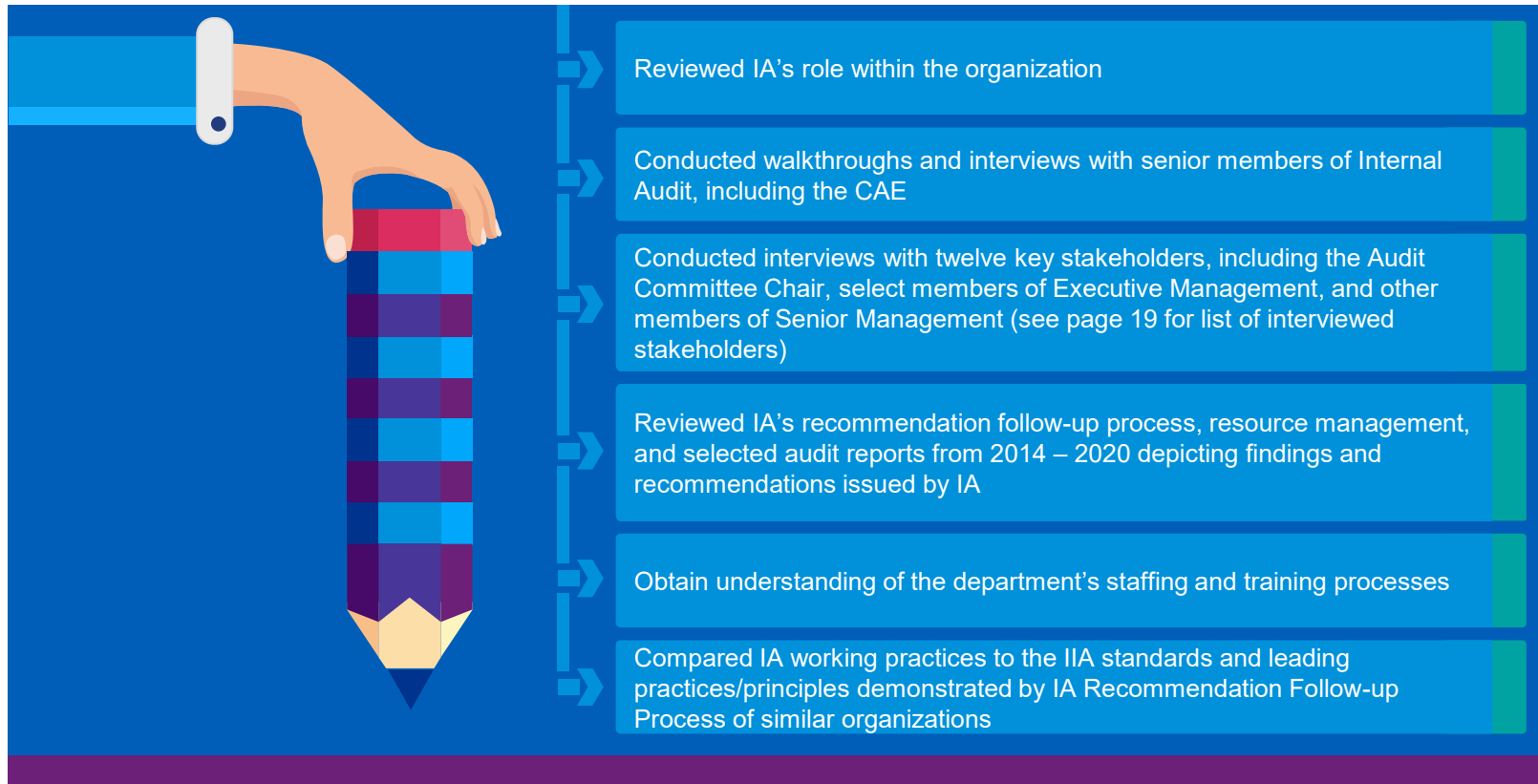
○ Scope

The scope was to perform an assessment of the recommendation follow-up process for the period of 2014 – 2020 against the Institute of Internal Auditors' (IIA) Standards and leading practices, including the completeness and accuracy of Internal Audit's tracking and reporting of open audit findings.

The recommendation follow-up process is defined as the procedures performed after the recommendation has been agreed to by management and reported to the Audit Committee. The process includes regular follow-ups with process owners, validation testing of the remediation after completion of management's agreed actions, and status reporting to the Audit Committee.




Approach

KPMG's approach considered the three aspects of IA's Recommendation Follow-up Processes – position, people, and process. KPMG's approach included the following steps:



Executive summary

LACERA's Internal Audit Recommendation Follow-up Process function **partially conforms as of July 2020** with the IIA Standards promulgated by the Institute of Internal Auditors. (see page 7 for definition of ratings)

 Position	 Process	 People
<p>The current Executive Management and the Audit Committee Chair have placed renewed emphasis on the importance of the remediation of IA findings, which has led to increased accountability for management to address issues raised by the IA team on a timely basis. However, Internal Audit (IA) is not well established as a consistently strong agent of change¹. While IA is not solely responsible for ensuring management's actions are appropriately completed, IA could increase its value and impact to the organization by continuing to work with management and ensuring they're held accountable to their agreed management actions. Increasing accountability for management includes, monitoring and reporting on status throughout the remediation life-cycle, and a formalized process to approve requested due-date extensions, including executive sign-off.</p>	<p>Internal Audit's recommendation follow-up process was not effective prior to July 2020, with no formalized process and an inconsistent approach to IA's validation testing and recording of evidence to support validation (see page 3 for a description of IA's improvement activities ongoing from 2017 – 2020). Prior to 2020, there were a significant number of aged audit findings which were past their due date, with a lack of adequately detailed reporting of status to the Audit Committee.</p> <p>IA's new process, established in July 2020, provides a framework for recommendation follow-up which should be consistently followed, with some areas of opportunity for enhancement highlighted in this report.</p>	<p>Internal Audit is generally viewed as competent across the organization but has a perception of lacking independence². The perception challenge was noted through our stakeholder interviews; however, no evidence of a lack of independence was noted through our detailed testing. Management should develop a plan to address independence perceptions via transparent communication and enhanced processes, including documentation retention to allow for increased transparency, and key performance metrics which are tracked and reported to the Audit Committee.</p> <p>Third parties are utilized to support IA when specialized skills are considered necessary. IA should continue to focus on ensuring that the in-house team has the necessary skill set to conduct remediation follow-up or to re-hire the consultant to do so.</p>
<p>Developing Mature Leading</p> <p>Position</p>	<p>Developing Mature Leading</p> <p>Process</p>	<p>Developing Mature Leading</p> <p>People</p>

¹Agents of Change: Internal Auditors who promote and enable change to happen within the Recommendation Follow-up Process. Assumes responsibility for promoting the value of the transformation that is being undertaken by LACERA; guiding and/or supporting others through the transformation to mitigate the identified risk, while maintaining appropriate independence; and ensuring that the new processes, procedures, structures, etc., are implemented in ways that deliver the expected value that the organizational change was to produce.

²The internal audit team must be independent in fact and appearance, and internal auditors must be objective in performing their work. Work should be performed in an independent and unbiased approach, and evidenced in this manner to support the independence objective.

Conformance with IIA Standards

Rating	Number	Standard
☐	1100	Independence and Objectivity
☐	1110	Organizational Independence
☐	1111	Direct Interaction with the Board
☐	1120	Individual Objectivity
☐	1130	Impairment to Independence or Objectivity
☐	2500	Monitoring Progress
Key	Rating	
☐	Generally conforms	
☐	Partially conforms	
☐	Does not conform	
N/A	Standard was not applicable to Corporate Audit or instance did not arise.	

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

Conclusion – LACERA IA’s Recommendation Follow-up process partially conforms (middle possible rating) with the *IIA Standards* promulgated by the Institute of Internal Auditors. The rating takes into consideration and heavily weights the new process that was implemented in July 2020. Due to limited sampling available since the implementation, we are unable to determine if documented updates to the program would result in a generally conforms rating.

IIA Standard definitions

The following definitions are from the IIA's International Standards for the Professional Practice of Internal Auditing (Standards – effective January 2017).

— 1100 – Independence and Objectivity

- The internal audit activity⁽²⁾ must be independent, and internal auditors must be objective in performing their work.
 - *Independence is the freedom from conditions that threaten the ability of the internal audit activity⁽²⁾ to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity⁽²⁾, the chief audit executive has direct and unrestricted access to senior management and the board⁽¹⁾.*
 - *Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

— 1110 – Organizational Independence

- The chief audit executive must report to a level within the organization that allows the internal audit activity⁽²⁾ to fulfill its responsibilities. The chief audit executive must confirm to the board⁽¹⁾, at least annually, the organizational independence of the internal audit activity.⁽²⁾
 - *Organizational independence is effectively achieved when the chief audit executive reports functionally to the board⁽¹⁾.*

— 1111 – Direct Interaction with the Board⁽¹⁾

- The chief audit executive must communicate and interact directly with the board⁽¹⁾

— 1120 – Individual Objectivity

- Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest
 - *Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity⁽²⁾, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.*

IIA Standard definitions (continued)

— 1130 – Impairment to Independence or Objectivity

- If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
 - *Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.*

— 2500 – Monitoring Progress

- The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
- 1) The referenced role of the Board is usually carried out by the Audit Committee, an operating committee of the Board charged with oversight of risk management and the company's system of internal controls and compliance with laws and regulations.
 - 2) The internal audit activity assessed for the purposes of this review is the recommendation follow-up process.

Strengths and opportunities



Position



Key strengths

- **Management Support** – In 2020, Executive Management support for IA's recommendation follow-up process has increased within the organization. Management is visibly supporting IA in holding management accountable for agreed upon remediation actions in Audit Committee meetings which is an appropriate and necessary role which can be maintained while still allowing IA to remain independent. This improvement was noted within Audit Committee meetings and report format and has led to an increased number of recommendations being addressed. We recommend that the level of support and focus from the Executive Management and the Audit Committee for IA's reports and findings continue, as this is key to IA being able to drive change. While management actions which go past their due date are sometimes unavoidable, these should be rare and supported by valid business reasons.



Key opportunities

- **Not a Consistently Strong Agent of Change** – IA is currently not consistently viewed, by interviewed stakeholders, as having the ability to address, execute, and drive change. IA should continue to focus on consistency in recommendation format and details, along with increasing accountability for management. This includes monitoring and reporting on status throughout the remediation life-cycle, and a formalized process to approve requested due-date extensions including executive sign-off.

It is important to note that IA can only function within the overall culture of an organization, and that prior to 2020, management has not prioritized acting on their agreed remediation actions, nor been held accountable. Based on interviews with key stakeholders, management's remediation efforts appear to have been particularly challenging where remediation has depended upon collaboration with the IT function, which is also noted to have significantly improved in 2020. Our review did not include an assessment of overall organizational culture. Nor did it include a review of LACERA's governing body or operational management's role in risk management (the first and second lines within the IIA's Three Lines Model). There is an opportunity for LACERA to further assess each of these areas.

Strengths and opportunities (continued)



People



Key strengths

- **Perception of competence** – Throughout the organization, key stakeholders perceive IA to be generally competent in their responsibilities, with the level of competence perceived to have been on an upward trend in recent years.
- **IA as a consultative partner** – When management is in need of assistance, IA successfully acts as a consultative partner rather than part of management, performing management activities. IA is careful not to overstep when management is formulating responses to findings. Independence appears to be adhered to in this regard.



Key opportunities

- **Perception of lack of independence** – Most stakeholders interviewed have a perception that IA is not consistently independent. However, we did not identify evidence of a lack of independence during the detailed review of follow-up procedures we performed.

The perception of a lack of independence creates a concern of favoritism whilst conducting audits and areas that potentially receive less audits or scrutiny during an audit. The concerns raised do appear to be mostly connected to prior relationships with a past member of the Executive Office and the Head of IT; however, the overall perception remains as of the date of our review.

IA has a well tenured team, which has advantages of extensive business knowledge, but brings the disadvantage of the risk of potential independence conflicts due to past and present relationships, both in fact and appearance. Opportunities to mitigate are strengthening communication, transparency and IA accountability as well as adding new team members when possible and appropriate.

Strengths and opportunities (continued)



Process



Key strengths

- **New process** – Since IA's creation of an official recommendation follow-up process in July 2020, recommendations have been consistently undergoing the established process throughout their life cycle. The recommendations created using the new policy have resulted in greater success regarding the implementation life-cycle. Due to the date of establishment, there is a limited population of recommendations which have followed this process for our review to assess its overall sustainability.
- **Report format** – Since March 2019, IA has been modifying and enhancing the Audit Committee report to the Audit Committee so that recommendations are more descriptive, and include risk level, time outstanding (by year), and current status. The report assists in ensuring that recommendations that have been long outstanding (and are high risk) are visible to the Audit Committee. Key updates occurred in March 2019 and June 2020.
- **Recommendations formed appropriately** – IA successfully formed most recommendations to adhere to the criteria of specific, measurable, achievable, and timely per the recommendation follow-up process during the seven years reviewed.



Key opportunities

- **Improve timeliness of remediation follow-up** – Prior to 2020, recommendations have remained open for extended periods of time beyond the established due date, without appropriate, or in some cases, any follow-up. Recommendation follow-up has appeared to be rushed and only performed at reporting deadlines for the Audit Committee. This process has improved since the implementation of the new recommendation follow-up process in July 2020, we recommend that IA continue to consistently follow this new process.
- **Improve consistency in data** – Of the recommendations tested within this review, a significant number had data inconsistencies between recommendation follow-up logs, the reported status to the Audit Committee, and TeamMate. These included inconsistencies in: remediation date, status, closed/implemented date, etc. IA should ensure that all team members are appropriately trained on TeamMate and the data rules used for recording to promote standardization of data within the follow-up process.
- **Improve evidence retention for closure support** – IA failed to upload, maintain, and collect sufficient evidence to support the closure of recommendations. There were several instances in which evidence provided was inappropriate (email from recommendation owner) or non-existent. Opportunities to enhance the July 2020 process have been highlighted in our observations to drive consistency and rigor in the validation of remediation activities and maintenance of appropriate audit evidence.
- **Enhance use of tool (TeamMate)** – IA's leverage of TeamMate is not to a sufficient level to improve and enhance IA processes. There are also multiple versions of Teammate in use, which do not reconcile. Workflow and reporting functionality are not utilized.
- **Define process for due date extensions** – IA should define process for approved extensions to the recommendation remediation due date. This should include required approvals and circumstances of acceptable use cases.



Observations



Observations, Recommendations, and Management Response

Observation	Recommendation	Management action plan
<p>1. Prior to July 2020, recommendations have been closed by IA without sufficient evidence or without sufficient retention of appropriate evidence, and risk exposure could remain:</p> <p>Until July 2020, IA did not have a formalized process that defined the recommendation follow-up procedures. Each auditor could follow personal approaches to the process, with no standardization or oversight, which has resulted in inadequate validation activities and evidence maintained. Of the 72 closed samples we reviewed from 2014 - 2020, we found that 41 were closed either without sufficient evidence, or without the sufficient retention of appropriate evidence. (33 were pre 2018, 8 in 2018 – June 2020).</p> <p>As we were unable to review the supporting evidence, we cannot conclude if the recommendations were appropriately closed.</p> <p>In July 2020, a procedure was enacted to establish a standardized process. However there is still opportunity for enhancement, specifically around the requirements for validation testing and required evidence to be maintained. We reviewed the evidence and IA validation of the three recommendations closed since the new procedures was put in place in July, with no exceptions being noted.</p>	<p>Risk Rating: High</p> <p>Recommendation:</p> <ul style="list-style-type: none"> a) Enhance new procedure to include: <ul style="list-style-type: none"> i. minimum testing requirements to be performed for IA to validate management's remediation. This should include guidelines for when a follow-up audit may be performed. Testing of operating effectiveness should be performed for all high risk findings at a minimum. ii. detail on the type of evidence to be maintained, and either the length of time that records must be retained or a reference to LACERA's document retention policy. We recommend that sufficient evidence is maintained such that a third party could reperform the validation testwork. b) Evaluate implementing the TeamMate feature to enable management to directly upload evidence. c) Assess high risk findings which have been previously closed, and determine if areas has been re-audited since the date of closure. If not re-audited, evaluate to validate status is appropriate. 	<p>Executive Office Response:</p> <p>The Executive Office will discuss these observations and recommendations with the Chief Audit Executive and the Audit Committee, in its oversight and evaluation role, and implement changes as agreed with the Committee, while maintaining appropriate separation of audit and operational responsibilities.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and will incorporate changes to our documented recommendation follow-up procedures to make sure these are all addressed along with any further direction by the Audit Committee.</p> <p>Due Date: March 31, 2021</p>

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>2. A perception that IA lacks independence may lead to the risk of reduced impact and respect for the reports and recommendations released by the Division:</p> <p>IA is required to be independent in both fact and appearance. We did not identify any factual evidence of a lack of independence through our detailed review of follow-up procedures. However, most stakeholders interviewed indicated a concern over IA's independence, raising a question over the perception or appearance of IA's independence within the organization.</p> <p>The concerns raised do appear to be mostly connected to prior relationships with a past member of the Executive Office and the Head of IT; however, the overall perception remains as of the date of our review. Some areas, such as IT, are perceived to have not been audited as heavily or as frequently as others, with more leniency and negotiation around audit findings raised, and lack of follow-up performed.</p> <p>While IA is required to be independent, it must operate within the overall organizational culture, which has not been in-scope for our review. However, some interviewees commented on concerns about the impact of organizational culture and governance on IA's past efficacy. We suggest that consideration be given to an evaluation of LACERA's overall governance structure.</p> <p>The existing IA team members are well-tenured, which can contribute to the challenge of maintaining independence when IA is an in-house department, due to the formation of relationships, and perception thereof.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should:</p> <ul style="list-style-type: none"> a) Roll-out a communication program that is presented to key stakeholders on an organization-wide basis to explain how IA maintains independence and explain IA's responsibilities and processes and management's role in those processes. b) Standardize and enhance recommendation follow-up procedures (as discussed in finding #1). c) Monitor and report Key Performance Indicators at the Audit Committee which track audits and findings by business unit, and history of aged items by audit area. d) Add new team members to department as the opportunity arises. New team members can also address gaps in team skill set (e.g. current gap in IT) 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated in reference. In addition, on an organization-wide basis, the Executive Office will take steps with division managers and all staff to promote IA and its critical function and independent role in the organization, encourage cooperation with IA in its audits and prompt response to address IA recommendations, and use of IA as a consulting resource when appropriate. The Executive Office will support additional IA staffing resources as needed.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and welcomes them to help address any perceptions that Internal Audit lacks independence. We have always maintained a strong mindset of independence and worked hard to avoid even the appearance of a lack of independence but recognize the need to better demonstrate our independence and ensure that we remain independent in fact and avoid or mitigate any perception of insufficient independence.</p> <p>Significant efforts have been made to implement recommendations b, c and d, but we will continue in those efforts.</p> <p>Due Date: April 31, 2021</p>

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>3. IA does not include progress on completion of remediation status or evaluate potential to exceed due dates and leave risk exposure unremediated:</p> <p>IA does not include current progress of remediation of open findings within its reports to the Audit Committee, or include possible extended risk exposure for delayed recommendations. Escalation of "at risk" recommendations by IA allows Executive Management to take appropriate action to prioritize remediation or to accept the risk of a longer remediation timeline.</p> <p>Management needs to participate and provide appropriate and accurate information to Internal Audit for this process to be successful.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should:</p> <ul style="list-style-type: none"> a) Enhance the current procedures to be more directive about when status updates are required (e.g. each quarter if remediation is due in excess of six months, and monthly if less than six months); this can be based on risk level or other factors. b) Enhance Audit Committee reporting to include a category of recommendations that are at risk of not being remediated by their due date. c) Evaluate TeamMate's workflow functionality, to allow for notices to be emailed to recommendation owners and IA (not just IA), and allow for updates to be entered into the system by management, and reviewed by IA. 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated by reference.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and will incorporate them into our documented process and the role out of our new TeamMate Plus automated audit workpaper software.</p> <p>Due Date: March 31, 2021</p>

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>4. IA does not have a process for extension of recommendation follow-up due dates:</p> <p>It was noted during review of the 112 recommendations from the selected audits that findings are not consistently remediated in a timely manner. Requests from management to extend remediation due dates have been a frequent occurrence, and there has not been a defined approach to request approval of this extension.</p> <p>Without appropriate transparency and approvals for due date extensions, the risk identified in the original audit remains unmitigated without conscious acceptance of the risk impact of the due date delay.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should define and implement a process that details the required approvals and circumstances in which extension is permitted. We recommend that due date extensions require the same approvals as the initial report issuance, up to and including the Audit Committee. There should also be limited circumstances in which extensions are permitted to maintain accountability from management to meet their commitments.</p>	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated by reference.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendation and has incorporated it into our documented recommendation follow-up procedures.</p> <p>Due Date: Complete per IA Management.</p>

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>5. A centralized tracking tool is not adequately used to manage IA recommendations and corresponding corrective actions:</p> <p>IA does not adequately utilize TeamMate, which is the Internal Audit team's current Internal Audit management tool. There is inconsistent data entry, and lack of usage of TeamMate's workflow capabilities for tracking the remediation status of open findings. Both of these lead to the inability to use reporting from the tool, resulting in increased efforts to gather reporting, and risk of data inaccuracies. IA has a project in place to implement TeamMate+ to improve tool utilization.</p> <p>In addition, IA has two versions of the Teammate tool that are both used to track and maintain audit and recommendation follow-up documents. The systems are not linked and therefore need to be manually maintained. Currently, the systems are not in sync and do not reconcile to the reported recommendation audit log within the Audit Committee reports.</p>	<p>Risk Rating: Medium</p> <p>Recommendation:</p> <ul style="list-style-type: none"> a) Ensure that personnel utilizing Teammate have been appropriately trained on the approved process for standardized data entry into the system. b) Evaluate the new version of Teammate that will be implemented, to ensure any configuration is designed to meet the new needs of the process, and include data cleansing and migration to allow for one system of record for reporting purposes going forwards. c) Establish clear system of record documentation to comply with LACERA's documentation policy. IA record retention is 10 years. 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated by reference. The Executive Office will take administrative steps to ensure that IA has necessary technology and training support. The Executive Office will also ensure that there is administrative support for appropriate document retention.</p> <p>Internal Audit Response:</p> <p>IA Management agrees with the recommendations. We have been in the process since July 2020 of evaluating and planning to acquire a significant upgrade to our automated audit software package, from TeamMate AM to TeamMate Plus. We have received Executive Office approval and expect to acquire and implement the new software beginning in January 2021. The implementation will include assistance from the vendor with the migration of data from the prior version as well as training for all Internal Audit staff.</p> <p>Due Date: March 31, 2021</p>



Appendices

Appendix: Parties contributing to the EQA

Thank you for the opportunity to serve LACERA and the Internal Audit team. We appreciate the following individuals' support of the project and willingness to spend time providing feedback, documentation and examples:

Internal Audit personnel

- Richard Bendall (CAE)
- Leisha Collins (Principal Auditor)
- Christina Logan (Senior Internal Auditor)

Audit Committee/Board of Investments

- Gina Sanchez (Audit Committee Chair)

Company Management

- Santos Kreimann (CEO)
- Steven Rice (Chief Counsel)
- Bernardo Buenaflor (Benefits Division Manager)
- Jonathan Grabel (CIO)
- Ted Granger (Interim CFO)
- Dr. Arlene Owens (Interim CQA)
- Kathy Delino (Interim Information Systems Manager)

- Bonnie Nolley (Executive Board Assistant)
- Kimberly Hines (Administrative Services Manager)
- JJ Popowich (Assistant Executive Officer)
- Beulah Auten (retired CFO)

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

Observation ratings

Observation ratings (like audit ratings) are an important aspect of the independence of internal audit. Issues are generally rated at the end of fieldwork, after the audit team has had an opportunity to review the totality of findings from interim communications and associated management responses.

Our issue rating scale is as follows:

High Risk

The control gap or exceptions noted could have significant financial or operational consequences to the Company.

Medium Risk

The control gap or exceptions noted expose the Company to increased risk, but would not have significant financial or operational consequences to the Company.

Low Risk

Other items that are isolated and/or minor. Observations to improve financial and/or operational efficiency.

Conformance with IIA Standards

Rating	Number	Standard	Rating	Number	Standard
N/A	1000	Purpose, Authority, and Responsibility	N/A	2120	Risk Management
N/A	1010	Recognizing Mandatory Guidance in the Internal Audit Charter	N/A	2130	Control
■	1100	Independence and Objectivity	N/A	2200	Engagement Planning
●	1110	Organizational Independence	N/A	2201	Planning Considerations
●	1111	Direct Interaction with the Board	N/A	2210	Engagement Objectives
N/A	1112	CAE Roles Beyond Internal Auditing	N/A	2220	Engagement Scope
■	1120	Individual Objectivity	N/A	2230	Engagement Resource Allocation
■	1130	Impairment to Independence or Objectivity	N/A	2240	Engagement Work Program
N/A	1200	Proficiency and Due Professional Care	N/A	2300	Performing the Engagement
N/A	1210	Proficiency	N/A	2310	Identifying Information
N/A	1220	Due Professional Care	N/A	2320	Analysis and Evaluation
N/A	1230	Continuing Professional Development	N/A	2330	Documenting Information
N/A	1300	Quality Assurance and Improvement Program	N/A	2340	Engagement Supervision
N/A	1310	Requirements of the Quality Assurance & Improvement Program	N/A	2400	Communicating Results
N/A	1311	Internal Assessments	N/A	2410	Criteria for Communicating
N/A	1312	External Assessments	N/A	2420	Quality of Communications
N/A	1320	Reporting on the Quality Assurance and Improvement Program	N/A	2421	Errors and Omissions
N/A	1321	Use of “Conforms with the [Standards]”	N/A	2430	Use of “Conducted in Conformance with the [Standards]”
N/A	1322	Disclosure of Nonconformance	N/A	2431	Engagement Disclosure of Nonconformance
N/A	2000	Managing the Internal Audit Activity	N/A	2440	Disseminating Results
N/A	2010	Planning	N/A	2450	Overall Opinions
N/A	2020	Communication and Approval	■	2500	Monitoring Progress
N/A	2030	Resource Management	N/A	2600	Communicating the Acceptance of Risks
N/A	2040	Policies and Procedures	Key	Rating	
N/A	2050	Coordination and Reliance	●	Generally conforms	
N/A	2060	Reporting to Senior Management and the Board	■	Partially conforms	
N/A	2070	External Service Provider and Organizational Responsibility for IA	❖	Does not conform	
N/A	2100	Nature of Work	N/A	Standard was not applicable to Corporate Audit or instance did not arise.	
N/A	2110	Governance			

Conclusion – LACERA IA’s Recommendation Follow-up process partially conforms (middle possible rating) with the IIA Standards promulgated by the Institute of Internal Auditors. The rating takes into consideration and heavily weights the new process that was implemented in July 2020. Due to limited sampling available since the implementation, we are unable to determine if documented updates to the program would result in a generally conforms rating.



Lack of consistency in data examples

Date of Audit	Finding	Recommendation	Evidence	Audit Report Close Date	TeamMate Close Date
6/25/15	Information Management	Investments Office Management consider implementing a Customer Relationship Management (CRM) System to manage and maintain information related to LACERA's private equity partnerships. This system can potentially be used to manage information for other asset class managers also.	No evidence of implementation or IA's validation testing included in Teammate	This recommendation disappears from Audit Report. Last reported as "Pending" in 2018-07-18 agenda	4/30/2019
7/10/15	Retiree Health Care Contract with AON (And associated 3rd party vendors) - Contract with RGS	RHC should consider the results of their work in the recommendation above as well as refer to LACERA's Purchasing Policy to determine whether to establish a contract with RGS (including all necessary language for the protection of LACERA members data) or whether to initiate an RFP for healthcare printing and mailing associated with Aon; or alternatively to amend the contract with Aon to require them to contract with one of their preferred and vetted third party vendors for RHC's printing and mailing needs.	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported as "Pending" in 2016-07-20 agenda	7/6/2016
7/10/15	Expired Contract	The Communications Division should obtain a new contract with ZDI. The new contract should be on LACERA's form having had prior review by LACERA's Legal Office	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported as "Pending" in 2015-12-03 agenda	12/17/2015
11/24/15	Need for Documented Procedures	Benefits Management should develop a documented process as well as standardized desk procedures and/or checklists for staff that process Returned Automatic Deposit Receipt (ADR) holds.	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported in 2018-03-21 Report	Not Recorded
10/30/18	Testing Documentation	Systems Division management needs to instruct programming staff to attach all testing related documentation into the lifecycle application utility. This would facilitate post implementation review and provide greater assurance that changes to production have been tested and are functioning as intended.	No evidence of implementation or IA's validation testing included in Teammate	Not found in recommendation follow up log to Audit Committee	9/18/2020



Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. NDP136419-1A

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

ATTACHMENT B
July 1, 2020 Request for Proposals
and Questions and Answers

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

I. INTRODUCTION

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

II. BACKGROUND

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

LACERA'S MISSION, VISION, AND VALUES

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

Vision: Excellence, Commitment, Trust, and Service

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

LACERA'S GOVERNING BOARDS

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

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

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

INTERNAL AUDIT DIVISION

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

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

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

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

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

///

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

IV. LACERA'S PRACTICE

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

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

V. SCOPE OF THIS AUDIT

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

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

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

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

VI. QUALIFICATIONS OF EXTERNAL ASSESSMENT TEAM

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

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

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

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

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

VII. RFP PROCESS

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

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

A. Schedule, Expected but Subject to Change

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

B. Communication and Questions

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

C. Errors in the RFP

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

D. Addenda

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

E. Delivery of Submissions

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

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

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

F. Proposal Format and Content

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

Cover Letter

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

Executive Summary

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

Experience, Approach, and Proposed Schedule

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

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

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

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

Assigned Professionals

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

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

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

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

References

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

Fees and Costs, Billing Practices, and Payment Terms

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

Conflicts of Interest

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

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

Claims

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

Insurance

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

Other Information

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

G. Post-Proposal Request for Information

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

H. Interviews and Personal Presentations

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

I. Evaluation Criteria

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

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

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

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

J. Engagement Agreement

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

VIII. GENERAL CONDITIONS

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

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

A. Quiet Period

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

///

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

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

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

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

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

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

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

///
///
///

C. Reservations by LACERA

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

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

D. Ownership of Proposals

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

E. Valid Period of Proposal

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

F. Cost of Proposal

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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


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



March 23, 2016

TO: Each Member
2016 Audit Committee

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall 
Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **QUALITY ASSURANCE REVIEW – 2016**

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

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

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

RB:lc

Attachment

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

Office: 518-399-3235
Cell: 518-894-7477
Email: gjsmo1@nycap.rr.com

Certified: NYS
Member: AICPA
NYSSCPA
IIA

REPORT ON THE EXTERNAL QUALITY ASSESSMENT OF

LOS ANGELES COUNTY
EMPLOYEES RETIREMENT ASSOCIATION
OFFICE OF INTERNAL AUDIT

January 15, 2016

Overall Opinion on Conformance

January 15, 2016

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

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

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

George J Shemo, CPA, CGMA

Table of Contents

Cover Page.....	1
Overall Opinion.....	2
Table of Contents.....	3
Executive Summary.....	4
Purpose.....	4
Scope and Methodology.....	4
Summary of Recommendations.....	5
Commendations.....	7
Recommendations for Conformance.....	8
Recommendation for Enhancements.....	10
CAE Response to Recommendations.....	16
Attachment A.....	17

Executive Summary

Purpose

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

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

Scope and Methodology

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

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

Executive Summary

Scope and Methodology (Continued)

The QA consisted of my assessing the following IA functions:

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

Summary of Recommendations

For Conformance

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

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

Executive Summary

Summary of Recommendations (Continued)

For Enhancement

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

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

Executive Summary

Commendations

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

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

Recommendations for Conformance

1. Strengthen and enhance Quality Assurance and Improvement

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

References:

Standard 1311

Practice Advisory 1311-1

Practice Guides - Measuring IA Effectiveness and Efficiency

- Quality Assurance and Improvement Program

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

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

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

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

Recommendations for Conformance

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

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

2. Implement procedures for audit engagement work programs

Implementing Stakeholder: Internal Audit

Reference:

Standards 2240, 2240.A1

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

Recommendations for Enhancement

1. Review the IA Charter on a more frequent basis

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

Reference:

Practice Advisory: 1000-1

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

2. Expand management and reporting of IA resource requirements

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Senior Management
Audit Committee

References:

Practice Advisories 2020-1, 2030-1

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

Recommendations for Enhancement

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

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

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

Recommendations for Enhancement

3. Update the “IA Operations Guide”

Implementing Stakeholder: Internal Audit

Associated Stakeholders: Operating Management

Reference:

Practice Advisory 2040-1

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

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

A comprehensive update of the Guide would accomplish the following:

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

Recommendations for Enhancement

4. Enhance Audit Engagement Reports

Implementing Stakeholder: Internal Audit

Associated Stakeholders: LACERA Management
Audit Committee

Reference:

Standard 2430

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

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

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

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

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

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

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

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



G Shemo Consulting

Recommendations for Enhancement

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

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

CAE Response

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



Richard Bendall
Chief Audit Executive
LACERA Internal Audit

Attachment A

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

Attachment A

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

ATTACHMENT C
KPMG Proposal
in Response to RFP



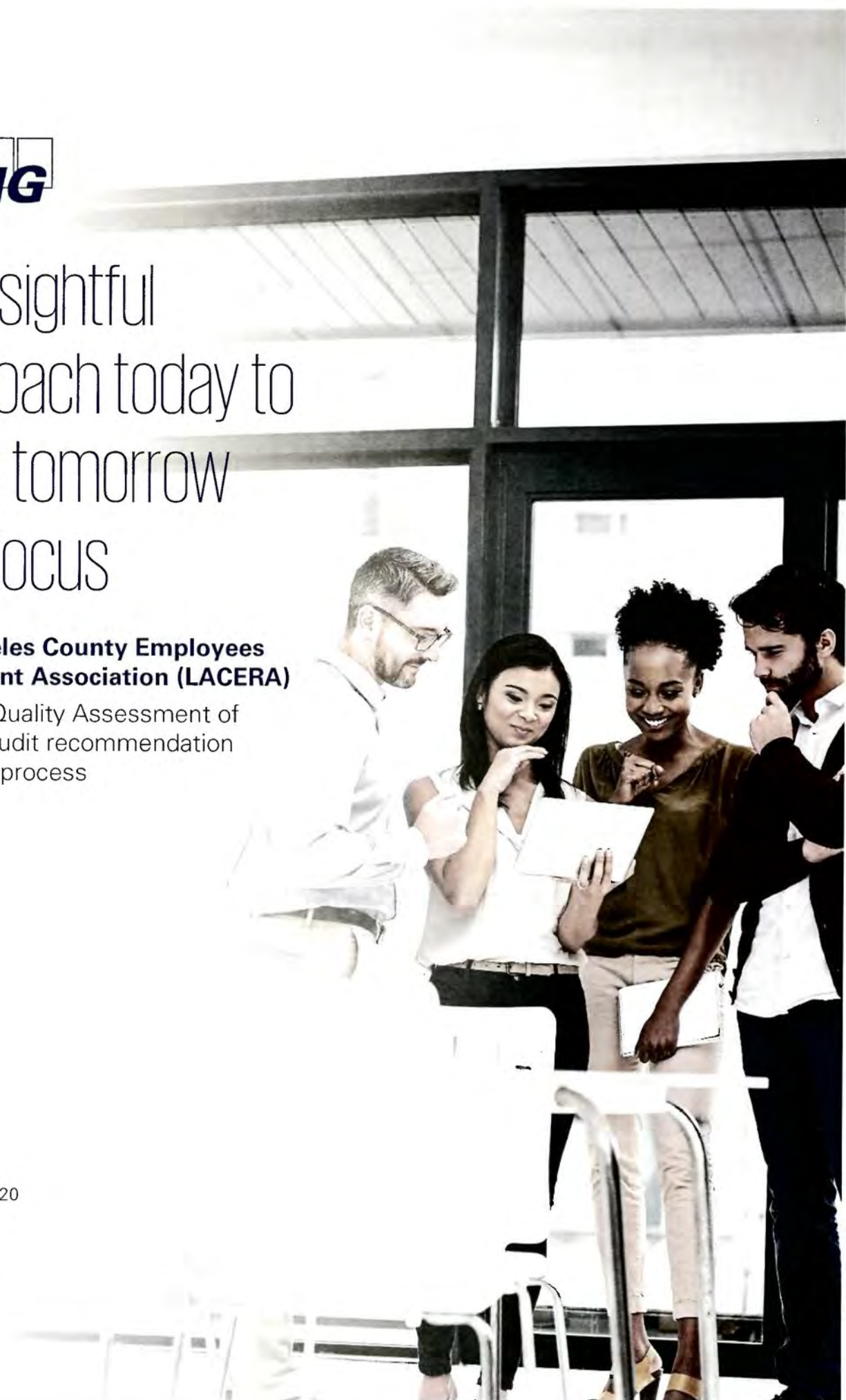
An insightful approach today to bring tomorrow into focus

Los Angeles County Employees Retirement Association (LACERA)

External Quality Assessment of
Internal Audit recommendation
follow-up process

August 03, 2020

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





KPMG LLP
Suite 1500
550 South Hope Street
Los Angeles, CA 90071-2629

Telephone +1 213 972 4000
Fax +1 213 622 1217
kpmg.com

August 03, 2020

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

Dear Mr. Rice,

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

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

At KPMG:

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

Above all, we act with integrity.

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

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

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



Los Angeles County Employees Retirement Association (LACERA)

August 3, 2020

Page 2 of 2

Yours sincerely,

KPMG LLP



Debbie Biddle-Castillo
Lead Managing Director



Douglas Farrow
Lead State and Local Government Partner

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

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

Contents

Executive summary.....	2
Firm background, qualifications, and experience.....	5
Approach and proposed schedule.....	13
Assigned professionals.....	20
References.....	27
Fees and costs, billing practices, and payment terms.....	30
Conflicts of interest.....	34
Claims and insurance.....	38
Appendices.....	43
Appendix A. Additional information.....	44
Appendix B. Team résumés.....	48

Register of Companies and other Data: This document contains confidential or proprietary information of PWS LLP, the acquisition of which could provide a competitive advantage to others. PWS LLP does not intend to place, disclose or be subject to public scrutiny of the confidential or proprietary information contained in this proposal, or to use it, or the contents of it, for any other purpose.

This proposal is made by PWS LLP, a Delaware limited liability partnership and the U.S. member firm of PWS International, a separate PWS International entity. It is not intended to constitute an offer of securities or to be used in connection with any offer of securities. It is not intended to be used in connection with any offer of securities. It is not intended to be used in connection with any offer of securities. It is not intended to be used in connection with any offer of securities.

© 2012 PWS LLP. All rights reserved. PWS LLP and PWS are trademarks of PWS LLP. PWS LLP is a member firm of the PWS network of independent member firms. PWS LLP is not affiliated with any other PWS International member firm. PWS LLP is not affiliated with any other PWS International member firm.

This document is confidential and intended solely for the use of the individual or entity to whom it is addressed. If you have received this document by mistake, please notify the sender immediately by e-mail.

Executive summary



1 Executive summary

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

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

Our understanding of your requirements

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

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

EQA – Monitoring and Follow-up Process objectives

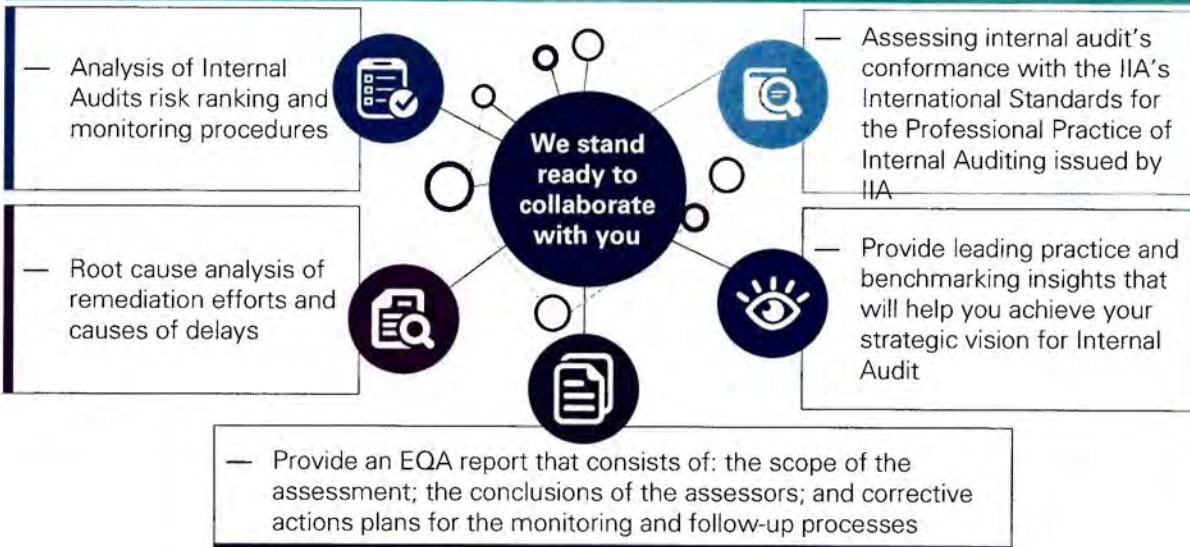
Assess policy and process for identification and ranking of deficiencies

Assess efficiency and effectiveness of remediation plans and timelines

Evaluate and identify root cause for extended risk exposure

Provide leading practices and benchmarking insights

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



Why KPMG? What differentiates us?

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

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

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

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

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



Firm background,
qualifications,
and experience



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



2 Firm background, qualifications, and experience

KPMG overview

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

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

Utilizing our qualified resources from local, regional and national networks



KPMG's Los Angeles office

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







What we do?

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

Our commitment to corporate responsibility

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

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

Community impact KPMG's commitment to education and lifelong learning supports a diverse talent pipeline by empowering individuals from pre-k to the C-suite to unlock potential and change lives.	 190K volunteer hours	 \$50M total KPMG giving	KPMG's Family for Literacy  570 schools and organizations supported
	 KPMG is a signatory of the UN Sustainable Development Goals (SDGs). Our U.S. Community Impact strategy aligns with SDG #4, Quality Education.	Donated 5 millionth book  \$10M raised by KPMG partners and professionals	 433K+ number of students supported by KPMG's Lifelong Learning programs

Inclusion and diversity

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

222 Business Resource Groups (BRGs) & Inclusion Councils

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

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

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

49% partners and employees participate in Inclusion & Diversity events

KPMG's workforce diversity:

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

Environmental sustainability

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

Environmental Highlights

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

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

Alignment with the United Nations Sustainable Development Goals

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


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

Living Green

since 2013, over **34,000** trees from coast to coast

Supporting communities globally through COVID-19

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





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

KPMG's Internal Audit and EQA Services practice overview

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

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

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

Our experience in providing EQA services

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



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

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

Representative EQA clients

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

Our experience in the state and local government industry

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

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

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

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

Our purpose: What we do matters

We bring innovative international perspectives to Government & Public Sector clients to help solve their pressing challenges.

- KPMG inspires confidence and empowers change
- KPMG's Government practice works in industries that affect everyone's lives; what we do matters

Our sector commitment: To be the Clear Choice for Government & Public Sector clients as they seek to:

- Foster prosperity for all
- Protect society
- Help enable a better future
- Create sustainable quality of life
- Support trade, aid and investment

Our involvement in the state and local government sector

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

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

KPMG Institute Network

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

Government Institute

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

Clients we serve

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

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

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

Approach and proposed schedule



3 Approach and proposed schedule

KPMG’s intelligent EQA methodology: K’SPrint

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

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



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

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

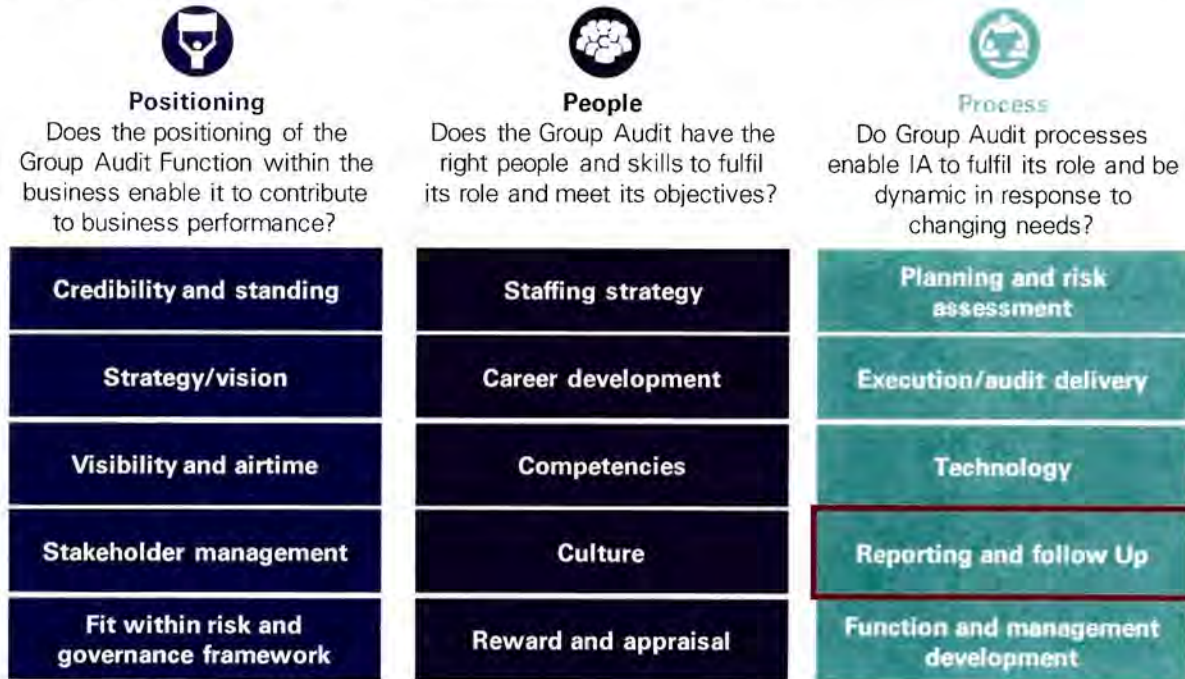
K’SPrint uses a structured, yet flexible and intelligent approach to help maximize the value you will receive from the review, and focuses on three key success factors for Internal Audit:

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

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

Our approach to accomplish LACERA’s objectives

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



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

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

Scope and maturity attributes

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

Detailed phases and activities for Phase 1:

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

3 Comparative analysis

Key activities

IIA/IPPF Standards

Industry practices comparison:

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

Preliminary observations and discussion:

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

4 Reporting

Key activities

Draft report:

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

Final report:

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

Phase 2:

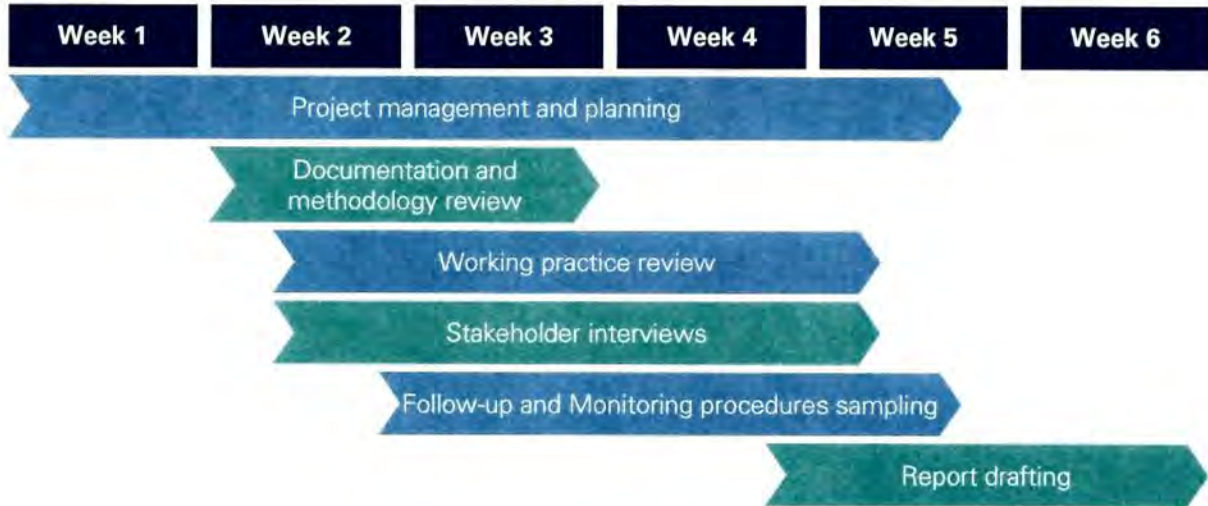
5 Planning

Key activities

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


Sample project timeline and deliverables

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



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

Representative deliverables (Subject to alignment with LACERA)



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

Bi-Weekly Status Report

Status	2019	2020	2021	2022
Deliverables				
Chart Assessment Survey Methodology	6/12/2019	9/13/2019	10/11/2019	Complete
Final Survey, evaluation methodology, training deck and draft report on internal control observations and recommendations	6/13/2019	9/13/2019	10/11/2019	Complete
Train the Trainer Sessions	1/15/2020	2/12/2020		In Progress
Departmental Training Assistance	TBD	Q1 - To be scheduled		In Progress

Activities Performed:

- KPAC provided final Survey and Train the Trainer deck

Key Issues (I)/Decisions (D):

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

Key Upcoming Activities:

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

■ All deliverables of this status are complete or in progress
■ Moderate level of risk that deliverables will be missed
■ High level of risk that deliverables will be missed

XPMG

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



Assigned professionals





4

Assigned professionals



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





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



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

Brief biographies and roles of your team members

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

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

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

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

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

Why select this team?

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

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

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

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

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

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

Use of subject-matter professionals (SMPs)

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

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

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

Our commitment to staff continuity

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

Policy summary

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

Developing Diverse Businesses

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

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

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

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

Highlight Metrics (as % of total procurement spend):

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

Partnerships

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



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

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

Awards

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

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

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

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

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



References



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



5

References

Our philosophy in serving our clients

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

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

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

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

Client references from previous engagements

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

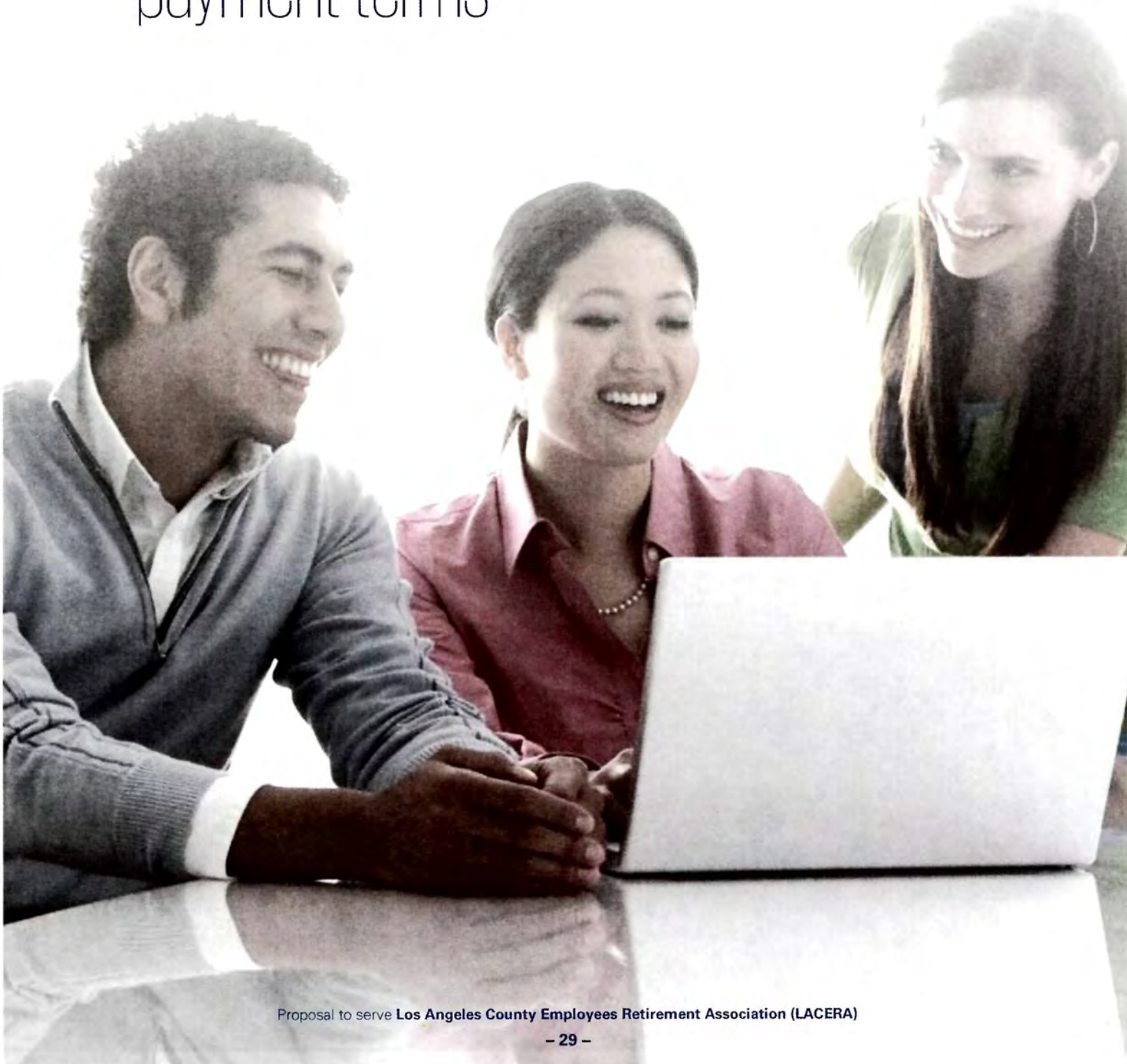
Reference 2	
Client name	City of Los Angeles
Contact	Name: Paul Alberga Position: Internal Audit
Length of time served	12 years
Description of services provided	KPMG has provided a variety of engagements to multiple departments within the City of Los Angeles, including internal audit engagements to the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

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

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

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

Fees and costs, billing practices, and payment terms





6

Fees and costs, billing practices, and payment terms

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

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

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

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

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

Billing practices

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

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

Payment terms and assumptions

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

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



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

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

Conflicts of interest



7 Conflicts of interest

No known relationships affect our independence

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

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

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

Conflicts and independence clearance

Engagement teams proposing to perform a new audit engagement are required to perform a series of procedures, including a review of any non-audit services provided to the potential entity to be audited.

The Sentinel system is used to identify and manage potential independence issues and conflicts of interest within and across member firms in the KPMG International network. When a potential conflict of interest is identified, the lead partner may consult with a member of Risk Management to determine how to resolve the potential conflict after appropriate consultations, if needed, with the Office of General Counsel, and the resolution of all matters is documented. Resolution of potential conflicts requires approval from someone outside the audit engagement team, which could include the professional practice partner, Sentinel conflicts resolver or the functional risk management group, before signing the initial audit engagement letter.

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

KPMG's independence technology tools

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

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

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

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

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

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

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

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

Communicating with you regarding resources that serve your competitors

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

Protecting confidentiality of your intellectual property and personally identifiable information

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

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



Claims and insurance





8

Claims and insurance

Claims, litigations and lawsuits

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

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

Sanctions or enforcement actions over last five years

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

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

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

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

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

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

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



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

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

Insurance

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





CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY):
11/12

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

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

PRODUCER MARCH USA, INC. 20 CHELSEA STREET 8TH FLOOR HARTFORD, CT 06183	CONTACT NAME Alicia M. Smith
CN102516341-CN-01-19-20	PHONE (A/C, H/L, Ext.) (860) 224-4444
INSURED MPV3 LLP Three Chestnut Ridge Road Montvale, N. J. 07465	FAX (A/C, H/L, Ext.) (860) 224-4444
	EMAIL ADDRESS Alicia.M.Smith@acord.com
INSURER(S) AFFORDING COVERAGE	
INSURER A - Hartford Fire Insurance Co	NAIC# 15582
INSURER B - Hartford Underwriters Insurance Company	33164
INSURER C - American Guarantee and Liability Insurance Company	26247
INSURER D - Trumbull Insurance Company	27128
INSURER E - Zurich American Ins. Co	15535
INSURER F - Twin City Fire Insurance Company	29459

COVERAGES **CERTIFICATE NUMBER:** 24491 **REVISION**

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

NO. / LTR	TYPE OF INSURANCE	ADD. (INS)	BUBR (W/L)	POLICY NUMBER	POLICY EFF. (MM/DD/YYYY)	POLICY EXP. (MM/DD/YYYY)	LIMITS
4	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY <input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PROJECT <input type="checkbox"/> LOC <input type="checkbox"/> OTHER			020 R22015	10/01/2019	10/01/2020	EACH OCCURRENCE \$ 1,000,000 DAMAGE TO RENTED PREMISES (Per occurrence) \$ 1,000,000 MED. EXP. (Per person) \$ 10,000 PERSONAL & ADV. INJURY \$ 1,000,000 GENERAL AGGREGATE \$ 5,000,000 PRODUCTS - COMP/OP AGG \$ 2,000,000
A, B	AUTOMOBILE LIABILITY <input type="checkbox"/> ANY AUTO <input type="checkbox"/> OWNED AUTOS ONLY <input type="checkbox"/> SCHEDULED AUTOS ONLY <input checked="" type="checkbox"/> HIRED AUTOS ONLY <input checked="" type="checkbox"/> NON-OWNED AUTOS ONLY			02 AB R22010 (AGS) 02 AB R22011 (H)	10/01/2019 10/01/2019	10/01/2020 10/01/2020	COMBINED SINGLE LIMT (Per accident) \$ 1,000,000 BODILY INJURY (Per person) \$ BODILY INJURY (Per accident) \$ PROPERTY DAMAGE (Per accident) \$
C	<input checked="" type="checkbox"/> UMBRELLA LIAB <input checked="" type="checkbox"/> OCCUR <input type="checkbox"/> EXCESS LIAB <input type="checkbox"/> CLAIMS-MADE DED. RETENTION \$			AL09304907-AT	10/01/2019	10/01/2020	EACH OCCURRENCE \$ 1,000,000 AGGREGATE \$ 1,000,000
D, F	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY/PROG. COV. (M/F) (M/F) (M/F) (M/F) (M/F) (M/F) (Mandatory in NH) (Yes, describe under DESCRIPTION OF OPERATIONS below)			02 WN R22015 (AGS) 02 WBR R22017 (W)	10/01/2019 10/01/2019	10/01/2020 10/01/2020	<input checked="" type="checkbox"/> PER STATUTE <input type="checkbox"/> OTHER E - EACH ACCIDENT \$ 1,000,000 E - DISEASE - EA EMPLOYEE \$ 1,000,000 E - DISEASE - POLICY LIMIT \$ 1,000,000

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

CERTIFICATE HOLDER Los Angeles County Employees Retirement Association (LACERA) 300 N. Lake Pasadena, CA 91101-4196	CANCELLATION SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE of March USA Inc. Craig A. Patton
---	---

© 1988-2016 ACORD CORPORATION. All rights reserved.

ACORD 25 (2016/03)

The ACORD name and logo are registered marks of ACORD



SUMMARY OF INSURANCE

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

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

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

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

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

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

Dated: July 21, 2020

Signed: *Aon Risk Services Northeast, Inc.*

One Liberty Plaza | 165 Broadway | Suite 2001 | New York, NY 10006 | USA
1-212-441-1000 | +1-212-441-1553 | aon.com/professional-services
Aon Risk Services Northeast, Inc.

Appendices







Appendix A: Additional information

KPMG's K'SPRint framework

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

The following provides more detail of some of the topics covered by K'SPRint framework:

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

Process



Planning

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

Execution

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

Technology and tools

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

Reporting




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

Validation of closure of issues

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

Evolving expectations of internal audit

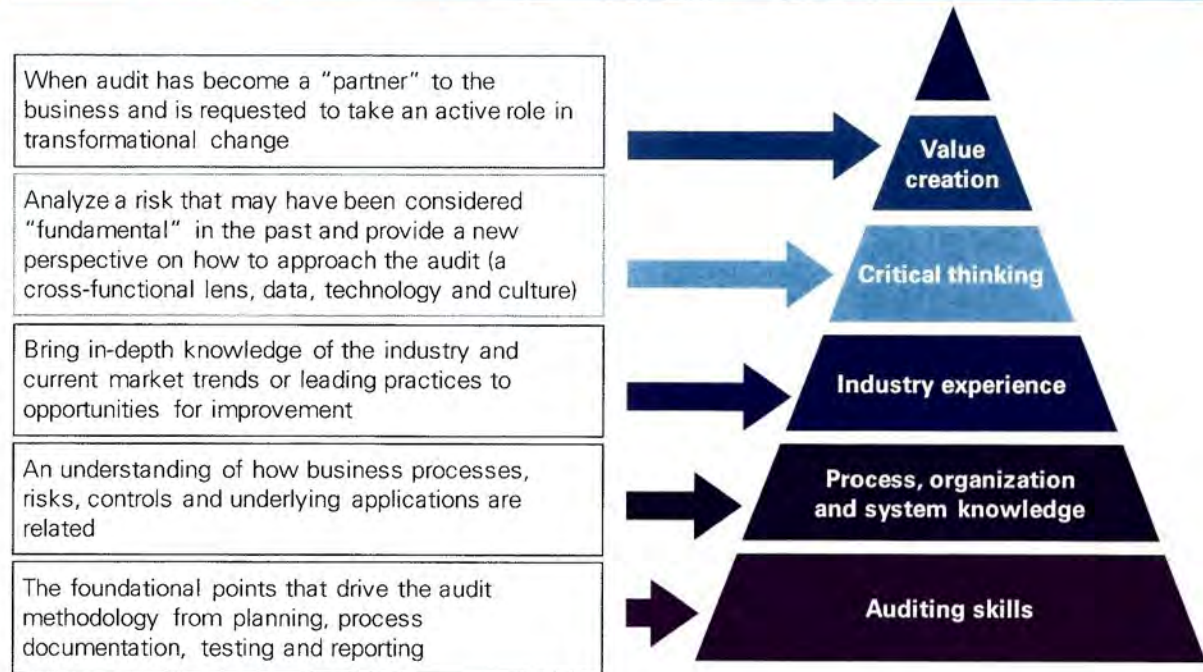
Current state of play: Internal Audit: To realize your ambitions, it is helpful to understand current market conditions and how expectations of internal audit are shifting and what 'leading edge' means. Current market conditions are evolving and are focused on better results while remaining objective.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

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

The drive towards value creation

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

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





Appendix B: Team resumes



Debbie Biddle-Castillo

Managing Director

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

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

Function and specialization

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

Representative clients

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

Professional associations

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

Education, licenses & certifications

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

Lead Managing Director

Background

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

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

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

Professional and industry experience

Establishment of Internal Audit function

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

Internal Audit Outsource/Co-source

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

Recommendation follow-up and validation

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

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

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

SOX 404 assistance

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

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

Vendor management

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



Douglas E. Farrow

Partner

KPMG LLP
550 South Hope Street
Los Angeles, CA 90071

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

Function and specialization

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

Representative clients

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

Professional associations

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

Education, licenses & certifications

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

Lead State and Local Government Partner

Background

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

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

Professional and industry experience

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

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

Relevant experience

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

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

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

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

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

Publications and speaking engagements

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



Sami Salam

Director

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

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

Function and specialization

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

Representative clients

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

Professional associations

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

Language

- English

Education, licenses & certifications

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

Engagement Director

Background

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

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

Professional and industry experience

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

Representative experience

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

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

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

Other activities

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



Colleen K. McAlary

Senior Associate, Advisory

KPMG LLP
550 South Hope St.
Los Angeles, CA 90071

Tel 213-630-2296
Fax 213-947-4429
Cell 626-376-1956
cmcalary@kpmg.com

Function and specialization

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

Representative clients

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

Education, licenses & certifications

- BS in Business Administration from the University of Southern California

Engagement Senior

Background

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

Professional and industry experience

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

Internal Audit

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

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

Model Validation experience

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

External audit support

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



Dee Dee Owens

Partner

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

Tel 213-955-8330
Fax 213-403-5607
Cell 678-777-7897
zowens@kpmg.com

Function and specialization

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

Representative clients

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

Professional Associations

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

Languages

- English

Education, Licenses & Certifications

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

Background

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

Professional and industry experience

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

Representative experience:

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

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

Publications and speaking engagements

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



Patty Basti

Partner

KPMG LLP
312 Walnut Street, Suite 3400
Cincinnati, OH 45202

Cell 513-225-0962
pbasti@kpmg.com

Function and specialization

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

Representative clients

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

Professional associations

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

Education, licenses & certifications

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

Quality Assurance Leader and SMP

Background

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

Professional and industry experience

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

Internal Auditing/Controls/Compliance

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

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

Risk Assessment/Risk Management

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

Other activities

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



Anna Lam

Director

KPMG LLP
550 South Hope Street
Suite 1500
Los Angeles, CA 90071-2629

Tel main 213-972-4000
Tel direct 213-955-8305
email annalam@kpmg.com

Function and specialization

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

Representative clients

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

Professional associations

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

Education, licenses & certifications

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

Background

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

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

Professional and industry experience

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

Investigative services

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

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

Presentation and speaking engagements

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



Jacob Schotz

Director

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

Tel 213-955-8347
Fax 213-402-7836
Cell 818-481-6823
jschotz@kpmg.com

Function and specialization

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

Representative clients

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

Professional associations

- Member, The Institute of Internal Auditors (IIA)

Languages

- English

Education, licenses & certifications

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

Quality Assurance Director

Background

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

Professional and industry experience

Finance and Capital Markets

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

Consumer Compliance and Banking Operations

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

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

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

Technical skills

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

Contact us



Debbie Biddle Castillo
Lead Managing Director
T 213-533-3375
E dlbiddle@kpmg.com



Douglas Farrow
Lead State and Local Government Partner
T 213-955-8389
E dfarrow@KPMG.com

www.kpmg.com

ATTACHMENT D
Trustee Comments



Los Angeles County Employee Retirement Association (LACERA)

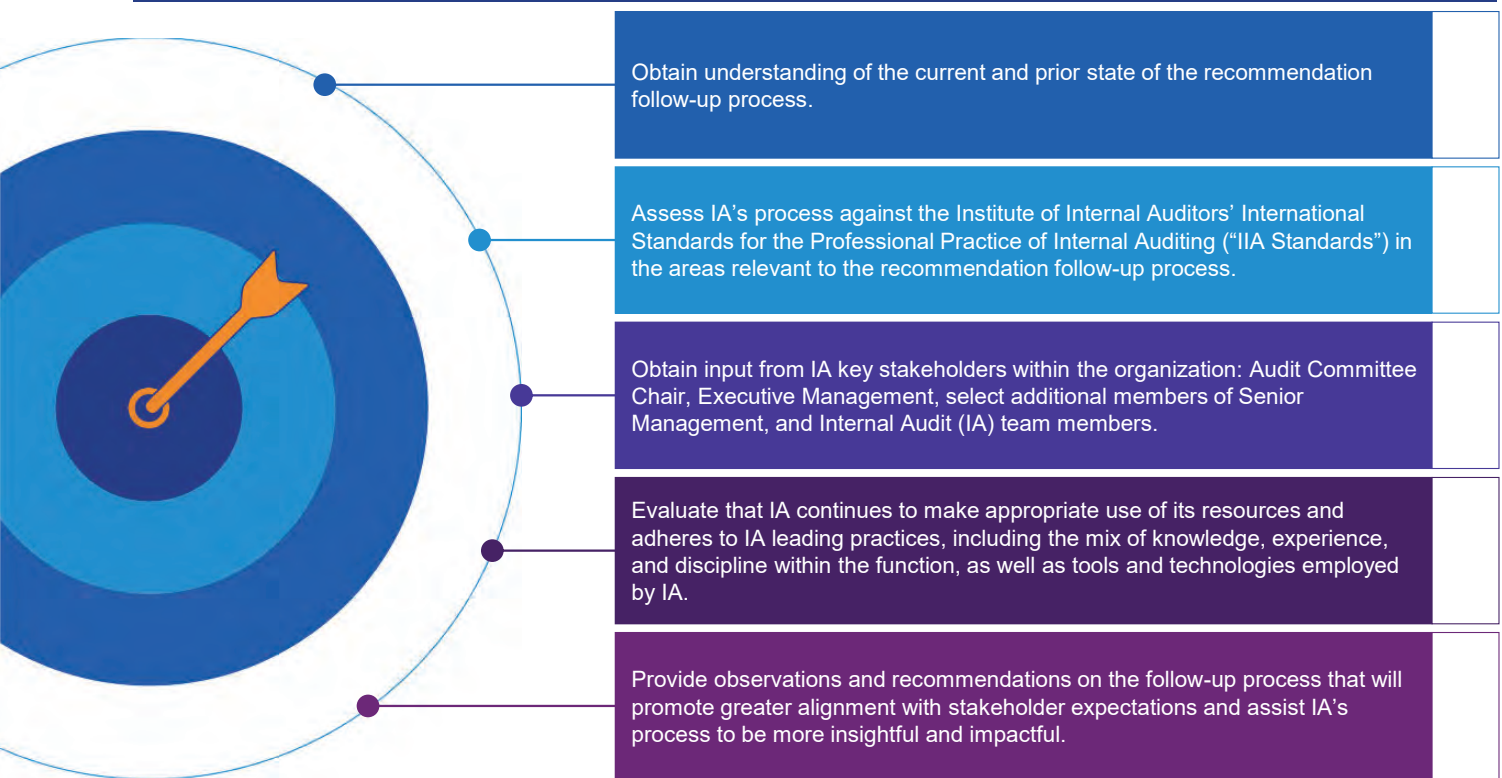
External Quality Assessment (EQA) of Internal
Audit's Recommendation Follow-up Process

December 31, 2020



Objectives

KPMG's assessment of LACERA's Internal Audit Recommendation Follow-up process focused on the following:



Background and Scope

Background

LACERA's recommendation follow-up process has gone through two evolutions during the period of 2014 – 2020. Prior to July 2020, LACERA's Internal Audit (IA) program did not have documented or consistently implemented procedures regarding how to appropriately manage and follow-up on recommendations issued to management as a result of findings identified during internal audits.

There were contributing factors to the inconsistency in process and aged audit findings during the period under audit, 2014 – 2020. The Chief Audit Executive (CAE) was on medical leave from December 2017 – October 2018. In addition, throughout the period, key stakeholders interviewed noted that LACERA's organizational culture posed a compliance obstacle to management acting on remediation items, particularly where the remediation required collaboration and support of the IT organization.

In March 2019, the Internal Audit function enhanced Audit Committee reporting regarding outstanding audit findings to include a color coding system to better identify recommendation status, management responses and separate reporting for each recommendation. Per inquiry with the CAE, the enhancements to the reporting were adopted by Internal Audit to highlight the problem surrounding the aged audit findings. The additional detail provided in these reports better equipped the Audit Committee and senior management to hold management accountable for their agreed remediation actions.

In November 2019, we understand that the Internal Audit function initiated a Quality Assurance Improvement Program (QAIP), which identified potential enhancements to the recommendation follow-up process and began to re-design and document the process. This led to a retroactive review of the remediation of audit findings from 2017 – 2019 (which was completed in 2020, during our review), establishment of a formalized recommendation follow-up process in July 2020, and more detailed review by the CAE of remediation on a finding basis, which was previously conducted at a higher level.

During the period of October 2018 – July 2020, while IA was undergoing efforts to enhance the recommendation follow-up process, the process was not formally documented to facilitate compliance and consistency. This led to minimum observable improvement from the pre-2018 process, with the exception of the enhanced Audit Committee reporting and reported reduction in longstanding open remediation items. No standard process or detailed oversight was in place; the recommendation follow-up process was open to auditor discretion.

In July 2020, the enhanced recommendation follow-up process was formalized, providing high level guidance from finding identification through finding remediation, establishing standards such as: the appropriate timeline for management to remediate a finding for each respective risk level, auditor's responsibility to follow-up and manage the recommendation's status throughout remediation, and high-level requirements to close a recommendation. These changes were first reflected in the June 2020 recommendation follow-up report to the Audit Committee. As part of our scope, we have reviewed the new procedures and identified opportunities for further enhancements which are detailed in this report. We were also able to review the remediation validation process by IA under the new process for 3 findings closed since July 2020, and noted no exceptions.



Summary of Comments on Talkbook template

Page: 3

- | Number | Author | Subject | Date |
|---|-------------|-------------|----------------------|
| 1 | JosephKelly | Sticky Note | 1/26/2021 4:51:48 PM |
| I do not think it was necessary to include this fact in the report. The period is one year of a six year period under review. Audit didn't stop its operations during the year of the CAE's absence. Staff stepped up and managed the operation in his absence. KPMG fails to state the impact of the absence; they just inform us of it. | | | |
| 2 | JosephKelly | Sticky Note | 2/9/2021 6:36:52 PM |
| Please be direct and not suggest or insinuate. Audit's job is to determine the status of the recommendation. If there was an IT component to the recommendation, are you stating that Audit staff reported a recommendation as implemented, when it was not? | | | |
| 3 | JosephKelly | Sticky Note | 1/26/2021 5:00:15 PM |
| Previously defined. | | | |
| 4 | JosephKelly | Sticky Note | 2/9/2021 8:21:09 PM |
| The function is an inanimate body that doesn't have the ability to initiate anything. The CAE should have approved something like this. Did he? | | | |
| 5 | JosephKelly | Sticky Note | 2/9/2021 6:39:01 PM |
| In this paragraph you state the process was revamped and improved, yet in the following paragraph you say it wasn't. This is confusing. | | | |
| 6 | JosephKelly | Sticky Note | 2/9/2021 6:40:45 PM |
| Please write in the active and not the passive voice. The reader should know who the actors are, and when you do not tell us, we guess. Who enhanced the follow-up process? | | | |

Background and Scope (continued)

○ Scope

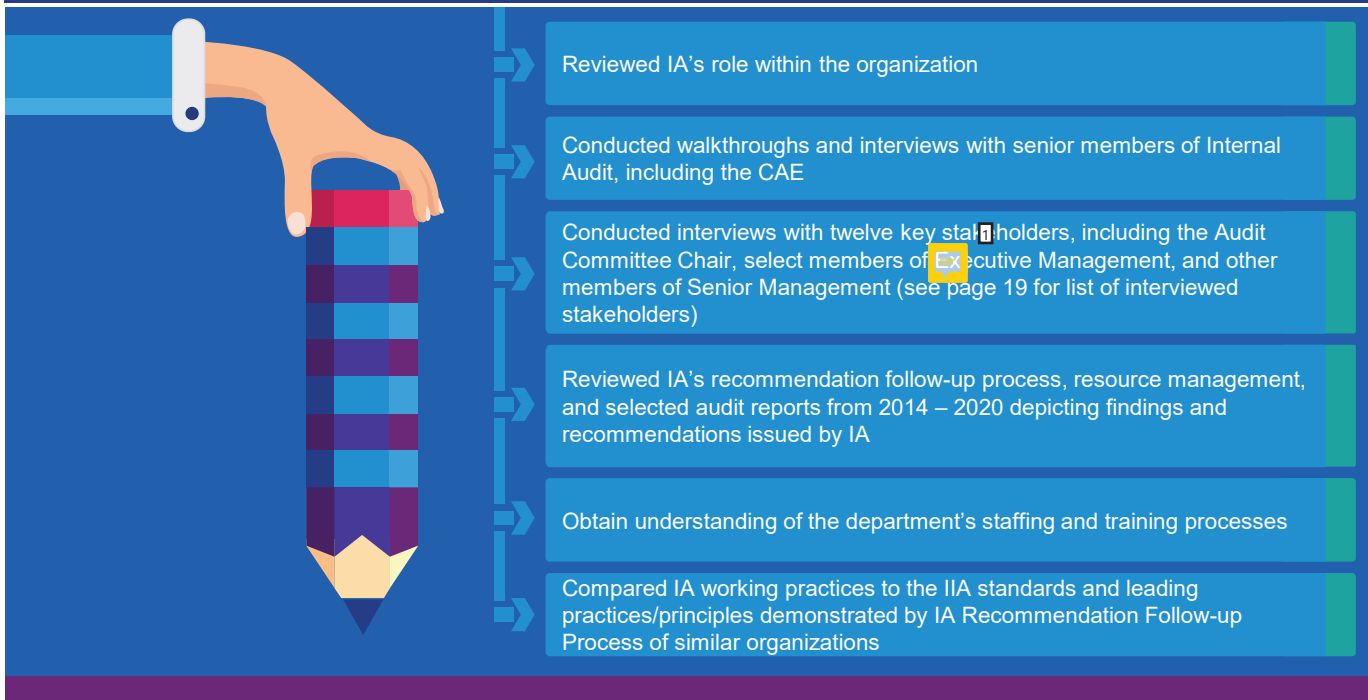
The scope was to perform an assessment of the recommendation follow-up process for the period of 2014 – 2020 against the Institute of Internal Auditors' (IIA) Standards and leading practices, including the completeness and accuracy of Internal Audit's tracking and reporting of open audit findings.

The recommendation follow-up process is defined as the procedures performed after the recommendation has been agreed to by management and reported to the Audit Committee. The process includes regular follow-ups with process owners, validation testing of the remediation after completion of management's agreed actions, and status reporting to the Audit Committee.






Approach

KPMG's approach considered the three aspects of IA's Recommendation Follow-up Processes – position, people, and process. KPMG's approach included the following steps:



Page 19 is a Header page. There is a list on page 20, but that list totals 15, not 12.


Executive summary

LACERA's Internal Audit Recommendation Follow-up Process function partially conforms as of July 2020 with the IIA Standards promulgated by the Institute of Internal Auditors. <small>(see page 7 for definition of ratings)</small>		
 Position	 Process	 People
<p>The current Executive Management and the Audit Committee Chair have placed renewed emphasis on the importance of the remediation of IA findings, which has led to increased accountability for management to address issues raised by the IA team on a timely basis. However, Internal Audit (IA) is not well established as a consistently strong agent of change¹. While IA is not solely responsible for ensuring management's actions are appropriately completed, IA could increase its value and impact to the organization by continuing to work with management and ensuring they're held accountable to their agreed management actions. Increasing accountability for management includes, monitoring and reporting on status throughout the remediation life-cycle, and a formalized process to approve requested due-date extensions, including executive sign-off.</p>	<p>Internal Audit's recommendation follow-up process was not effective prior to July 2020, with no formalized process and an inconsistent approach to IA's validation testing and recording of evidence to support validation (see page 3 for a description of IA's improvement activities ongoing from 2017 – 2020). Prior to 2020, there were a significant number of aged audit findings which were past their due date, with a lack of adequately detailed reporting of status to the Audit Committee.</p> <p>IA's new process, established in July 2020, provides a framework for recommendation follow-up which should be consistently followed, with some areas of opportunity for enhancement highlighted in this report.</p>	<p>Internal Audit is generally viewed as competent across the organization but has a perception of lacking independence². The perception challenge was noted through our stakeholder interviews; however, no evidence of a lack of independence was noted through our detailed testing. Management should develop a plan to address independence perceptions via transparent communication and enhanced processes, including documentation retention to allow for increased transparency, and key performance metrics which are tracked and reported to the Audit Committee.</p> <p>Third parties are utilized to support IA when specialized skills are considered necessary. IA should continue to focus on ensuring that the in-house team has the necessary skill set to conduct remediation follow-up or to re-hire the consultant to do so.</p>
<p>Developing Mature Leading</p> <p>Position</p>	<p>Developing Mature Leading</p> <p>Process</p>	<p>Developing Mature Leading</p> <p>People</p>

¹Agents of Change: Internal Auditors who promote and enable change to happen within the Recommendation Follow-up Process. Assumes responsibility for promoting the value of the transformation that is being undertaken by LACERA; guiding and/or supporting others through the transformation to mitigate the identified risk, while maintaining appropriate independence; and ensuring that the new processes, procedures, structures, etc., are implemented in ways that deliver the expected value that the organizational change was to produce.

²The Internal audit team must be independent in fact and appearance, and internal auditors must be objective in performing their work. Work should be performed in an independent and unbiased approach, and evidenced in this manner to support the independence objective.



 Number: 1 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 6:44:51 PM
You did not define effective.

 Number: 2 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 6:48:00 PM
I reviewed the March 2020 recommendation status report that was part of that meeting's agenda. It is 38 pages long, and staff provided detail for each open audit recommendation. It is not clear how you determined that this report "lacked adequate detail?"

Conformance with IIA Standards

Rating	Number	Standard
□	1100	Independence and Objectivity
□	1110	Organizational Independence
□	1111	Direct Interaction with the Board
□	1120	Individual Objectivity
□	1130	Impairment to Independence or Objectivity
□	2500	Monitoring Progress
Key	Rating	
□	Generally conforms	
□	Partially conforms	
□	Does not conform	
N/A	Standard was not applicable to Corporate Audit or instance did not arise.	

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

Conclusion – LACERA IA’s Recommendation Follow-up process partially conforms (middle possible rating) with the *IIA Standards* promulgated by the Institute of Internal Auditors. The rating takes into consideration and heavily weights the new process that was implemented in July 2020. Due to limited sampling available since the implementation, we are unable to determine if documented updates to the program would result in a generally conforms rating.



IIA Standard definitions

The following definitions are from the IIA's International Standards for the Professional Practice of Internal Auditing (Standards – effective January 2017).

— 1100 – Independence and Objectivity

- The internal audit activity⁽²⁾ must be independent, and internal auditors must be objective in performing their work.
 - *Independence is the freedom from conditions that threaten the ability of the internal audit activity⁽²⁾ to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity⁽²⁾, the chief audit executive has direct and unrestricted access to senior management and the board⁽¹⁾.*
 - *Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

— 1110 – Organizational Independence

- The chief audit executive must report to a level within the organization that allows the internal audit activity⁽²⁾ to fulfill its responsibilities. The chief audit executive must confirm to the board⁽¹⁾, at least annually, the organizational independence of the internal audit activity.⁽²⁾
 - *Organizational independence is effectively achieved when the chief audit executive reports functionally to the board⁽¹⁾.*

— 1111 – Direct Interaction with the Board⁽¹⁾

- The chief audit executive must communicate and interact directly with the board⁽¹⁾

— 1120 – Individual Objectivity

- Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest
 - *Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity⁽²⁾, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.*



IIA Standard definitions (continued)

— 1130 – Impairment to Independence or Objectivity


- If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
 - *Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.*

— 2500 – Monitoring Progress

- The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
- 1) The referenced role of the Board is usually carried out by the Audit Committee, an operating committee of the Board charged with oversight of risk management and the company's system of internal controls and compliance with laws and regulations.
 - 2) The internal audit activity assessed for the purposes of this review is the recommendation follow-up process.



Number: 1 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 7:26:40 PM

 I am surprised that you do not reference the fact that for various special engagement IT audits, the CAE had not included those recommendations in his recommendation follow up report until July 2020.

Strengths and opportunities



Position



Key strengths

- **Management Support** – In 2020, Executive Management support for IA's recommendation follow-up process has increased within the organization. Management is visibly supporting IA in holding management accountable for agreed upon remediation actions in Audit Committee meetings which is an appropriate and necessary role which can be maintained while still allowing IA to remain independent. This improvement was noted within Audit Committee meetings and report format and has led to an increased number of recommendations being addressed. We recommend that the level of support and focus from the Executive Management and the Audit Committee for IA's reports and findings continue, as this is key to IA being able to drive change. While management actions which go past their due date are sometimes unavoidable, these should be rare and supported by valid business reasons.



Key opportunities

- **Not a Consistently Strong Agent of Change** – IA is currently not consistently viewed, by interviewed stakeholders, as having the ability to address, execute, and drive change. IA should continue to focus on consistency in recommendation format and details, along with increasing accountability for management. This includes monitoring and reporting on status throughout the remediation life-cycle, and a formalized process to approve requested due-date extensions including executive sign-off.

It is important to note that IA can only function within the overall culture of an organization, and that prior to 2020, management has not prioritized acting on their agreed remediation actions, nor been held accountable. Based on interviews with key stakeholders, management's remediation efforts appear to have been particularly challenging where remediation has depended upon collaboration with the IT function, which is also noted to have significantly improved in 2020. Our review did not include an assessment of overall organizational culture. Nor did it include a review of LACERA's governing body or operational management's role in risk management (the first and second lines within the IIA's Three Lines Model). There is an opportunity for LACERA to further assess each of these areas.

Strengths and opportunities (continued)



People



Key strengths

- **Perception of competence** – Throughout the organization, key stakeholders perceive IA to be generally competent in their responsibilities, with the level of competence perceived to have been on an upward trend in recent years.
- **IA as a consultative partner** – When management is in need of assistance, IA successfully acts as a consultative partner rather than part of management, performing management activities. IA is careful not to overstep when management is formulating responses to findings. Independence appears to be adhered to in this regard.



Key opportunities

- **Perception of lack of independence** – Most stakeholders interviewed have a perception that IA is not consistently independent. However, we did not identify evidence of a lack of independence during the detailed review of follow-up procedures we performed.

The perception of a lack of independence creates a concern of favoritism whilst conducting audits and areas that potentially receive less audits or scrutiny during an audit. The concerns raised do appear to be mostly connected to prior relationships with a past member of the Executive Office and the Head of IT; however, the overall perception remains as of the date of our review.

IA has a well tenured team, which has advantages of extensive business knowledge, but brings the disadvantage of the risk of potential independence conflicts due to past and present relationships, both in fact and appearance. Opportunities to mitigate are strengthening communication, transparency and IA accountability as well as adding new team members when possible and appropriate.

Strengths and opportunities (continued)



Process







Key strengths

- **New process** – Since the creation of an official recommendation follow-up process in July 2020, recommendations have been consistently undergoing the established process throughout their life cycle. The recommendations created using the new policy have resulted in greater success regarding the implementation life-cycle. Due to the date of establishment, there is a limited population of recommendations which have followed this process for our review to assess its overall sustainability.
- **Report format** – Since March 2019, IA has been modifying and enhancing the Audit Committee report to the Audit Committee so that recommendations are more descriptive, and include risk level, time outstanding (by year), and current status. The report assists in ensuring that recommendations that have been long outstanding (and are high risk) are visible to the Audit Committee. Key updates occurred in March 2019 and June 2020.
- **Recommendations formed appropriately** – IA successfully formed most recommendations to adhere to the criteria of specific, measurable, achievable, and timely per the recommendation follow-up process during the seven years reviewed.



Key opportunities

- **Improve timeliness of remediation follow-up** – Prior to 2020, recommendations have remained open for extended periods of time beyond the established due date, without appropriate, or in some cases, any follow-up. Recommendation follow-up has appeared to be rushed and only performed at reporting deadlines for the Audit Committee. This process has improved since the implementation of the new recommendation follow-up process in July 2020, we recommend that IA continue to consistently follow this new process.
- **Improve consistency in data** – Of the recommendations tested within this review, a significant number had data inconsistencies between recommendation follow-up logs, the reported status to the Audit Committee, and TeamMate. These included inconsistencies in: remediation date, status, closed/implemented date, etc. IA should ensure that all team members are appropriately trained on TeamMate and the data rules used for recording to promote standardization of data within the follow-up process.
- **Improve evidence retention for closure support** – IA failed to upload, maintain, and collect sufficient evidence to support the closure of recommendations. There were several instances in which evidence provided was inappropriate (email from recommendation owner) or non-existent. Opportunities to enhance the July 2020 process have been highlighted in our observations to drive consistency and rigor in the validation of remediation activities and maintenance of appropriate audit evidence.
- **Enhance use of tool (TeamMate)** – IA's leverage of TeamMate is not to a sufficient level to improve and enhance IA processes. There are also multiple versions of Teammate in use, which do not reconcile. Workflow and reporting functionality are not utilized.
- **Define process for due date extensions** – IA should define process for approved extensions to the recommendation remediation due date. This should include required approvals and circumstances of acceptable use cases.

	Number: 1	Author: JosephKelly	Subject: Sticky Note	Date: 2/9/2021 7:25:01 PM
What is an "official recommendation follow-up process"? As well, you refer to "recommendations created using the new policy", but if the policy is indeed related to the recommendation follow-up process, that policy is not, by definition, applicable to the recommendations that staff identify in new audits.				
	Number: 2	Author: JosephKelly	Subject: Sticky Note	Date: 2/9/2021 7:01:09 PM
This is a material finding.				
	Number: 3	Author: JosephKelly	Subject: Sticky Note	Date: 2/9/2021 7:02:19 PM
I recommend the Committee amend the CAE's MAPP goals to include staff training on, and utilization of, TEAMMATE.				
	Number: 4	Author: JosephKelly	Subject: Sticky Note	Date: 2/9/2021 7:05:39 PM
This is not clear. Are you stating that the CAE has a role in approving business unit requests for extensions? I see the CEO leading that, with the CAE providing input on associated risks of delay.				











Observations



Observations, Recommendations, and Management Response

Observation	Recommendation	Management action plan
<p>1. Prior to July 2020, recommendations have been closed by IA without sufficient evidence or without sufficient retention of appropriate evidence, and risk exposure could remain:</p> <p>Until July 2020, IA did not have a formalized process that defined the recommendation follow-up procedures. Each auditor could follow personal approaches to the process, with no standardization or oversight, which has resulted in inadequate validation activities and evidence maintained. Of the 72 closed samples we reviewed from 2014 - 2020, we found that 41 were closed either without sufficient evidence, or without the sufficient retention of appropriate evidence. (33 were previously closed, 8 in 2018 – June 2020).</p> <p>As we were unable to review supporting evidence, we cannot conclude if the recommendations were appropriately closed.</p> <p>In July 2020, a procedure was enacted to establish a standardized process. However there is still opportunity for enhancement, specifically around the requirements for validation testing and required evidence to be maintained. We reviewed the evidence and IA validation of the three recommendations closed since the new procedures was put in place in July, with no exceptions being noted.</p>	<p>Risk Rating: High</p> <p>Recommendation:</p> <ul style="list-style-type: none"> a) Enhance new procedure to include: <ul style="list-style-type: none"> i. minimum testing requirements to be performed for IA to validate management’s remediation. This should include guidelines for when a follow-up audit may be performed. Testing of operating effectiveness should be performed for all high risk findings at a minimum. ii. detail on the type of evidence to be maintained, either the length of time that records must be retained or a reference to LACERA’s document retention policy. We recommend that sufficient evidence is maintained such that a third party could reperform the validation testwork. b) Evaluate implementing the TeamM feature to enable management to directly upload evidence. c) Assess high risk findings which have been previously closed, and determine if areas has been re-audited since the date of closure. If not re-audited, evaluate to validate status is appropriate. 	<p>Executive Office Response:</p> <p>The Executive Office will discuss these observations and recommendations with the Chief Audit Executive and the Audit Committee, in its oversight and evaluation role, and implement changes as agreed with the Committee, while maintaining appropriate separation of audit and operational responsibilities.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and will incorporate changes to our documented recommendation follow-up procedures to make sure these are all addressed along with any further direction by the Audit Committee.</p> <p>Due Date: March 31, 2021</p>




-
-  Number: 1 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 8:28:30 PM
This is confusing and we need to be clear. An audit of an operational issue identifies findings and develops recommendations to address those findings. Here, you are talking about a subset of those audit findings. A follow-up audit is a distinct and new audit of the operational issue. A follow-up audit does not comprise the testing necessary to confirm if an audit recommendation in a prior audit was implemented. Do you concur?
-
-  Number: 2 Author: JosephKelly Subject: Sticky Note Date: 1/26/2021 6:30:53 PM
You are stating that there was no documented evidence of supervisory review of the analysis or determination, correct?
-
-  Number: 3 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 8:25:36 PM
You speak often in this report of pre and post July 2020 and the importance of that date is very confusing. Here we learn that the 72 closed recommendations in total that you reviewed, only 3 (.43%) were for the period after July 2020. Is that correct? If so, at its face, that low number would question the legitimacy of your post July 2020 observations, no?
-
-  Number: 4 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 8:28:48 PM
This is very troubling because it suggests that staff may not have had sufficient evidence to support the audit finding in the first place. You identify material issues related to auditor discretion, insufficient documentation to support determinations, and the lack of supervisory review. Is there any reason to not think that these issues would be applicable to the original audits themselves?
-
-  Number: 5 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 7:52:56 PM
It would have been helpful to determine if this was just a document retention issue or something else. Audit staff could have asked the business unit manager to confirm and the reason(s). You noted there has been little turnover, so I would think staff should be able to recall the reasons for the action.
-
-  Number: 6 Author: JosephKelly Subject: Sticky Note Date: 1/26/2021 6:53:13 PM
Did you get any sense as to the group's overall use of, or experience in, TeamMate? This one comment suggests they have not embraced it fully.
-
-  Number: 7 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 8:03:34 PM
Was the auditor's work approved by a supervisor? My recollection is that TeamMate indicates that.
-
-  Number: 8 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 8:30:57 PM
The subject verb agreement in this sentence is not correct.

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>2. A perception that IA lacks independence may lead to the risk of reduced impact and respect for the reports and recommendations released by the Division:</p> <p>IA is required to be independent in both fact and appearance. We did not identify any factual evidence of a lack of independence through our detailed review of follow-up procedures. However, most stakeholders interviewed indicated a concern over IA's independence, raising a question over the perception or appearance of IA's independence within the organization.</p> <p>The concerns raised do appear to be mostly connected to prior relationships with a past member of the Executive Office and the Head of IT; however, the overall perception remains as of the date of our review. Some areas, such as IT, are perceived to have not been audited as heavily or as frequently as others, with more leniency and negotiation around audit findings raised, and lack of follow-up performed.</p> <p>While IA is required to be independent, it must operate within the overall organizational culture, which has not been in-scope for our review. However, some interviewees commented on concerns about the impact of organizational culture and governance on IA's past efficacy. We suggest consideration be given to an evaluation of LACEF overall governance structure.</p> <p>The existing IA team members are well-tenured, which can contribute to the challenge of maintaining independence when IA is an in-house department, due to the formation of relationships, and perception thereof.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should:</p> <ul style="list-style-type: none"> a) Roll-out a communication program that is presented to key stakeholders on an organization-wide basis to explain how IA maintains independence and explain IA's responsibilities and processes and management's role in those processes. b) Standardize and enhance recommendation follow-up procedures (as discussed in finding #1). c) Monitor and report Key Performance Indicators at the Audit Committee which track audits and findings by business unit, and history of aged items by audit area. d) Add new team members to department as the opportunity arises. New team members can also address gaps in team skill set (e.g. current gap in IT) 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated in reference. In addition, on an organization-wide basis, the Executive Office will take steps with division managers and all staff to promote IA and its critical function and independent role in the organization, encourage cooperation with IA in its audits and prompt response to address IA recommendations, and use of IA as a consulting resource when appropriate. The Executive Office will support additional IA staffing resources as needed.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and welcomes them to help address any perceptions that Internal Audit lacks independence. We have always maintained a strong mindset of independence and worked hard to avoid even the appearance of a lack of independence but recognize the need to better demonstrate our independence and ensure that we remain independent in fact and avoid or mitigate any perception of insufficient independence.</p> <p>Significant efforts have been made to implement recommendations b, c and d, but we will continue in those efforts.</p> <p>Due Date: April 31, 2021</p>





Number: 1 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 8:08:46 PM

 This last sentence does not follow and, quite frankly, is entirely out of place. You state that you did not identify any factual evidence of a lack of independence. I assume you shared that finding in your exit conference with the Audit Committee Chair, Chief Executive Officer, and Chief Counsel. Did you?

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>3. IA does not include progress on completion of remediation status or evaluate potential to exceed due dates and leave risk exposure unremediated:</p> <p>IA does not include current progress of remediation of open findings within its reports to the Audit Committee, or include possible extended risk exposure for delayed recommendations. Escalation of "at risk" recommendations by IA allows Executive Management to take appropriate action to prioritize remediation or to accept the risk of a longer remediation timeline.</p> <p>Management needs to participate and provide appropriate and accurate information to Internal Audit for this process to be successful.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should:</p> <ul style="list-style-type: none"> a) Enhance the current procedures to be more directive about when status updates are required (e.g. each quarter if remediation is due in excess of six months, and monthly if less than six months); this can be based on risk level or other factors. b) Enhance Audit Committee reporting to include a category of recommendations that are at risk of not being remediated by their due date. c) Evaluate TeamMate's workflow functionality, to allow for notices to be emailed to recommendation owners and IA (not just IA), and allow for updates to be entered into the system by management, and reviewed by IA. 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated by reference.</p> <p>Internal Audit Response:</p> <p>Internal Audit Management agrees with the recommendations and will incorporate them into our documented process and the role out of our new TeamMate Plus automated audit workpaper software.</p> <p>Due Date: March 31, 2021</p>

	Number: 1	Author: JosephKelly	Subject: Sticky Note	Date: 2/9/2021 8:12:34 PM
But the reports do contain current status. The section under each recommendation is headed "Current Status."				
	Number: 2	Author: JosephKelly	Subject: Sticky Note	Date: 2/9/2021 8:11:16 PM
Here you point to the CEO as the person to determine if the risk of delay is acceptable. Earlier you suggested that the CAE had a role there.				

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>4. IA does not have a process for extension of recommendation follow-up due dates:</p> <p>It was noted during review of the 112 recommendations from the selected audit that findings are not consistently remediated in a timely manner. Requests from management to extend remediation due dates have been a frequent occurrence, and there has not been a defined approach to request approval of this extension.</p> <p>Without appropriate transparency and approvals for due date extensions, the risk identified in the original audit remains unmitigated without conscious acceptance of the risk impact of the due date delay.</p>	<p>Risk Rating: High</p> <p>Recommendation: IA should define and implement a process that details the required approvals and circumstances in which extension is permitted. We recommend that due date extensions require the same approvals as the initial report issuance, up to and including the Audit Committee. There should also be limited circumstances in which extensions are permitted to maintain accountability from management to meet their commitments.</p>	<p>Executive Office Response: Response to observation #1 incorporated by reference.</p> <p>Internal Audit Response: Internal Audit Management agrees with the recommendation and has incorporated it into our documented recommendation follow-up procedures.</p> <p>Due Date: Complete per IA Management.</p>


 Passive voice again. Who is remediating? Also, here you state you reviewed 112 recommendations but earlier you stated the population was 72.

Observations, Recommendations, and Management Response (continued)

Observation	Recommendation	Management action plan
<p>5. A centralized tracking tool is not adequately used to manage IA recommendations and corresponding corrective actions:</p> <p>IA does not adequately utilize TeamMate, which is the Internal Audit team's current Internal Audit management tool. There is inconsistent data entry, and lack of usage of TeamMate's workflow capabilities for tracking the remediation status of open findings. Both of these lead to the inability to use reporting from the tool, resulting in increased efforts to gather reporting, and risk of data inaccuracies. IA has a project in place to implement TeamMate+ to improve tool utilization.</p> <p>In addition, IA has two versions of the Teammate tool that are both used to track and maintain audit and recommendation follow-up documents. The systems are not linked and therefore need to be manually maintained. Currently, the systems are not in sync and do not reconcile to the reported recommendation audit log within the Audit Committee reports.</p>	<p>Risk Rating: Medium</p> <p>Recommendation:</p> <ul style="list-style-type: none"> a) Ensure that personnel utilizing Teammate have been appropriately trained on the approved process for standardized data entry into the system. b) Evaluate the new version of Teammate that will be implemented, to ensure any configuration is designed to meet the new needs of the process, and include data cleansing and migration to allow for one system of record for reporting purposes going forwards. c) Establish clear system of record documentation to comply with LACERA's documentation policy. IA record retention is 10 years. 	<p>Executive Office Response:</p> <p>Response to observation #1 incorporated by reference. The Executive Office will take administrative steps to ensure that IA has necessary technology and training support. The Executive Office will also ensure that there is administrative support for appropriate document retention.</p> <p>Internal Audit Response:</p> <p>IA Management agrees with the recommendations. We have been in the process since July 2020 of evaluating and planning to acquire a significant upgrade to our automated audit software package, from TeamMate AM to TeamMate Plus. We have received Executive Office approval and expect to acquire and implement the new software beginning in January 2021. The implementation will include assistance from the vendor with the migration of data from the prior version as well as training for all Internal Audit staff.</p> <p>Due Date: March 31, 2021</p>



Number: 1 Author: JosephKelly Subject: Sticky Note Date: 2/9/2021 8:18:28 PM

 I believe TeamMate also produces reports for management regarding the planned and actual hours to conduct an audit and documents supervisory and management reviews. I would ask the CAE to report back into this Committee on that type of functionality so the Committee can discuss utilization of that information in some type of management report.



Appendices

Appendix: Parties contributing to the EQA

Thank you for the opportunity to serve LACERA and the Internal Audit team. We appreciate the following individuals' support of the project and willingness to spend time providing feedback, documentation and examples:

Internal Audit personnel

- Richard Bendall (CAE)
- Leisha Collins (Principal Auditor)
- Christina Logan (Senior Internal Auditor)

Audit Committee/Board of Investments

- Gina Sanchez (Audit Committee Chair)

Company Management

- Santos Kreimann (CEO)
- Steven Rice (Chief Counsel)
- Bernardo Buenaflor (Benefits Division Manager)
- Jonathan Grabel (CIO)
- Ted Granger (Interim CFO)
- Dr. Arlene Owens (Interim CQA)
- Kathy Delino (Interim Information Systems Manager)

- Bonnie Nolley (Executive Board Assistant)
- Kimberly Hines (Administrative Services Manager)
- JJ Popowich (Assistant Executive Officer)
- Beulah Auten (retired CFO)

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



Observation ratings

Observation ratings (like audit ratings) are an important aspect of the independence of internal audit. Issues are generally rated at the end of fieldwork, after the audit team has had an opportunity to review the totality of findings from interim communications and associated management responses.

Our issue rating scale is as follows:

High Risk	The control gap or exceptions noted could have significant financial or operational consequences to the Company.
Medium Risk	The control gap or exceptions noted expose the Company to increased risk, but would not have significant financial or operational consequences to the Company.
Low Risk	Other items that are isolated and/or minor. Observations to improve financial and/or operational efficiency.



Conformance with IIA Standards

Rating	Number	Standard	Rating	Number	Standard
N/A	1000	Purpose, Authority, and Responsibility	N/A	2120	Risk Management
N/A	1010	Recognizing Mandatory Guidance in the Internal Audit Charter	N/A	2130	Control
■	1100	Independence and Objectivity	N/A	2200	Engagement Planning
●	1110	Organizational Independence	N/A	2201	Planning Considerations
●	1111	Direct Interaction with the Board	N/A	2210	Engagement Objectives
N/A	1112	CAE Roles Beyond Internal Auditing	N/A	2220	Engagement Scope
■	1120	Individual Objectivity	N/A	2230	Engagement Resource Allocation
■	1130	Impairment to Independence or Objectivity	N/A	2240	Engagement Work Program
N/A	1200	Proficiency and Due Professional Care	N/A	2300	Performing the Engagement
N/A	1210	Proficiency	N/A	2310	Identifying Information
N/A	1220	Due Professional Care	N/A	2320	Analysis and Evaluation
N/A	1230	Continuing Professional Development	N/A	2330	Documenting Information
N/A	1300	Quality Assurance and Improvement Program	N/A	2340	Engagement Supervision
N/A	1310	Requirements of the Quality Assurance & Improvement Program	N/A	2400	Communicating Results
N/A	1311	Internal Assessments	N/A	2410	Criteria for Communicating
N/A	1312	External Assessments	N/A	2420	Quality of Communications
N/A	1320	Reporting on the Quality Assurance and Improvement Program	N/A	2421	Errors and Omissions
N/A	1321	Use of "Conforms with the [Standards]"	N/A	2430	Use of "Conducted in Conformance with the [Standards]"
N/A	1322	Disclosure of Nonconformance	N/A	2431	Engagement Disclosure of Nonconformance
N/A	2000	Managing the Internal Audit Activity	N/A	2440	Disseminating Results
N/A	2010	Planning	N/A	2450	Overall Opinions
N/A	2020	Communication and Approval	■	2500	Monitoring Progress
N/A	2030	Resource Management	N/A	2600	Communicating the Acceptance of Risks
N/A	2040	Policies and Procedures	Key	Rating	
N/A	2050	Coordination and Reliance	●	Generally conforms	
N/A	2060	Reporting to Senior Management and the Board	■	Partially conforms	
N/A	2070	External Service Provider and Organizational Responsibility for IA	❖	Does not conform	
N/A	2100	Nature of Work	N/A	Standard was not applicable to Corporate Audit or instance did not arise.	
N/A	2110	Governance			

Conclusion – LACERA IA's Recommendation Follow-up process partially conforms (middle possible rating) with the IIA Standards promulgated by the Institute of Internal Auditors. The rating takes into consideration and heavily weights the new process that was implemented in July 2020. Due to limited sampling available since the implementation, we are unable to determine if documented updates to the program would result in a generally conforms rating.



Lack of consistency in data examples

Date of Audit	Finding	Recommendation	Evidence	Audit Report Close Date	TeamMate Close Date
6/25/15	Information Management	Investments Office Management consider implementing a Customer Relationship Management (CRM) System to manage and maintain information related to LACERA's private equity partnerships. This system can potentially be used to manage information for other asset class managers also.	No evidence of implementation or IA's validation testing included in Teammate	This recommendation disappears from Audit Report. Last reported as "Pending" in 2018-07-18 agenda	4/30/2019
7/10/15	Retiree Health Care Contract with AON (And associated 3rd party vendors) - Contract with RGS	RHC should consider the results of their work in the recommendation above as well as refer to LACERA's Purchasing Policy to determine whether to establish a contract with RGS (including all necessary language for the protection of LACERA members data) or whether to initiate an RFP for healthcare printing and mailing associated with Aon; or alternatively to amend the contract with Aon to require them to contract with one of their preferred and vetted third party vendors for RHC's printing and mailing needs.	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported as "Pending" in 2016-07-20 agenda	7/6/2016
7/10/15	Expired Contract	The Communications Division should obtain a new contract with ZDI. The new contract should be on LACERA's form having had prior review by LACERA's Legal Office	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported as "Pending" in 2015-12-03 agenda	12/17/2015
11/24/15	Need for Documented Procedures	Benefits Management should develop a documented process as well as standardized desk procedures and/or checklists for staff that process Returned Automatic Deposit Receipt (ADR) holds.	No evidence of implementation or IA's validation testing included in Teammate	Disappears from Audit Report. Last reported in 2018-03-21 Report	Not Recorded
10/30/18	Testing Documentation	Systems Division management needs to instruct programming staff to attach all testing related documentation into the lifecycle application utility. This would facilitate post implementation review and provide greater assurance that changes to production have been tested and are functioning as intended.	No evidence of implementation or IA's validation testing included in Teammate	Not found in recommendation follow up log to Audit Committee	9/18/2020





Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.



kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. NDP136419-1A


The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.



February 3, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

George Lunde 
Senior Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

SUBJECT: **Social Security Number Verification System 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. Social Security Number Verification System Audit
George Lunde, Senior Internal Auditor
(Report issued: February 3, 2021)

RPB:gl



LACERA INTERNAL AUDIT DIVISION

SOCIAL SECURITY NUMBER VERIFICATION SYSTEM AUDIT

February 3, 2021

PERFORMED BY:

George Lunde, CIA, CISA
Senior Internal Auditor

AUDIT REPORT

Audit Name:	Social Security Number Verification System
Responsible Division:	Benefits Division
Audit Rating*:	Opportunities for Improvement
Prior Audit Rating*:	Not Applicable
Prior Report Date:	Not Applicable

BACKGROUND

Internal Audit performs an annual Social Security Number (SSN) verification process whereby we compare the active retiree payroll data file to the Social Security Administrations records through their verification system. This validation test has proven to be an effective tool for identifying additional potential member deaths that LACERA's death verification vendor, PBI Research Services (PBI), did not identify.

OBJECTIVE AND SCOPE

The objective of our testing was to:

1. Identify deceased LACERA benefit payee accounts receiving benefit payments.
2. Validate LACERA's operational processes are functioning in an adequate manner to prevent benefit payments to deceased member accounts.

We tested 100% of the 68,600 members receiving benefit payments as of July 31, 2020. Testing involved:

- Submission of a file to the Social Security Number Verification Service (SSNVS) to validate the SSN/first name/last name of a member actively receiving benefit payments.
- Investigation of negative responses from SSNVS to determine root cause of why the LACERA member's name or SSN is not in agreement with the SSA Database.
- Final validation of all identified issues by the Benefits Division's Benefit Protection Unit (BPU)

RESULTS

Approximately 68,000 were verified on the first validation pass with SSNVS. Subsequent audit analysis, investigation, and resubmission to SSNVS, resulted in identifying 13 member accounts with issues. Seven accounts were indicated as deceased, and six accounts with invalid member SSNs. The BPU section has initiated resolution of all these account issues in accordance with Benefits Division policies and procedures for collection of benefit over payments and correction of payee Social Security numbers.

While this test is ordinarily performed and reported as one of our continuous auditing process (CAP) tests, we identified three internal control matters this time which necessitated us reporting the results in our standard audit report format. The three matters identified included the need for:

* See Appendix 1 for Audit Rating

1. Employing the use of the SSNVS system for members living in certain States whose privacy laws inhibit the effectiveness of the death verification vendor, PBI.
2. Improving the process of placing payment holds when BPU identifies deceased members through the death verification vendor, PBI, process.
3. Ensuring the accuracy of members social security numbers.

This review 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

Overall, we did not perform a broader scope audit of BPU's death verification process, and therefore do not provide an overall assessment of BPU's death verification process. However, the relatively low number of additional deaths identified through this SSNVS audit provides some assurance as to the effectiveness of BPU's death verification process. We did find opportunities for further improvement in the system of internal controls.

Summary of Findings

Ref.	Page	Findings	Risk Rating**
F1	5	Members Receiving Payments Reported as Deceased by SSNVS	Medium
F2	7	Decedent Accounts Previously Identified Receiving Payments	Low
F3	8	Benefit Recipients with Mismatched SSNs	Medium

We thank the Benefits Division's, Benefits Protection Unit (BPU) for their cooperation and assistance with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: February 3, 2021

* See Appendix 1 for Audit Rating

** See Appendix 2 for Finding's Risk Rating

REPORT DISTRIBUTION

2021 Audit Committee	Santos H. Kreimann, CEO	Carlos Barrios, Benefits Division Manager
2021 Plante Moran Audit Team	J.J. Popowich, AEO	Internal Audit Group
Robert H. Griffin, Audit Committee Consultant	Steven Rice, Chief Legal Counsel	

FINDING #1

Five Members Receiving Payments were Reported as Deceased by SSNVS	Risk Rating** Medium
--	---------------------------------------

OBSERVATION

Through our queries to the Social Security Number Verification System (SSNVS) we identified five LACERA members currently receiving a total of \$6,900 per month cumulatively in benefit payments who are deceased according to the Social Security administration (SSA) records. The total amount of the loss is not readily determinable as LACERA's Benefits Protection Unit (BPU) is in the process of determining the dates of death and obtaining death certificates. They have placed stop payments and initiated ACH reversals for any available funds retrievable.

LACERA is commonly notified of a member's passing by their spouse or next of kin (related parties). LACERA's death verification vendor, PBI Research Services (PBI) is an important control employed by LACERA to identify deaths not otherwise reported to LACERA. PBI reports approximately 250 member deaths each month of which approximately 90% are also reported or will have been reported by related parties prior to the next benefit payment. For the remaining 10% reported by PBI, LACERA's Benefits Protection Unit (BPU) initiates payment holds to prevent further payments while the deaths are investigated further.

PBI had not identified these five members as deceased because in 2011 the SSA (a primary source of death information) curtailed the data available to death verification vendors, because certain States have placed restrictions on the sharing of death records with death verification vendors such as PBI and they require that the SSA also restrict sharing of any data these States have provided to the SSA. This has left the vendors to devise alternate, less comprehensive methods for discovering deaths of their client's members. These alternate methods include State vital-statistic agencies and obituary databases. Those States that restrict the SSA from sharing death data, also themselves do not share their death data directly with PBI. LACERA does participate in an obituary matching service through PBI which helps identify some of these unreported deaths.

Internal Audit and the BPU perform verification of benefit payees to SSA data on a frequent basis and usually identify a small number of unreported and unidentified deaths. For this test, BPU staff determined that all five of the deceased members in fact lived in US states that do not allow sharing of death records. The previous exercise was performed by BPU in February 2019.

RISK

Payment of benefits on a deceased member's account for an extended period may not be recoverable and result in a loss of pension trust funds. The issue is considered a medium risk as while the number of unreported or undetected deaths each year through this process has been low, there is a potential for losses related to each member identified as deceased as well as headline risk.

** See Appendix 2 for Finding's Risk Rating

RECOMMENDATION

BPU should validate the SSNVS status of benefit recipients residing in non-death reporting states on a quarterly basis to minimize risk of benefit overpayments.

MANAGEMENT'S RESPONSE

Benefits Management agrees with the recommendation and will validate the SSNVS status of benefit recipients residing in non-death reporting states on a quarterly basis beginning, 4/1/2021, and on an on-going quarterly basis.

TARGET COMPLETION DATE

April 1, 2021

FINDING #2

Two Payees Reported as Deceased by SSNVS Were Previously Identified	Risk Rating**
	Low

OBSERVATION

During our queries of LACERA active payees to the Social Security Number Verification System (SSNVS) we identified two additional deceased members (in addition to the five discussed in Issue #1) but these two had previously been identified as deceased by BPU. We determined that while BPU had sent instructions to Benefits Division staff to place payment holds in Workspace, the holds were not placed and BPU did not identify that they had not been placed. There was a total of \$17,870 in benefit overpayments to these two accounts, all of which was recovered during this review through ACH/direct deposit bank reversals.

Two other Benefits Division business units had requested that BPU investigate the status of these two members. BPU determined the members were deceased. However, operating procedure required BPU to report the investigation results back to the referring units along with sending supporting documentation to document imaging for loading to the members accounts. The referring units were responsible for recording the death notification in Workspace, which did not occur. BPU staff indicated that COVID-19 disaster declaration and business interruptions during March and April may have contributed to a break down in manual procedures and document flow back to the referring business units to update Workspace with a death status.

RISK

Payment of benefits on a deceased member's account for an extended period may not be recoverable and may become a loss to the trust fund.

RECOMMENDATION

Business processes should be updated to require BPU staff place a payment hold on member's account when they determine that circumstances indicate that a member is deceased. If the date of death is unknown, the payment hold should still be placed by BPU rather than relying on another business unit or process to place the payment hold.

MANAGEMENT'S RESPONSE

Benefits Management agrees with the recommendation and has incorporated the recommendation into its process.

TARGET COMPLETION DATE

January 1, 2021

** See Appendix 2 for Finding's Risk Rating

FINDING #3

Six Members Receiving Benefit Payments Have Mismatched SSNs	Risk Rating**
	Medium

OBSERVATION

During our queries of LACERA active payees to the Social Security Number Verification System (SSNVS) six survivor payee member accounts failed SSNVS verification due to problems with their social security numbers (SSN). Four SSNs were associated with alive non-member persons and one with a deceased non-member person. One was associated with another LACERA member with the same name and very similar SSN. The SSNVS verification process is based upon a correct SSN associated with a correct first and last name. Non matches are kicked out as these six did.

The cause of these SSN discrepancies between LACERA and SSNVS was not conclusively determined during this review. However, BPU noted these were survivor payees and was able to locate correct SSNs within Workspace documents for five of the six payees. BPU is continuing to investigate the one remaining payee.

RISK

Payment of benefits on a deceased member's account for an extended period may not be recoverable and may become a loss to the trust fund. There is an exposure to making payments to a deceased member's account because a mismatched SSN is associated with the member. Controls such as the PBI death match process and Internal Audit's SSNVS test rely upon the accuracy of members social security numbers. This is considered a medium risk as the potential for resulting losses exists as well as negative headline risk.

RECOMMENDATION

Benefits management should counsel staff when working with survivor documents to verify that the Workspace system SSN should match the SSN on documents being processed.

MANAGEMENT'S RESPONSE

Benefits Management agrees with the recommendation and will incorporated the recommendation into its process.

TARGET COMPLETION DATE

April 1, 2021

** See Appendix 2 for Finding's Risk Rating

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 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.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<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>
Medium	<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>
Low	<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>



LACERA INTERNAL AUDIT DIVISION

SOCIAL SECURITY NUMBER VERIFICATION SYSTEM AUDIT

Version with Audit Committee Comments & Internal Audit Responses

February 3, 2021

PERFORMED BY:

George Lunde, CIA, CISA
Senior Internal Auditor

AUDIT REPORT

Audit Name:	Social Security Number Verification System
Responsible Division:	Benefits Division
Audit Rating*:	Opportunities for Improvement
Prior Audit Rating*:	Not Applicable
Prior Report Date:	Not Applicable

BACKGROUND

Internal Audit performs an annual Social Security Number (SSN) verification process whereby we compare the active retiree payroll data file to the Social Security Administrations records through their verification system. This validation test has proven to be an effective tool for identifying additional potential member deaths that LACERA's death verification vendor, PBI Research Services (PBI), did not identify.

AC QUESTION: You state that you perform the process annually but does the Social Security Administration allow LACERA to conduct it more frequently. If so, how frequently? What is the hard \$ cost to conduct this process?

RESPONSE:

We do not know if there is a limit. There is no cost for the service from SSA, LACERA staff time is the only cost.

AC QUESTION: Is this the only benefit?

RESPONSE: No, the secondary related benefit is verifying the accuracy of SSNs.

OBJECTIVE AND SCOPE

The objective of our testing was to:

1. Identify deceased LACERA benefit payee accounts receiving benefit payments.
2. Validate LACERA's operational processes are functioning in an adequate manner to prevent benefit payments to deceased member accounts.

We tested 100% of the 68,600 members receiving benefit payments as of July 31, 2020. Testing involved:

AC QUESTION: Is this inclusive of survivors? If so, I would break them out because they are not members.

RESPONSE: Yes, the 68,600 includes survivors. Survivor continuance payees are considered members of LACERA.

- Submission of a file to the Social Security Number Verification Service (SSNVS) to validate the SSN/first name/last name of a member actively receiving benefit payments.
- Investigation of negative responses from SSNVS to determine root cause of why the LACERA member's name or SSN is not in agreement with the SSA Database.
- Final validation of all identified issues by the Benefits Division's Benefit Protection Unit (BPU)

* See Appendix 1 for Audit Rating

RESULTS

Approximately 68,000 were verified on the first validation pass with SSNVS. Subsequent audit analysis, investigation, and resubmission to SSNVS, resulted in identifying 13 member accounts with issues. Seven accounts were indicated as deceased, and six accounts with invalid member SSNs. The BPU section has initiated resolution of all these account issues in accordance with Benefits Division policies and procedures for collection of benefit over payments and correction of payee Social Security numbers.

AC QUESTION: $68,000 + 13 + 7 + 6 = 68,026$. What about the remaining $(68,600 - 68,026)$?

Response: In the first validation pass, we verified 68,000 of the 68,600. In subsequent audit analysis, we verified 587 of the 600. This resulted in 13 member accounts with issues of which seven accounts were indicated as deceased and six accounts with invalid member SSNs.

While this test is ordinarily performed and reported as one of our continuous auditing process (CAP) tests, we identified three internal control matters this time which necessitated us reporting the results in our standard audit report format. The three matters identified included the need for:

1. Employing the use of the SSNVS system for members living in certain States whose privacy laws inhibit the effectiveness of the death verification vendor, PBI.
2. Improving the process of placing payment holds when BPU identifies deceased members through the death verification vendor, PBI, process.
3. Ensuring the accuracy of members social security numbers.

See “Attachment A” for a detailed write up of the issues identified, our recommendations and managements responses.

AC QUESTION: I think this is appropriate for the body of the report, not an Attachment.

RESPONSE: Noted. This was an error and we have corrected for the AC materials.

This review 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

Overall, we did not perform a broader scope audit of BPU’s death verification process, and therefore do not provide an overall assessment of BPU’s death verification process. However, the relatively low number of additional deaths identified through this SSNVS audit provides some assurance as to the effectiveness of BPU’s death verification process. We did find opportunities for further improvement in the system of internal controls.

AC QUESTION: But BPU’s “death verification process” is that of the vendor it retains, correct?

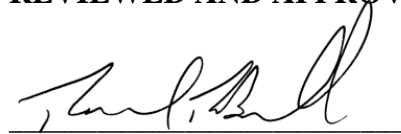
RESPONSE: No, BPU’s process includes investigations utilizing reports of the death verification vendor, PBI, and additional resources, such as SSNVS and CLEAR search.

Summary of Findings

Ref.	Page	Findings	Risk Rating**
F1	5	Members Receiving Payments Reported as Deceased by SSNVS	Medium
F2	7	Decedent Accounts Previously Identified Receiving Payments	Low
F3	8	Benefit Recipients with Mismatched SSNs	Medium

We thank the Benefits Division's, Benefits Protection Unit (BPU) for their cooperation and assistance with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: February 3, 2021

REPORT DISTRIBUTION

2021 Audit Committee	Santos H. Kreimann, CEO	Carlos Barrios, Benefits Division Manager
2021 Plante Moran Audit Team	J.J. Popowich, AEO	Internal Audit Group
Robert H. Griffin, Audit Committee Consultant	Steven Rice, Chief Legal Counsel	

* See Appendix 1 for Audit Rating

** See Appendix 2 for Finding's Risk Rating

Attachment A

FINDING #1

Five Members Receiving Payments were Reported as Deceased by SSNVS	Risk Rating** Medium
--	---------------------------------------

OBSERVATION

Through our queries to the Social Security Number Verification System (SSNVS) we identified five LACERA members currently receiving a total of \$6,900 per month cumulatively in benefit payments who are deceased according to the Social Security administration (SSA) records. The total amount of the loss is not readily determinable as LACERA's Benefits Protection Unit (BPU) is in the process of determining the dates of death and obtaining death certificates. They have placed stop payments and initiated ACH reversals for any available funds retrievable.

AC QUESTION: A merchant can reverse an ACH payment under certain circumstances. The National Automated Clearing House Association (NACHA) has strict ACH reversal rules. Reversals must occur within five business days of the transaction, and only three situations qualify for approval. These include; If the payment was for the wrong dollar amount, if the account number provided was incorrect, if duplicate transactions occur. Further the bank receiving the funds does not need to honor it if the reversal would result in a debit balance to the customer's account. I say this because the sentence suggests there is some hope to retrieving the funds.

RESPONSE: Benefits has had success with ACH reversals when an account is overpaid due to late death notification. Reversals are frequently successful, but they can be frustrated when the funds in the account have been accessed and there are no longer sufficient funds to retrieve the overpayment. We cannot explain our success with reversals despite not coinciding with the strict rules described.

LACERA is commonly notified of a member's passing by their spouse or next of kin (related parties). LACERA's death verification vendor, PBI Research Services (PBI) is an important control employed by LACERA to identify deaths not otherwise reported to LACERA. PBI reports approximately 250 member deaths each month of which approximately 90% are also reported or will have been reported by related parties prior to the next benefit payment. For the remaining 10% reported by PBI, LACERA's Benefits Protection Unit (BPU) initiates payment holds to prevent further payments while the deaths are investigated further.

AC QUESTION: I assume that in order for PBI to do what it does, LACERA gives PBI member SSNs. At some point, perhaps we could have a presentation on the contractual protections LACERA has to safeguard the PII it gives to vendors.

RESPONSE: Request noted. We will work with Legal to provide a presentation on this topic at an upcoming AC meeting.

PBI had not identified these five members as deceased because in 2011 the SSA (a primary source of death information) curtailed the data available to death verification vendors, because certain States have placed restrictions on the sharing of death records with death verification vendors such as PBI and they require that the SSA also restrict sharing of any data these States have provided

** See Appendix 2 for Finding's Risk Rating

to the SSA. This has left the vendors to devise alternate, less comprehensive methods for discovering deaths of their client's members. These alternate methods include State vital-statistic agencies and obituary databases. Those States that restrict the SSA from sharing death data, also themselves do not share their death data directly with PBI. LACERA does participate in an obituary matching service through PBI which helps identify some of these unreported deaths.

Internal Audit and the BPU perform verification of benefit payees to SSA data on a frequent basis and usually identify a small number of unreported and unidentified deaths. For this test, BPU staff determined that all five of the deceased members in fact lived in US states that do not allow sharing of death records. The previous exercise was performed by BPU in February 2019.

AC QUESTION: You stated previously Internal Audit's test was conducted annually. I do not think that is frequent. As well, it is not quite clear what BPU's "verification of benefits payees to SSA" is?

RESPONSE: We determined the verification of benefit payees to SSA data was effective on an annual basis for internal audit's purpose. In the future, we will better consider the use of the term "frequent." Recommendations made in this audit should minimize issues we find in the future. In Feb. 2019, BPU performed the same verification of benefit payees to SSA data that IA performed in this audit but BPU also, uses the SSNVS tool on an ad hoc basis.

RISK

Payment of benefits on a deceased member's account for an extended period may not be recoverable and result in a loss of pension trust funds. The issue is considered a medium risk as while the number of unreported or undetected deaths each year through this process has been low, there is a potential for losses related to each member identified as deceased as well as headline risk.

RECOMMENDATION

BPU should validate the SSNVS status of benefit recipients residing in non-death reporting states on a quarterly basis to minimize risk of benefit overpayments.

AC QUESTION: My understanding is that BPU does not currently conduct the SSNVS, that Internal Audit conducts the SSNVS exercise annually. If you want to delegate the responsibility for conducting that exercise quarterly to the BPU, I would think you would want to put some control mechanisms around the staff who will conduct the test, need for documented review by management etc.

RESPONSE: Agreed. The expectation for all effective controls is that Management has mechanisms around the staff who will conduct the test (a written policy and training) and a review by Management occurs. When we review if the recommendation has been implemented as part of the Recommendation Follow-Up, we will ensure Management has effective control mechanisms.

MANAGEMENT'S RESPONSE

Benefits Management agrees with the recommendation and will validate the SSNVS status of benefit recipients residing in non-death reporting states on a quarterly basis beginning, 4/1/2021, and on an on-going quarterly basis.

TARGET COMPLETION DATE

April 1, 2021

FINDING #2

Two Payees Reported as Deceased by SSNVS Were Previously Identified	Risk Rating**
	Low

OBSERVATION

During our queries of LACERA active payees to the Social Security Number Verification System (SSNVS) we identified two additional deceased members (in addition to the five discussed in Issue #1) but these two had previously been identified as deceased by BPU. We determined that while BPU had sent instructions to Benefits Division staff to place payment holds in Workspace, the holds were not placed and BPU did not identify that they had not been placed. There was a total of \$17,870 in benefit overpayments to these two accounts, all of which was recovered during this review through ACH/direct deposit bank reversals.

AC QUESTION: In essence, there is no automated control mechanism to ensure that pending actions are finalized. I don't know why BPU can't flag an account as pending an action by the referring BU. At least then one could work the pending list on a timely basis. We need something better than hoping all the paperwork gets processed.

RESPONSE: Agreed, we believe the Case Management System will eventually provide the functionality you are suggesting. A Case Management System will assist in ensuring the appropriate follow up is done to finalize the determination of whether the member is deceased and facilitate appropriate collection action by the Benefits Account Services Unit and the Legal Office is necessary.

Both Management and Internal Audit believe the recommendation below is a more efficient and elegant solution. BPU is making a time sensitive determination and in order to provide the greatest possible risk mitigation, they should be able to take immediate action to place a hold on the account.

Two other Benefits Division business units had requested that BPU investigate the status of these two members. BPU determined the members were deceased. However, operating procedure required BPU to report the investigation results back to the referring units along with sending supporting documentation to document imaging for loading to the members accounts. The referring units were responsible for recording the death notification in Workspace, which did not occur. BPU staff indicated that COVID-19 disaster declaration and business interruptions during March and April may have contributed to a break down in manual procedures and document flow back to the referring business units to update Workspace with a death status.

RISK

Payment of benefits on a deceased member's account for an extended period may not be recoverable and may become a loss to the trust fund.

RECOMMENDATION

Business processes should be updated to require BPU staff place a payment hold on member's account when they determine that circumstances indicate that a member is deceased. If the date of death is unknown, the payment hold should still be placed by BPU rather than relying on another business unit or process to place the payment hold.

** See Appendix 2 for Finding's Risk Rating

MANAGEMENT'S RESPONSE

Benefits Management agrees with the recommendation and has incorporated the recommendation into its process.

TARGET COMPLETION DATE

January 1, 2021

FINDING #3

Six Members Receiving Benefit Payments Have Mismatched SSNs	Risk Rating**
	Medium

OBSERVATION

During our queries of LACERA active payees to the Social Security Number Verification System (SSNVS) six survivor payee member accounts failed SSNVS verification due to problems with their social security numbers (SSN). Four SSNs were associated with alive non-member persons and one with a deceased non-member person. One was associated with another LACERA member with the same name and very similar SSN. The SSNVS verification process is based upon a correct SSN associated with a correct first and last name. Non matches are kicked out as these six did.

AC QUESTION: Was the address of record the survivor's address or the alive non-member person address?

RESPONSE: The address of record was the member's correct address.

The cause of these SSN discrepancies between LACERA and SSNVS was not conclusively determined during this review. However, BPU noted these were survivor payees and was able to locate correct SSNs within Workspace documents for five of the six payees. BPU is continuing to investigate the one remaining payee.

AC QUESTION: If you can't determine the cause, that means you don't have a very good audit trail on changes to the SSN field. From what you stated, LACERA had the correct SSNs at one point. So at some point, someone changed the SSN for each of these survivors and an audit trail will tell you who that person was.

RESPONSE: Management determined the member filled in beneficiary designation forms incorrectly or there was a staff data entry error. Management issued a reminder to staff to take extra care when setting up survivor accounts.

RISK

Payment of benefits on a deceased member's account for an extended period may not be recoverable and may become a loss to the trust fund. There is an exposure to making payments to a deceased member's account because a mismatched SSN is associated with the member. Controls such as the PBI death match process and Internal Audit's SSNVS test rely upon the accuracy of members social security numbers. This is considered a medium risk as the potential for resulting losses exists as well as negative headline risk.

** See Appendix 2 for Finding's Risk Rating

AC QUESTION: You don't speak of the tax implications to the survivor. Four SSNs were associated with alive non-member persons, which means LACERA did not file a 1099-R with Survivor 1 to 4's SSN. I assume LACERA sent each survivor a 1099-R, with an incorrect SSN, to the survivor's address of record. If the survivor reported this 1099-R on his or her tax return, the IRS would have flagged it because LACERA did not report a 1099-R for the survivor. Did the IRS notify LACERA at all regarding this? The IRS should also have inquired with LACERA because it reported income for alive non-members and those alive non-members did not report that income.

If one or more of the survivors did not report the 1099-R on their tax returns, then that fact alone suggests fraud.

I hope LACERA is going to inform the IRS of these issues, and issue corrected 1099-Rs to the four survivors and correct the IRS record for the four alive non-member persons. Is LACERA doing that?

RESPONSE: The Legal Office will address these issues with LACERA's tax counsel and will report back to the Audit Committee at an upcoming meeting.

RECOMMENDATION

Benefits management should counsel staff when working with survivor documents to verify that the Workspace system SSN should match the SSN on documents being processed.

MANAGEMENT'S RESPONSE

Benefits Management agrees with the recommendation and has incorporated the recommendation into its process.

TARGET COMPLETION DATE

January 1, 2021

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 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.


Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<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>
Medium	<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>
Low	<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>




February 5, 2021

TO: 2021 Audit Committee
Allen Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Nathan K. Amick 
Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

SUBJECT: **Death Legal Unit 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 on audit findings; and/or**
- 4. Provide further instruction to staff.**

ENGAGEMENT REPORTS

- a. Death Legal Unit Audit
Nathan K. Amick, Internal Auditor
(Report issued: February 1, 2021)

RPB:nka



LACERA INTERNAL AUDIT DIVISION

DEATH LEGAL UNIT AUDIT

February 1, 2021

AUDIT PERFORMED BY:

Nathan Amick, CIA
Internal Auditor

AUDIT REPORT

Audit Name:	Death Legal Unit Audit
Responsible Division:	Benefits Division
Audit Rating*:	Opportunities for Improvement
Prior Audit Rating:	Not Applicable
Prior Report Date:	Not Applicable

BACKGROUND

The Death Legal Unit (DLU) within the Benefits division is responsible for reviewing and processing member death benefits and legal documents related to members and member benefits.

Member death processing includes, but is not limited to, the determination of survivor continuance payments, minor child survivor continuance payments, and burial benefits. The key objectives in processing these benefits are to ensure the validity and eligibility of survivors and other payees as well as to ensure the accuracy of survivor benefits and other payments. Errors may result in overpayments or underpayments, which in the case of survivor continuances, can grow exponentially over time.

Legal processing includes, but is not limited to, processing divorce documents and calculating legal splits at the time of retirement, minor child guardianship documents, power of attorney documents, trust and estate documents, and conservatorship documents. Reviewing and assessing such documents is essential as these documents have a direct effect on determining who is an eligible survivor/beneficiary to be paid, and the amount of the benefit to be paid.

AUDIT OBJECTIVE AND SCOPE

The objectives of this audit were to assess the key controls within the DLU in the following areas:

- Assess the adequacy of documented policy and procedures to ensure staff are completing processes/transactions in the prescribed manner.
- Evaluate the effectiveness for the management of workloads to prevent backlogs, timeliness of case processing, case management/tracking, management of aging cases, management of unclaimed benefits, and the measurement of staff metrics and productivity.
- Assess key controls for accuracy of transactions, i.e., benefit calculation, payee eligibility, and appropriate supporting documentation (POA docs, Marriage Dissolution documents, Marriage Certificates, Claim Forms, etc....).

The scope of this audit was a high-level review of DLU's current policies and procedures and related controls, queues, and staff metrics to ensure the group is operating effectively and efficiently. This review did not include testing of the accuracy of legal split calculations at retirement or the processing of death benefits.

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

* See Appendix 1 for Audit Rating

AUDIT RATING AND SUMMARY OF FINDINGS

Overall, we found that approximately 80 percent of DLU’s workload is supported by well documented policies and procedures, specifically as related to death processing and the determination of survivor continuance benefit payments, POAs, and Legal Splits.

However, we did find **Opportunities for Improvement** related to the need to develop policies and procedures, to strengthen controls surrounding unclaimed benefits, to improve the effectiveness for managing workloads, and to strengthen the controls for the tracking of death cases.

Summary of Findings

Ref.	Page	Findings	Risk Rating**
F1	4	No Documented Policy or Procedure	Low
F2	5	No Criteria for Determining Unclaimed Accounts	Medium
F3	6	Service Level Expectations Do Not Effectively Manage Workloads	Medium
F4	7	Workspace Does Not Provide Automate Case Tracking for Pending Death Cases	Medium

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

Additionally, during the performance of our audit we noted areas outside of our audit scope that will be evaluated as part of the 2021-22 Audit Plan. See Appendix 3 for the “Risk and Control Matrix for the Death Legal Unit” for additional risk assessment performed.

We thank the Benefits Division for their cooperation with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
 Chief Audit Executive

Date: February 1, 2021

REPORT DISTRIBUTION

2021 Audit Committee	Santos H. Kreimann, CEO	Carlos Barrios, Benefits Division Manager
2021 Plante Moran Audit Team	J.J. Popowich, AEO	Internal Audit Group
Robert H. Griffin, Audit Committee Consultant	Steven Rice, Chief Legal Counsel	

** See Appendix 2 for Finding’s Risk Rating

FINDING #1

No Documented Policy or Procedure for Six of the Nine Work Queues	Risk Rating**
	Low

OBSERVATION

DLU staff is responsible for processing transactions that reside in nine different queues within WorkSpace. Our audit disclosed that documented policies and procedures exist for the three work queue areas that constitute approximately 80 percent of DLU's workload (Death Notification, Dissolution, and Seamless). There are no documented policies and procedures for the remaining six work queues which constitute approximately 20 percent of the DLU's workload (POA, Payment Corrections, Conservator, Wage Assignments, Active Death Pension Verification, and Death Legal Misc. Correspondence).

Policies and or procedures are a control element designed to help ensure that management directives are carried out as prescribed. They help ensure that necessary actions are taken to address organizational objectives. Clearly defined policies and procedures provide the basis to train staff and to ensure consistent and accurate processing.

RISK

The absence of policy and procedure may result in improper or inconsistent processing of transactions causing an overpayment or underpayment, which if not corrected can compound over time. Additionally, the absence of policy and procedure increases the risk related to business continuity should DLU experience substantial staff turnover.

Since DLU management has policies and procedures for the work queues that make-up approximately 80 percent of its workload, we have rated this risk as a low.

RECOMMENDATION

For the six queues that have no documented policy or procedure, we recommend management implement policies and/or procedures for the related processes.

MANAGEMENT'S RESPONSE

The Benefits management agrees with the recommendation and has continued its efforts to develop policies and procedures for the remaining queues. The existing methods are currently under review to identify further development of the processes involved with the work queues, and any new methods will be incorporated into the policies and procedures.

TARGET COMPLETION DATE

January 29, 2022.

** See Appendix 2 for Finding's Risk Rating

FINDING #2

No Criteria for Determining Unclaimed Accounts	Risk Rating**
	Medium

OBSERVATION

Unclaimed accounts are those accounts that have a balance or benefit to be paid, but LACERA is unable to contact or identify the eligible payee. In the past, unclaimed accounts that remained pending/open for lengthy periods of time were successfully targeted for fraud resulting in theft of funds. To prevent additional fraud, Benefits Management implemented a control to lock unclaimed accounts. Locked unclaimed accounts can only be unlocked by the Benefits Division Manager.

However, there is no criteria to determine and label accounts as unclaimed and then lock them. Currently the determination to label an account as unclaimed is arbitrarily determined by DLU staff on a case by case basis.

RISK

The arbitrary determination of the unclaimed status leaves the potential for such accounts to remain pending/open for lengthy periods of time and creates a window of opportunity for fraud to be committed in this area, again.

RECOMMENDATION

We recommend management implement a procedure, which includes criteria to determine when an account is to be labelled as an “unclaimed account” and locked.

MANAGEMENT’S RESPONSE

The Benefits management agrees with this recommendation. They will address the resolution of this recommendation in three phases:

Phase I: As an immediate remedy, Benefits will work with Systems to identify all unlocked, deceased accounts that remain for more than a year and lock the accounts.

Phase II: Benefits will work with PMG to draft business rules for when these accounts should be locked.

Phase III: Benefits will work with Systems to create an automated process to lock the accounts.

TARGET COMPLETION DATE

March 31, 2021: Lock all unlocked accounts

May 1, 2021: Approved business rule

July 29, 2021: Automated process in place

** See Appendix 2 for Finding’s Risk Rating

FINDING #3

Service Level Expectations Do Not Effectively Manage Workloads	Risk Rating**
	Medium

OBSERVATION

During our high-level review of queue maintenance, we observed that the DLU management makes a concerted effort to manage its queues using Service Level Expectations (SLE) reports and a weekly production report. However, we were informed by management that in the past there was a coordinated effort to align the SLE's in Benefits with the processing times quoted to members by Member Services. The two divisions met and developed agreed-upon SLEs they determined to be reasonable based on an understanding of member expectations and feedback, as well as the processing capabilities of Benefits.

Over time, a divergence from these agreed-upon SLEs occurred to where now we noted that the Benefits' SLEs are generally based on the Benefit's Division Manager's experience of actual processing time with input from the Division's Section Heads. These efforts identify SLEs by document type as well as combinations of document types comprising specific member processes. During discussions with Executive and Division Management, we noted that Benefits' SLEs no longer necessarily align with Member Services or organizationally determined SLEs communicated to members. They are often aggregated sub-processes of the Members Services' SLEs. Some are performed in parallel and others sequentially but in aggregate often do not meet the SLEs communicated to members by Member Services per their operating instructions (OIs).

RISK

The risk of each division independently developing SLEs may result in the misalignment of expectations and impact the ability of the organization to deliver the promised service to members. Alignment also, impacts the organizations ability to manage backlogs consistently and transparently, as well as staff productivity.

RECOMMENDATION

We recommend the Benefit's Division Process Management Group (PMG) coordinate the determination of organizationally accepted and agreed-upon service level expectations (SLEs) for death and legal processing between Member Services and Benefits.

MANAGEMENT'S RESPONSE

The Benefits management agrees with the recommendation. The Benefits management agrees to work with PMG and Member Services management to draft a proposal to the Executive Office for adoption that includes the following:

- 1) Agreed upon SLEs for both sub-processes and in aggregate that can be communicated by Member Services per the Operating Instructions (OI).
- 2) A policy and procedure outlining a scheduled review of the SLE to ensure they are relevant and appropriate.

TARGET COMPLETION DATE

July 29, 2021.

** See Appendix 2 for Finding's Risk Rating

FINDING #4

Workspace Does Not Provide Automate Case Tracking for Pending Death Cases	Risk Rating**
	Medium

OBSERVATION

Workspace does not provide automated case tracking for pending death cases. Currently, the DLU uses an Access database to track pending death cases. This Access database, was created by the former Benefits Division Manager, is not supported, or maintained by the Systems division, and requires considerable manual input. While this database is helpful in maintaining a list of pending cases, it is only marginally effective and efficient with regards to processing cases timely.

The tracking of member cases, not just within the DLU but throughout LACERA, is an essential function to ensure accurate and timely processing of member transactions. Automated processes (non-manual) enable precise operational capabilities, reducing errors and saving time. The automation of tasks also assists ensuring consistency when these tasks are processed.

RISK

The lack of an integrated case management system in Workspace and the use of an independent database that relies on manual inputs by staff risks the effectiveness, efficiency, and reliability of timely and complete processing of pending death cases.

RECOMMENDATION

As of March 2020, the Case Management project is one of the organization's "top four Strategic Plan goals" with a workgroup meeting regularly to move the project forward. The workgroup has identified 23 processes, one of which is death processing that would address this risk.

We recommend Benefits Management work with the Executive Office and the Systems Division to develop a plan and timeline to address the implementation of the death processing through the Case Management project.

MANAGEMENT'S RESPONSE

The Benefits management agrees with a recommendation to work with the Executive Office and Systems Division to develop a plan and timeline by July 29, 2021.

TARGET COMPLETION DATE

July 29, 2021.

** See Appendix 2 for Finding's Risk Rating

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.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<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>
Medium	<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>
Low	<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>

Appendix 3
 Risk & Control Matrix for the Death Legal Unit

Key Objectives or Key Performance Indicator	Risks Related to Objective	Likelihood H, M, L	Impact H, M, L	Management's controls over risk	Control Description Type Automation Frequency	Control Effectiveness 1 (weak) - 5 (strong)	Auditor Comments
1. Processing payments as the result of Legal Splits.	1. Staff inappropriately processes Legal Split payments.	Medium	Low	Key Controls: Documented policy & procedure. Complex matters are forwarded to the Legal Office. Management's Comments: Policy & procedure documents are voluminous.	Directive Manual Transactional	2	Based on the risk & control analysis, IA will be evaluating these risks in our upcoming Annual Risk Assessment.
				Key Controls: Supervisor reviews all Legal Split payments prior to completion. Complex matters are forwarded to the Legal Office. Management's Comments: Policy & procedure documents are voluminous.	Preventative Manual Transactional	2	
2.Processing death notifications and related payments	2A. Staff incorrectly process death related payments	Low	Low	Key Controls: Documented policy/procedures, system performs all calculations, majority of staff are highly experienced. Management's Comments: Survivor payments are very straight forward / not complex calculations and are performed by the system.	Directive & Preventative Automated Transactional	4	Based on the risk & control analysis, IA will be evaluating these risks in our upcoming Annual Risk Assessment.
	2B. Delayed/unprocessed claims	Medium	Medium	Key Control: Service Level Expectation (SLE) Criteria and SLE Report, Death Log Management's Comments: SLE report identifies pending claims that have not been processed within the required criteria. Death log track cases through completion (outside of the system).	Detective Manual Weekly	2	
	2C. Unclaimed Benefits	Medium	Low	Key Control: Unclaimed accounts are locked and can only be unlocked by Div. Manager. Those with unclaimed benefits are added to the "Persons of Interest" list. Management's Comments: See above control	Preventative Manual Transactional	2	
3. Processing LACERA POA form	3. POA granted to ineligible person	Low	Low	Key Control: LACERA POA is a form created by LACERA that if properly filled out and witnessed or notarized, grants the necessary authority. Management's Comments: See above control	Directive Manual Transactional	4	Based on the risk & control analysis, no additional work at this time.

Appendix 3
 Risk & Control Matrix for the Death Legal Unit (continued)

Key Objectives or Key Performance Indicator	Risks Related to Objective	Likelihood H, M, L	Impact H, M, L	Management's controls over risk	Control Description Type Automation Frequency	Control Effectiveness 1 (weak) - 5 (strong)	Auditor Comments
4. Processing External POA document	4. POA granted to ineligible person	Medium	Low	Key Control: Outside POAs are processed by the most skilled staff members. Management's Comments: External POAs are often complicated and DLU staff does not have the legal background to assess the document. Process and procedural documentation does not exist.	Preventative Manual Transactional	2	Based on the risk & control analysis, IA will be evaluating these risks in our upcoming Annual Risk Assessment.
				Key Control: All outside POAs are reviewed by DLU Supervisor. Management's Comments: Same as above.	Preventative Manual Transactional	2	
				Key Control: Staff can request assistance from the Legal Office if needed. Management's Comments: Same as above.	Preventative Manual Transactional	2	
5. Queue Level Maintenance & Staff Productivity	5. Excessive back logs & low productivity	Medium	Medium	Key Control: Service Level Expectation (SLE) Criteria, SLE Report, Death Log, Weekly Production Report Management's Comments: Down two staff and only one supervisor is performing reviews. It is management's assumption that if SLE's are met then Queues should remain. Death log assists staff in meeting SLEs by providing a more efficient tracking process than Workspace. Weekly Production Report reports Queue levels, including new incoming and pending objects, and objects recently completed.	Detective Manual & Automated Weekly	2	Based on the risk & control analysis, IA will be evaluating these risks in our upcoming Annual Risk Assessment.



LACERA INTERNAL AUDIT DIVISION

DEATH LEGAL UNIT AUDIT

Version with Audit Committee Comments & Internal Audit Responses

February 1, 2021

AUDIT PERFORMED BY:

Nathan Amick, CIA
Internal Auditor

AUDIT REPORT

Audit Name:	Death Legal Unit Audit
Responsible Division:	Benefits Division
Audit Rating*:	Opportunities for Improvement
Prior Audit Rating:	Not Applicable
Prior Report Date:	Not Applicable

BACKGROUND

The Death Legal Unit (DLU) within the Benefits division is responsible for reviewing and processing member death benefits and legal documents related to members and member benefits.

Member death processing includes, but is not limited to, the determination of survivor continuance payments, minor child survivor continuance payments, and burial benefits. The key objectives in processing these benefits are to ensure the validity and eligibility of survivors and other payees as well as to ensure the accuracy of survivor benefits and other payments. Errors may result in overpayments or underpayments, which in the case of survivor continuances, can grow exponentially over time.

AC QUESTION: Does the Benefits Division confirm the death prior to vetting the associated benefits? If so, how?

RESPONSE: Generally, Benefits confirms the death prior to vetting the associated benefits through the use of death certificates. There are exceptions, such as for the seamless survivor process, where the associated benefit is paid prior to the receipt of the death certificate.

Legal processing includes, but is not limited to, processing divorce documents and calculating legal splits at the time of retirement, minor child guardianship documents, power of attorney documents, trust and estate documents, and conservatorship documents. Reviewing and assessing such documents is essential as these documents have a direct effect on determining who is an eligible survivor/beneficiary to be paid, and the amount of the benefit to be paid.

AC QUESTION: Is all of this under the DLU? If so, the Unit name doesn't really reflect its scope of responsibilities.

RESPONSE: Yes, the above are all under the DLU. The name is appropriate in that the DLU handles all aspects of death benefits as well as other legal matters including carrying out instructions from the Legal Office regarding legal split payments, processing certain subpoenas, and validation and acceptance of POA documents.

AUDIT OBJECTIVE AND SCOPE

The objectives of this audit were to assess the key controls within the DLU in the following areas:

- Assess the adequacy of documented policy and procedures to ensure staff are completing processes/transactions in the prescribed manner.
- Evaluate the effectiveness for the management of workloads to prevent backlogs, timeliness of case processing, case management/tracking, management of aging cases, management of unclaimed benefits, and the measurement of staff metrics and productivity.

* See Appendix 1 for Audit Rating

- Assess key controls for accuracy of transactions, i.e., benefit calculation, payee eligibility, and appropriate supporting documentation (POA docs, Marriage Dissolution documents, Marriage Certificates, Claim Forms, etc....).

AC QUESTION: A listing of the processes with a descriptive narrative, perhaps as an attachment would have been informative to the reader.

RESPONSE: Noted

The scope of this audit was a high-level review of DLU's current policies and procedures and related controls, queues, and staff metrics to ensure the group is operating effectively and efficiently. This review did not include testing of the accuracy of legal split calculations at retirement or the processing of death benefits.

AC QUESTION: Can you achieve objectives through a "high-level review"?

RESPONSE: As noted in the Risk & Control Matrix (Appendix 3), we found that there were areas we need to come back to perform specific process in-depth audits.

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

AC QUESTION: It would be helpful if you included a hyperlink to the Standards in case the reader wanted to refer to them.

RESPONSE: Noted. We will explore how to best provide the AC with the IIA Standards.

AUDIT RATING AND SUMMARY OF FINDINGS

Overall, we found that approximately 80 percent of DLU's workload is supported by well documented policies and procedures, specifically as related to death processing and the determination of survivor continuance benefit payments, POAs, and Legal Splits.

However, we did find **Opportunities for Improvement** related to the need to develop policies and procedures, to strengthen controls surrounding unclaimed benefits, to improve the effectiveness for managing workloads, and to strengthen the controls for the tracking of death cases.

Summary of Findings

Ref.	Page	Findings	Risk Rating**
F1	4	No Documented Policy or Procedure	Low
F2	5	No Criteria for Determining Unclaimed Accounts	Medium
F3	6	Service Level Expectations Do Not Effectively Manage Workloads	Medium
F4	7	Workspace Does Not Provide Automate Case Tracking for Pending Death Cases	Medium

AC QUESTION: F1 - No Documented Policy or Procedure, I do not support your justification for risk classification. See body of report.

RESPONSE: We applied the matrix per "Appendix 2" and use of our best assessment given our understanding of this risk vs. the unit's priorities vs. the organization's risk level.

** See Appendix 2 for Finding's Risk Rating

AC QUESTION: F2 - No Criteria for Determining Unclaimed Accounts, I would recommend re-classifying this to high. You noted that there had been fraud in this area, and you can improve system of internal controls in this area. As well, as I noted in the report body, it appears the Agency may not be in compliance with escheatment laws regarding unclaimed funds. See body of report.

RESPONSE: We applied the matrix per “Appendix 2” and use of our best assessment given our understanding of this risk vs. the unit's priorities vs. the organization's risk level.

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

Additionally, during the performance of our audit we noted areas outside of our audit scope that will be evaluated as part of the 2021-22 Audit Plan. See Appendix 3 for the “Additional Risk Assessment” performed.

AC QUESTION: Appendix 3 is entitled “Risk & Control Matrix for Legal Death Unit” not “Additional Risk Assessment.” If it is “Additional” then I would ask “Additional to what”

RESPONSE: Thank you. We have corrected it.

We thank the Benefits Division for their cooperation with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: February 1, 2021

REPORT DISTRIBUTION

2021 Audit Committee	Santos H. Kreimann, CEO	Carlos Barrios, Benefits Division Manager
2021 Plante Moran Audit Team	J.J. Popowich, AEO	Internal Audit Group
Robert H. Griffin, Audit Committee Consultant	Steven Rice, Chief Legal Counsel	

FINDING #1

No Documented Policy or Procedure for Six of the Nine Work Queues	Risk Rating**
	Low

OBSERVATION

DLU staff is responsible for processing transactions that reside in nine different queues within WorkSpace. Our audit disclosed that documented policies and procedures exist for the three work queue areas that constitute approximately 80 percent of DLU's workload (Death Notification, Dissolution, and Seamless). There are no documented policies and procedures for the remaining six work queues which constitute approximately 20 percent of the DLU's workload (POA, Payment Corrections, Conservator, Wage Assignments, Active Death Pension Verification, and Death Legal Misc. Correspondence).

AC QUESTION: How did you determine the relative percentage of workload?

RESPONSE: Per our observations and discussion with Benefits Management.

AC QUESTION: It would have been informative to include somewhere the total member deaths in a recent period, delineated by active and retired. Actually, information on staff levels as well. I have no idea if this is a 100-person unit or a 2 person unit.

RESPONSE: Noted for future consideration in upcoming audit reports. In this case, the DLU is made up of six budgeted position, currently only five positions are filled. The DLU receives approximately 400 death notifications per month on average.

Policies and or procedures are a control element designed to help ensure that management directives are carried out as prescribed. They help ensure that necessary actions are taken to address organizational objectives. Clearly defined policies and procedures provide the basis to train staff and to ensure consistent and accurate processing.

RISK

The absence of policy and procedure may result in improper or inconsistent processing of transactions causing an overpayment or underpayment, which if not corrected can compound over time. Additionally, the absence of policy and procedure increases the risk related to business continuity should DLU experience substantial staff turnover.

Since DLU management has policies and procedures for the work queues that make-up approximately 80 percent of its workload, we have rated this risk as a low.

AC QUESTION: I do not think it is reasonable to say that undocumented processes present a "low" risk because many other processes are documented. Each member deserves timely and accurate service irrespective of whether his or her inquiry is a frequent or a non-frequent inquiry, or takes staff five hours or five minutes to complete. One could argue that non-frequent inquiries, because staff does not handle them often, are prone to process inconsistencies and errors. A seasoned staff could produce a very good first draft of each of these policies in several days. I do not support the classification of undocumented procedures as low risk, and I would expect the Division to finalize these three processes prior to an entire year.

In addition, staff comments included in Appendix 3 regarding POA, as an example of one workflow process, substantiate consideration of a higher risk level than what you applied.

** See Appendix 2 for Finding's Risk Rating

RESPONSE: Although there are 6 queues that do not have documented procedures, these queues have other mitigating internal controls to ensure consistent and accurate processing - knowledgeable staff, 100% review of each document. We believe that having documented procedures would strengthen these internal controls but would rate the risk as low since they make up 20% of the unit's work. Also, noted that we should include this supporting information/justification for risk rankings on future audits.

RECOMMENDATION

For the six queues that have no documented policy or procedure, we recommend management implement policies and/or procedures for the related processes.

MANAGEMENT'S RESPONSE

The Benefits management agrees with the recommendation and has continued its efforts to develop policies and procedures for the remaining queues. The existing methods are currently under review to identify further development of the processes involved with the work queues, and any new methods will be incorporated into the policies and procedures.

TARGET COMPLETION DATE

January 29, 2022.

FINDING #2

No Criteria for Determining Unclaimed Accounts	Risk Rating**
	Medium

OBSERVATION

Unclaimed accounts are those accounts that have a balance or benefit to be paid, but LACERA is unable to contact or identify the eligible payee. In the past, unclaimed accounts that remained pending/open for lengthy periods of time were successfully targeted for fraud resulting in theft of funds. To prevent additional fraud, Benefits Management implemented a control to lock unclaimed accounts. Locked unclaimed accounts can only be unlocked by the Benefits Division Manager.

However, there is no criteria to determine and label accounts as unclaimed and then lock them. Currently the determination to label an account as unclaimed is arbitrarily determined by DLU staff on a case by case basis.

AC QUESTION: Fraud? How much? Over what period of time? How was the requestor aware of the unclaimed funds by decedent? Did LACERA file a police report in each instance?

RESPONSE: This statement should have been written as a more general explanation of the risk. There are no recent issues of fraud that we are aware of.

AC QUESTION: It would be helpful to provide a formal definition. Previously you stated "lengthy period" and there was no limitation by dollar amount.

RESPONSE: Agreed

** See Appendix 2 for Finding's Risk Rating

RISK

The arbitrary determination of the unclaimed status leaves the potential for such accounts to remain pending/open for lengthy periods of time and creates a window of opportunity for fraud to be committed in this area, again.

RECOMMENDATION

We recommend management implement a procedure, which includes criteria to determine when an account is to be labelled as an “unclaimed account” and locked.

AC QUESTION: We need more than a procedure, particularly since there was fraud in this area. We need a policy.

RESPONSE: Noted and we will discuss with Management.

MANAGEMENT’S RESPONSE

The Benefits management agrees with this recommendation. They will address the resolution of this recommendation in three phases:

Phase I: As an immediate remedy, Benefits will work with Systems to identify all unlocked, deceased accounts that remain for more than a year and lock the accounts.

AC QUESTION: But there should not be any unlocked accounts at this point, because you previously informed us that “Benefits Management implemented a control to lock unclaimed accounts.”

RESPONSE: Although there is a way to lock accounts, there was no defined criteria of when to lock them. In Phase I, Benefits Management’s response includes the initial criteria for when to lock all accounts.

Phase II: Benefits will work with PMG to draft business rules for when these accounts should be locked.

AC QUESTION: One would think that Phase II (establish criteria that constitute an account to be locked) would come before Phase I (locked the accounts that should be locked).

RESPONSE: We understand that Phase II is to refine the criteria established in Phase I.

Phase III: Benefits will work with Systems to create an automated process to lock the accounts.

AC QUESTION: This discussion missed something very important which is that LACERA likely has money on deposit with it, that it holds in trust that it cannot distribute to an heir, if one exists. Is LACERA not required to remit these funds to the State Controller, Office of Unclaimed Property, pursuant to the Probate Code or Code of Civil Procedure? You should make that determination first, because if you are required, you would also want Systems to develop a mechanism through which you accumulate these accounts annually at least, note them as “locked to SCO” and remit the list with the money to the SCO. Any heirs after that point need to claim money from the SCO, not LACERA. In general, this process is referred to as “escheatment.”

As well, staff refer accounts that had an overpayment to the Treasurer-Tax Collector for collection, after a certain period of inactivity. I did not see this noted.

RESPONSE: CERL exempts LACERA from having to escheat to the State. Five years after the last attempt to find a claimant, unclaimed funds are moved to the Pension Reserves Fund. If claims are later made, the funds are returned from the Pension Reserves Fund to the members account for payment.

TARGET COMPLETION DATE

March 31, 2021: Lock all unlocked accounts

May 1, 2021: Approved business rule

July 29, 2021: Automated process in place

FINDING #3

Service Level Expectations Do Not Effectively Manage Workloads	Risk Rating**
	Medium

OBSERVATION

During our high-level review of queue maintenance, we observed that the DLU management makes a concerted effort to manage its queues using Service Level Expectations (SLE) reports and a weekly production report. However, we were informed by management that in the past there was a coordinated effort to align the SLE's in Benefits with the processing times quoted to members by Member Services. The two divisions met and developed agreed-upon SLEs they determined to be reasonable based on an understanding of member expectations and feedback, as well as the processing capabilities of Benefits.

Over time, a divergence from these agreed-upon SLEs occurred to where now we noted that the Benefits' SLEs are generally based on the Benefit's Division Manager's experience of actual processing time with input from the Division's Section Heads. These efforts identify SLEs by document type as well as combinations of document types comprising specific member processes. During discussions with Executive and Division Management, we noted that Benefits' SLEs no longer necessarily align with Member Services or organizationally determined SLEs communicated to members. They are often aggregated sub-processes of the Members Services' SLEs. Some are performed in parallel and others sequentially but in aggregate often do not meet the SLEs communicated to members by Member Services per their operating instructions (OIs).

RISK

The risk of each division independently developing SLEs may result in the misalignment of expectations and impact the ability of the organization to deliver the promised service to members. Alignment also, impacts the organizations ability to manage backlogs consistently and transparently, as well as staff productivity.

RECOMMENDATION

We recommend the Benefit's Division Process Management Group (PMG) coordinate the determination of organizationally accepted and agreed-upon service level expectations (SLEs) for death and legal processing between Member Services and Benefits.

AC QUESTION: Shouldn't this be done after notification to HR to ensure compliance with MOUs?
RESPONSE: Noted. This will be considered in management's implementation.

MANAGEMENT'S RESPONSE

The Benefits management agrees with the recommendation. The Benefits management agrees to work with PMG and Member Services management to draft a proposal to the Executive Office for adoption that includes the following:

- 1) Agreed upon SLEs for both sub-processes and in aggregate that can be communicated by Member Services per the Operating Instructions (OI).

** See Appendix 2 for Finding's Risk Rating

- 2) A policy and procedure outlining a scheduled review of the SLE to ensure they are relevant and appropriate.

TARGET COMPLETION DATE

July 29, 2021.

FINDING #4

Workspace Does Not Provide Automate Case Tracking for Pending Death Cases	Risk Rating**
	Medium

OBSERVATION

Workspace does not provide automated case tracking for pending death cases. Currently, the DLU uses an Access database to track pending death cases. This Access database, was created by the former Benefits Division Manager, is not supported, or maintained by the Systems division, and requires considerable manual input. While this database is helpful in maintaining a list of pending cases, it is only marginally effective and efficient with regards to processing cases timely.

AC QUESTION: I know what you mean, but in reality, you are dead or alive.

RESPONSE: Noted

AC QUESTION: You also have no idea if it (the database) is correct.

RESPONSE: Agreed

The tracking of member cases, not just within the DLU but throughout LACERA, is an essential function to ensure accurate and timely processing of member transactions. Automated processes (non-manual) enable precise operational capabilities, reducing errors and saving time. The automation of tasks also assists ensuring consistency when these tasks are processed.

RISK

The lack of an integrated case management system in Workspace and the use of an independent database that relies on manual inputs by staff risks the effectiveness, efficiency, and reliability of timely and complete processing of pending death cases.

AC QUESTION: To be clear, you have concluded that Workspace is not an integrated case management system because of this single standalone database, or were there others?

RESPONSE: There are a number of other databases used throughout LACERA to address case tracking needs. The organization has recognized the need for an integrated case management system to supplement Workspace.

** See Appendix 2 for Finding's Risk Rating

RECOMMENDATION

As of March 2020, the Case Management project is one of the organization's "top four Strategic Plan goals" with a workgroup meeting regularly to move the project forward. The workgroup has identified 23 processes, one of which is death processing that would address this risk.

AC QUESTION: Was the issue of locked accounts or unclaimed funds anywhere in the strategic plan?

RESPONSE: Not specifically

We recommend Benefits Management work with the Executive Office and the Systems Division to develop a plan and timeline to address the implementation of the death processing through the Case Management project.

MANAGEMENT'S RESPONSE

The Benefits management agrees with a recommendation to work with the Executive Office and Systems Division to develop a plan and timeline by July 29, 2021.

AC QUESTION: Six months just to develop a plan? It is one of the "top four" strategic plan goals with a workgroup that meets regularly and it is still going to take six months just to develop the plan? Not implement the plan, just develop the plan? Really?

RESPONSE: The Case Management Systems is a significant organizational project. The DLU component is just one portion of it.

TARGET COMPLETION DATE

July 29, 2021.

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.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<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>AC QUESTION: I believe the unclaimed/locked accounts are high risk.</p> <p>Response: addressed above</p> <p>Requires immediate attention</p>
Medium	<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>
Low	<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>

Appendix 3
 Risk & Control Matrix for the Death Legal Unit

Key Objectives or Key Performance Indicator	Risks Related to Objective	Likelihood H, M, L	Impact H, M, L	Management's controls over risk	Control Description Type Automation Frequency	Control Effectiveness 1 (weak) - 5 (strong)	Auditor Comments
1. Processing payments as the result of Legal Splits.	1. Staff inappropriately processes Legal Split payments.	Medium	Low	Key Controls: Documented policy & procedure. Complex matters are forwarded to the Legal Office. Management's Comments: Policy & procedure documents are voluminous.	Directive Manual Transactional	2	Based on the risk & control analysis, IA will be evaluating these risks in our upcoming Annual Risk Assessment.
				Key Controls: Supervisor reviews all Legal Split payments prior to completion. Complex matters are forwarded to the Legal Office. Management's Comments: Policy & procedure documents are voluminous.	Preventative Manual Transactional	2	
2.Processing death notifications and related payments	2A. Staff incorrectly process death related payments	Low	Low	Key Controls: Documented policy/procedures, system performs all calculations, majority of staff are highly experienced. Management's Comments: Survivor payments are very straight forward / not complex calculations and are performed by the system.	Directive & Preventative Automated Transactional	4	Based on the risk & control analysis, IA will be evaluating these risks in our upcoming Annual Risk Assessment.
	2B. Delayed/unprocessed claims	Medium	Medium	Key Control: Service Level Expectation (SLE) Criteria and SLE Report, Death Log Management's Comments: SLE report identifies pending claims that have not been processed within the required criteria. Death log track cases through completion (outside of the system).	Detective Manual Weekly	2	
	2C. Unclaimed Benefits	Medium	Low	Key Control: Unclaimed accounts are locked and can only be unlocked by Div. Manager. Those with unclaimed benefits are added to the "Persons of Interest" list. Management's Comments: See above control	Preventative Manual Transactional	2	
3. Processing LACERA POA form	3. POA granted to ineligible person	Low	Low	Key Control: LACERA POA is a form created by LACERA that if properly filled out and witnessed or notarized, grants the necessary authority. Management's Comments: See above control	Directive Manual Transactional	4	Based on the risk & control analysis, no additional work at this time.

AC QUESTION: With regards to “Key Objective” #1 (above), who is the manager under “Mangement’s Comments?” The manager over the Unit or some other manager? I ask because he/she stated the P&Ps are voluminous without framing that comment. Complex operations can have related P&Ps that are voluminous. Does she or he think the P&Ps present an obstacle to training? Or operational success?

RESPONSE: The comment was made by unit management and speaks to the complexity of the processes and related documents.

AC QUESTION: With regards to “Key Objective” #4 (below), it would be interesting to know the relative percentage of times that the unit refers matters to the legal office. I say this because these legal documents are complex. Do the volumes warrant a paralegal within the unit itself?

RESPONSE: Noted. Will consider in future audit.

Appendix 3
 Risk & Control Matrix for the Death Legal Unit (continued)


Key Objectives or Key Performance Indicator	Risks Related to Objective	Likelihood H, M, L	Impact H, M, L	Management's controls over risk	Control Description Type Automation Frequency	Control Effectiveness 1 (weak) - 5 (strong)	Auditor Comments
4. Processing External POA document	4. POA granted to ineligible person	Medium	Low	Key Control: Outside POAs are processed by the most skilled staff members. Management's Comments: External POAs are often complicated and DLU staff does not have the legal background to assess the document. Process and procedural documentation does not exist.	Preventative Manual Transactional	2	Based on the risk & control analysis, IA will be evaluating these risks in our upcoming Annual Risk Assessment.
				Key Control: All outside POAs are reviewed by DLU Supervisor. Management's Comments: Same as above.	Preventative Manual Transactional	2	
				Key Control: Staff can request assistance from the Legal Office if needed. Management's Comments: Same as above.	Preventative Manual Transactional	2	
5. Queue Level Maintenance & Staff Productivity	5. Excessive back logs & low productivity	Medium	Medium	Key Control: Service Level Expectation (SLE) Criteria, SLE Report, Death Log, Weekly Production Report Management's Comments: Down two staff and only one supervisor is performing reviews. It is management's assumption that if SLE's are met then Queues should remain. Death log assists staff in meeting SLEs by providing a more efficient tracking process than Workspace. Weekly Production Report reports Queue levels, including new incoming and pending objects, and objects recently completed.	Detective Manual & Automated Weekly	2	Based on the risk & control analysis, IA will be evaluating these risks in our upcoming Annual Risk Assessment.




February 1, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: February 2021 Audit Committee Meeting

SUBJECT: **Information Security Update**

In December 2020, mainstream news organizations reported that SolarWinds, a major U.S. information technology (IT) firm, was the subject of a cyberattack that spread to its clients and had gone undetected for months. The hackers used the attack to spy on both private companies and governmental agencies, including FireEye, a major cybersecurity firm, the Department of Homeland Security, and the Treasury Department.

Due to the significant impact of the attack on SolarWinds to companies and governmental organizations, the Information Security Office is presenting a set of five standard questions typically asked by Executives and Board Members after such an event with the answers tailored to LACERA.

RPB:cl

Audit Committee

Information Security Update February 19, 2021

Bob Schlotfelt, CISSP
Interim Chief Information Security Officer

Executive Summary

All organizations - public and private - even top cybersecurity firms and highly developed government agencies — can and are vulnerable to sophisticated threat actors. Cybercriminals and nation states, are working 24 hours a day on their craft.

In the latest attack to draw major headlines, a highly skilled threat actor introduced malicious software (malware) into the routine systems updates to broadly used network monitoring and management software (SolarWinds). This software integrates with a vast array of software and platforms in an organization who subscribes to their services.

For this update to the Audit Committee, the Information Security Office will address a set of 5 questions typically asked by Executive/Board Leaders – While the questions are universal, the answers are specific to LACERA in a public forum.

Please follow along the next 5 slides.

Are we affected?

How vulnerable is LACERA to this campaign?

Where is it in our environment?

- If LACERA were a SolarWinds customer, we would be affected. The full magnitude of this event has yet to be fully publicized and may never be – It has raised the level of scrutiny and awareness across the Cyber Security community.
- To that end - We ARE NOT a SolarWinds Customer.

If we were affected, how can we respond to and contain the attack?

- The malicious code that infected SolarWinds was included in a routine software update. These type of updates or patches are sent out on a regular basis by most all software vendors.
- The recommendation of SolarWinds was to “back out” the previous update and scan the systems for vulnerabilities.

How can we limit the impact of the attack on LACERA?

- LACERA has instituted a process where updates and patches are received but install in testing or staging environments before released to the Production.
- This is a common practices and allows testing to ensure the update is not malicious, but also has not adversely affected any other systems or applications.

LACERA may not be directly affected. What steps should you take anyway? Or steps already taken.

- We perform a 100% code review before any new release to our Production Environments
- We have fully deployed the Microsoft ATP (Advanced Threat Protection) to secure all endpoints and servers.
- We have reviewed all 3rd party vendors for their response and exposure to the SolarWinds incident.
- Move forward to expand the protection of accounts/users with Multi-Factor Authentication – to all Users – currently only the Systems Division.

What are the larger issues at play here?

What else should we be thinking about?

- The larger issue here is that anyone is vulnerable to attack. The idea that it could never happen to us must be taken out of our vocabulary.
- Enhanced monitoring and protection of privileged and administrator accounts.
- Minimum annual security reviews of all 3rd party vendors.
- Enhance our Security Awareness and Training Program.
- Develop, enhance and practice our Security Incident Response plan.
- Require Mobile Device Management solution for all non-LACERA issued devices (Phones, Laptops, Tablets) – Block all unauthorized devices.

Questions



Cyber attacks:

5 key questions when you're facing a potential breach



Leading companies — even top cybersecurity firms and government agencies — can be vulnerable to sophisticated threat actors. It's a 24/7 workday for cybercriminals and nation states, after all.

In the latest attack to draw major headlines, a highly skilled threat actor inserted malware into updates to widely used network monitoring and management software that integrates with a wide range of enterprise software and platforms in an organization. A major cybersecurity firm was among those compromised and conducted an investigation that identified a broader campaign that had been underway for several months. This discovery led to the identification of affected organizations in the government, professional services, technology and telecommunication sectors in North America, Europe, Asia and the Middle East.

This hack-via-software-update, which may have been underway since Spring 2020, draws attention to the security of software supply chains, as technical practitioners call it. Software supply chains seem simpler than the physical supply chains — no warehousing, no sourcing of materials, no shipping. Fewer things to disrupt, right? Wrong.

Every step in the physical supply chains we're familiar with has an analog in the software supply chain. The biggest difference is that a disruption or attack on the software supply chain can have an exponential impact on the entire supply chain.

These are questions that CEOs and boards should be discussing with their CISOs and CIOs

1

Are you affected? How vulnerable is your company to this campaign? Where is it in your environment?

Work closely with your CIO, CTO, and CISO, who will know if your organization relies on the software and service providers that were attacked. Ask them: Do we have the affected software in our network? Do we have a complete inventory of the affected software? What are we doing to hunt for signs that the threat actor may have actively targeted or moved within our environment?

2

If you're affected, how can you respond to and contain the attack?

The action will depend on whether your organization is a high-risk target or not. Your CISO is likely coordinating with the software and service providers that are issuing advisories. The security and IT teams will make this a priority as the events play out and more information becomes available about the nature of the attacks.

Ask them: What are we doing to investigate and remediate the affected software (turning off the affected systems, applying new patches)? Have we assessed the impact on our sensitive and confidential data? Do we need to activate our crisis management plan?

3 How can you limit the impact of the attack on your organization?

You need to assume that the sophisticated attacker has planned for a persistent threat. Ask your CISO: How do we make it harder for the attacker to succeed? Are there ways to make it costlier for the attacker to target us? How can we reduce the risks of a successful attack?

Organizations have a range of mitigation measures to limit the risks to their environment.

- Segment network architecture to limit inbound and outbound connectivity.
- Apply additional network access controls.
- Harden the server, e.g. audit, identify, close and control potential security vulnerabilities.
- Limit account privileges.
- Protect enterprise-wide credentials and enforce strong authentication and password settings.

4 You may not be directly affected. What steps should you take anyway?

The full extent of the campaign is not yet fully understood. The first manifestations — the theft of a cybersecurity firm's hacking tools, the technique to gain access to victims' networks via the software updates and releases, and the first related hacks into multiple government agencies — are just the beginning. As investigations continue, more details will emerge about the threat actor's intent and objectives.

Even if you are not directly affected, you need to do two things:

- Monitor activity around your critical assets, including data and business services. Visibility into these is what separates the prepared from the disrupted. [Ninety-one percent](#) of high-resilience companies maintain an accurate inventory of assets and refresh the list as needed, compared to only 47% of the rest.
- Find out who may be affected among your suppliers, business partners and third parties, particularly those whose systems connect to your networks. Assess any concentration of software risks in your ecosystem.

5 What are the larger issues at play here? What else should you be thinking about?

Use the sharp, anxious curiosity you felt in the moment you first learned about this global attack. Even if your organization is not directly affected, this is a good time to check on three things with your CISO, CIO and CRO.

- **How is security built into the organization's software supply chain lifecycle?** A [multi-layered protection model](#) is necessary to defend against real-world attack trends and threat vectors.
- **Have you tested resilience plans for a wide range of threats?** Forty percent of 3,249 executives in our Global Digital Trust Insights 2021 survey plan to [increase resilience testing](#) to help ensure that, if a disruptive cyber event occurs, their critical business functions will stay up and running.
- **Do you face concentration risks with your software and security providers?** Weigh the cost-and-scale advantages of consolidating services in one or few providers against concentration risks.



Learn more:

- [Cloud-based software supply chain security](#)
- [Build resilience for every scenario](#)
- [Stress test your resilience plans](#)
- [How boards can keep up with cyber risks](#)

Contacts

Sean Joyce
Global and US Cybersecurity, Privacy & Forensics Leader
sean.joyce@pwc.com

Joe Nocera
Cyber & Privacy Innovation Institute Leader
joseph.nocera@pwc.com


Gerry Stellatos
Principal
gerry.stellatos@pwc.com




February 2, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

Kristina Sun **KS**
Senior Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

SUBJECT: **Audit Planning for Fiscal Year 2021-2022**

According to the Institute of Internal Auditor'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 and ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization. Generally, audit plans are developed in three phases: define / refine the audit universe, assess the risks, and develop the plan.

This year because of the 2020 changes to the Audit Committee's Charter, we broke the first phase into two sections – 1) propose a draft audit plan and budget, and 2) define/refine the audit universe. The first section is addressed in more detail in the Internal Audit Proposed FYE 2022 Budget memo.

We will be presenting the Audit Committee a summary of the Audit Planning Process, and then delve into Defining / Refining the Audit Universe by understanding current risks and risk environment as reported by the IIA.

Attachments

RPB:cl:ks

Audit Planning for Fiscal Year 2021-2022



Today's Agenda



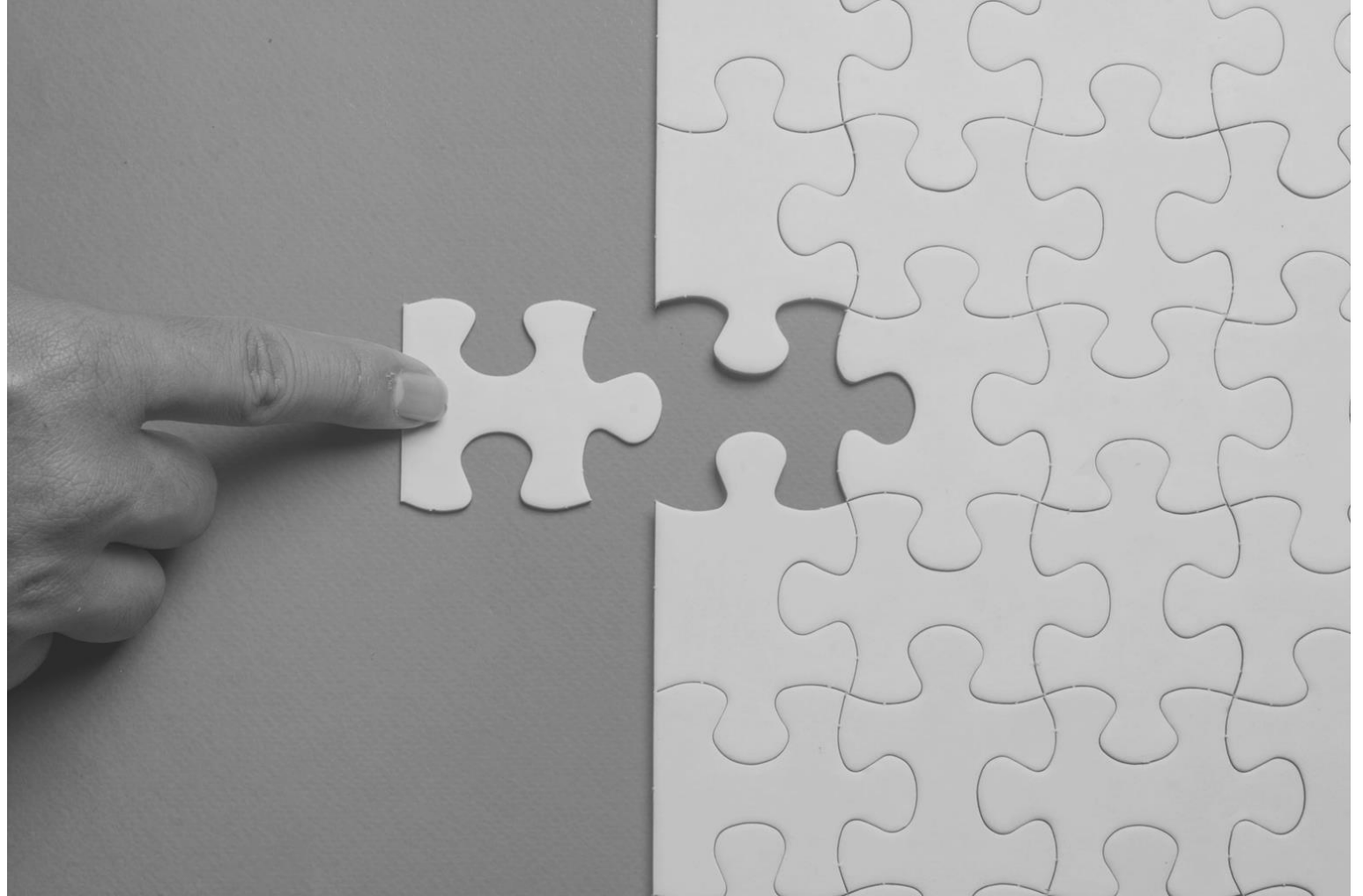
Audit Planning

OnRisk 2021

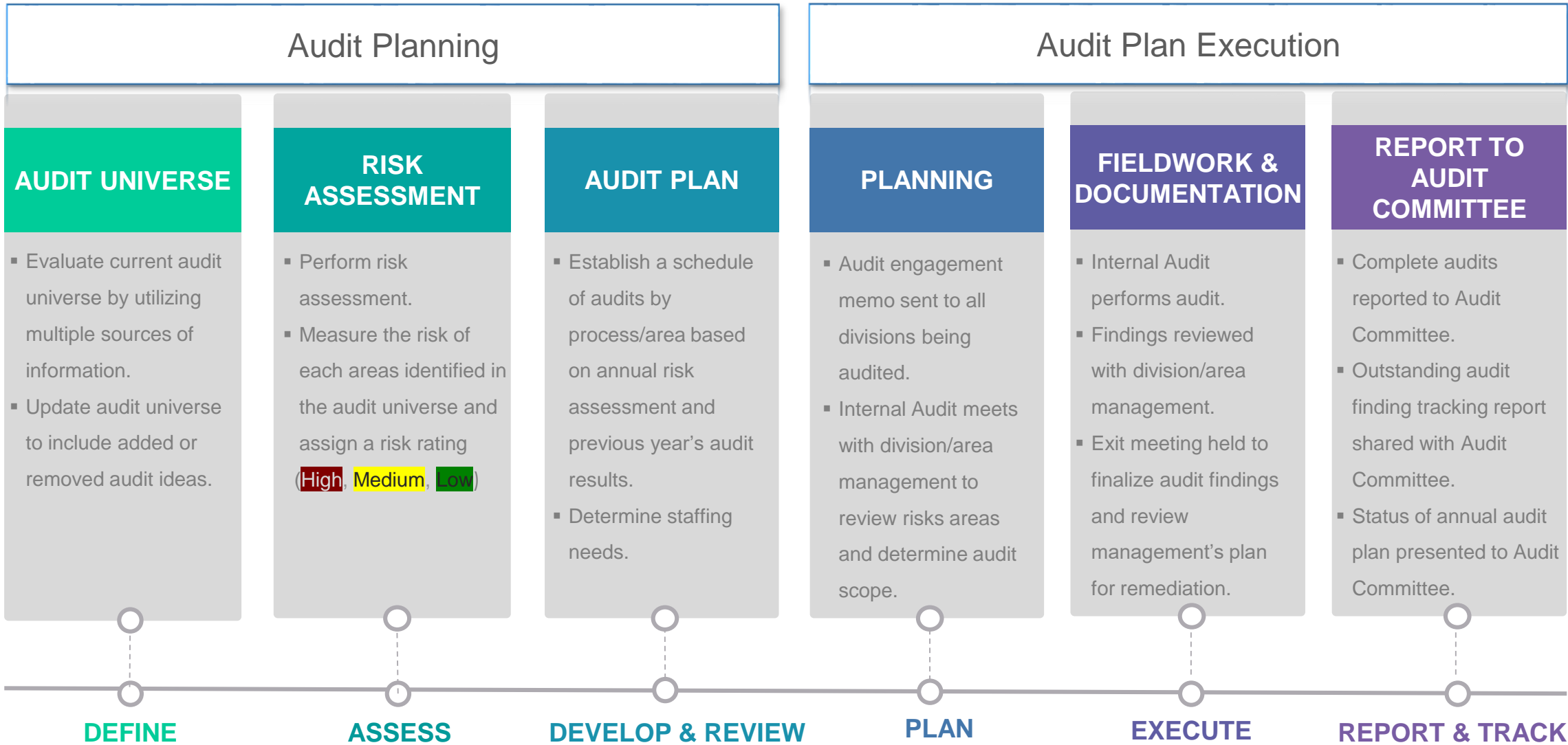
- IIA's Methodology
- Understanding Risk
- Aligning Risk
- Optimizing Risk



Audit Planning



Overview of Internal Audit Process



Annual Audit Planning Timeline for FYE 2022



February Meeting



Propose Audit Plan & Budget

- Reviewed AC & IA Charters
- Reviewed recent audits & recommendations

April Meeting



Define/Refine Audit Universe

- Evaluate current risks in industry
- Evaluate recent organizational changes
- Evaluate if needed to update universe
- Evaluate current risks in industry

June Meeting



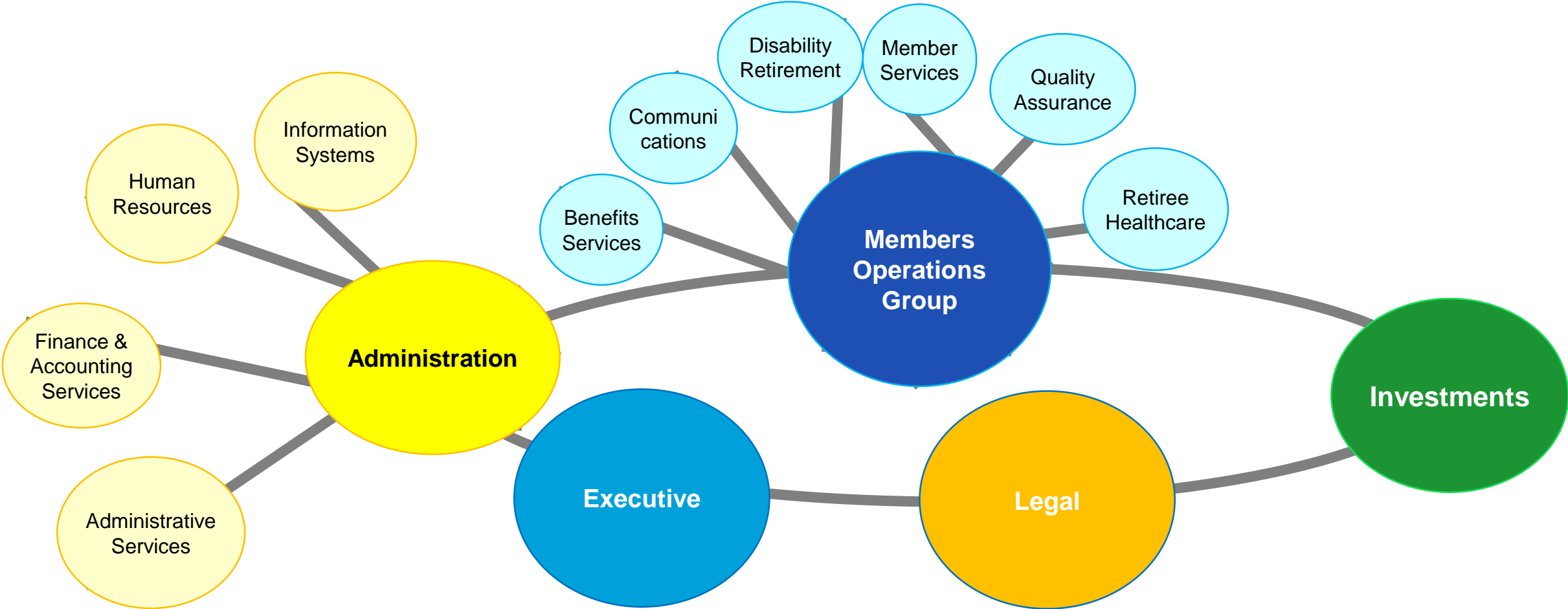
Develop Audit Plan

- Establish an Audit Plan
- Determine staffing needs
- Obtain Executive Office & Audit Committee approval

Assess Risk

- Understand the organization's strategic plan & risk areas
- Input from Audit Committee
- Review proposed Budgets & Highlights
- Send risk surveys to Division Managers
- Interview Division Managers and staff
- Measure the risk of each area identified in the audit universe

Audit Universe by Organization Structure



Sample Risk Assessment Survey



Internal Audit Risk Assessment Survey | FYE 2022

LACERA
Los Angeles County Employees Retirement Association

Division: _____ Survey Completed By: _____ Date: _____

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

1. What are the key objectives/goals of your division?	
2. What are the most significant hurdles that will prevent your division from accomplishing goals? <i>Describe at a high level.</i>	
3. Have there been any significant staffing changes in the past year. How did these staffing changes impact your division?	
4. List new legislative mandates that will impact your division.	
5. List new (or significant changes to) processes or work functions established in your division within the past year. How has this impacted your division?	
6. List significant processes or procedures in your division that are not documented with written procedures.	
7. Are there any significant processes in your division where additional checks and balances are needed to strengthen controls? If so, provide description of process or task.	
8. Are there any delays or backlogs in processes performed in your division? Why have they occurred?	
9. Describe processes in your division where member data is sent outside of the organization.	

Sample Audit Universe + Risk Assessment Matrix



		Risk Areas														
	Division	Key Objective	BCP CRITICAL (Per DM)	AUDIT CYCLE	PRIOR AUDIT YEAR	PRIOR AUDIT RATING	FINANCIAL IMPACT	OPERATIONAL	COMPLIANCE	REPUTATIONAL	EXECUTIVE /AC CONCERN	PANDEMIC IMPACT	OVERALL RISK RATING	EFFECTIVENESS OF KEY CONTROLS	RESIDUAL RISK	
Administration	Admin Services	Objective #1	Y or N													
	Admin Services	Objective #2														
	Admin Services	Objective #3														
	Admin Services	Objective #4														
	Admin Services	Objective #5														
	FASD	Objective #1		Annual												
	FASD	Objective #2														
	FASD	Objective #3														
	FASD	Objective #4														
	FASD	Objective #5														
	HR	Objective #1			3Yr											
	HR	Objective #2														
	HR	Objective #3														
	HR	Objective #4														
	HR	Objective #5														
					5Yr											
						7Yr										

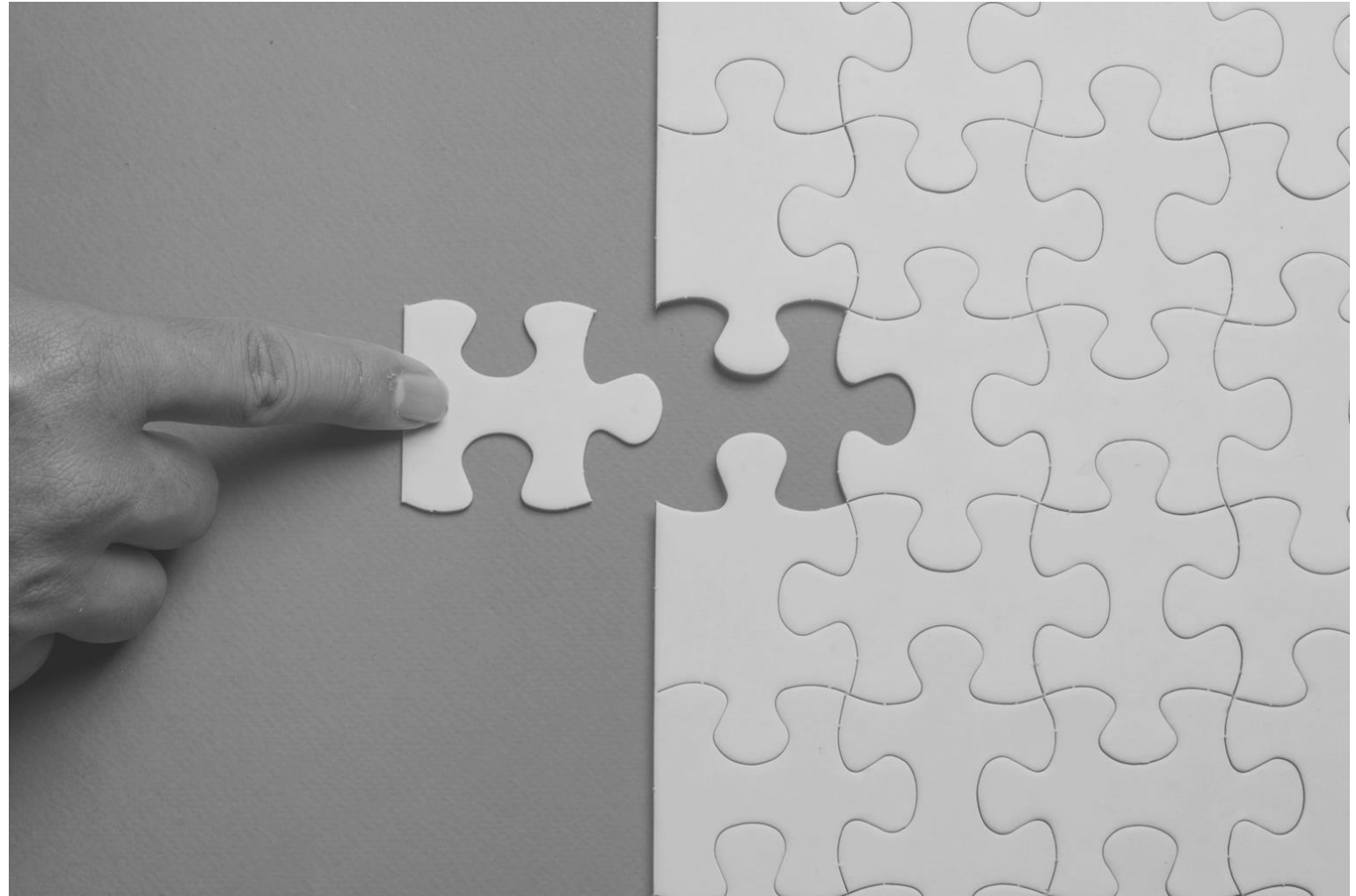
Prior Year Audit Plan



INTERNAL AUDIT PLAN FY 2020-2021

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

Current Risks In Industry



OnRisk 2021 Report



Published by the Institute of Internal Auditors (IIA) in December 2020

- Identified 11 key risks organizations face for 2021 and beyond
- Brought together key risk management players: Board, Management/C-Suite, and Chief Audit Executives (CAEs)
- Focused on personal knowledge, organizational capability, and organizational risk relevance





Surveys and Interviews



Unique approach bringing together views from various perspectives



90 in-depth interviews divided equally among

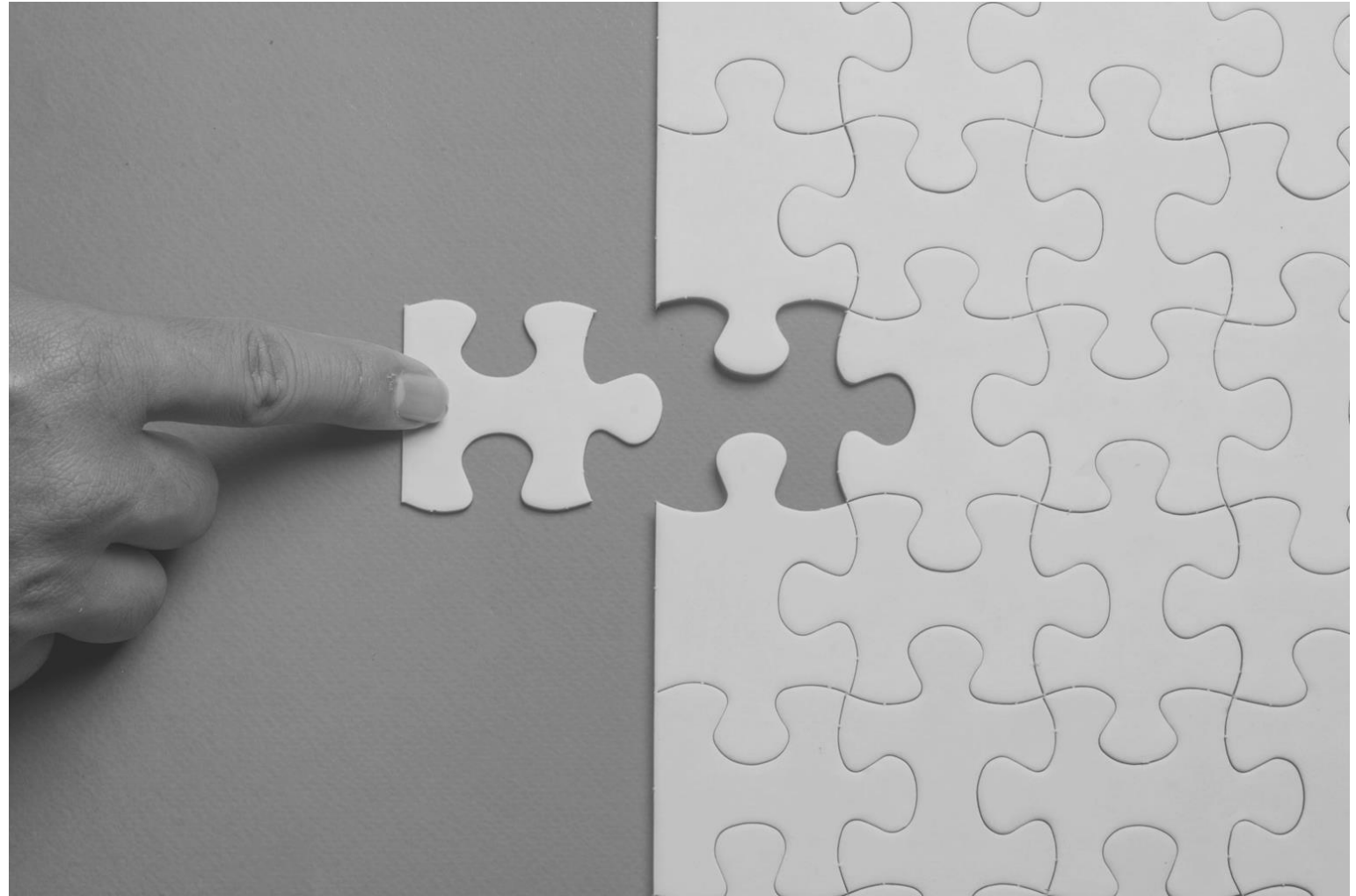
- 30 Board members
- 30 Executive management
- 30 CAEs/internal audit functions



Nearly 350 survey responses

**Data and survey results discussed in this presentation were obtained from IIA's OnRisk 2021 Report*

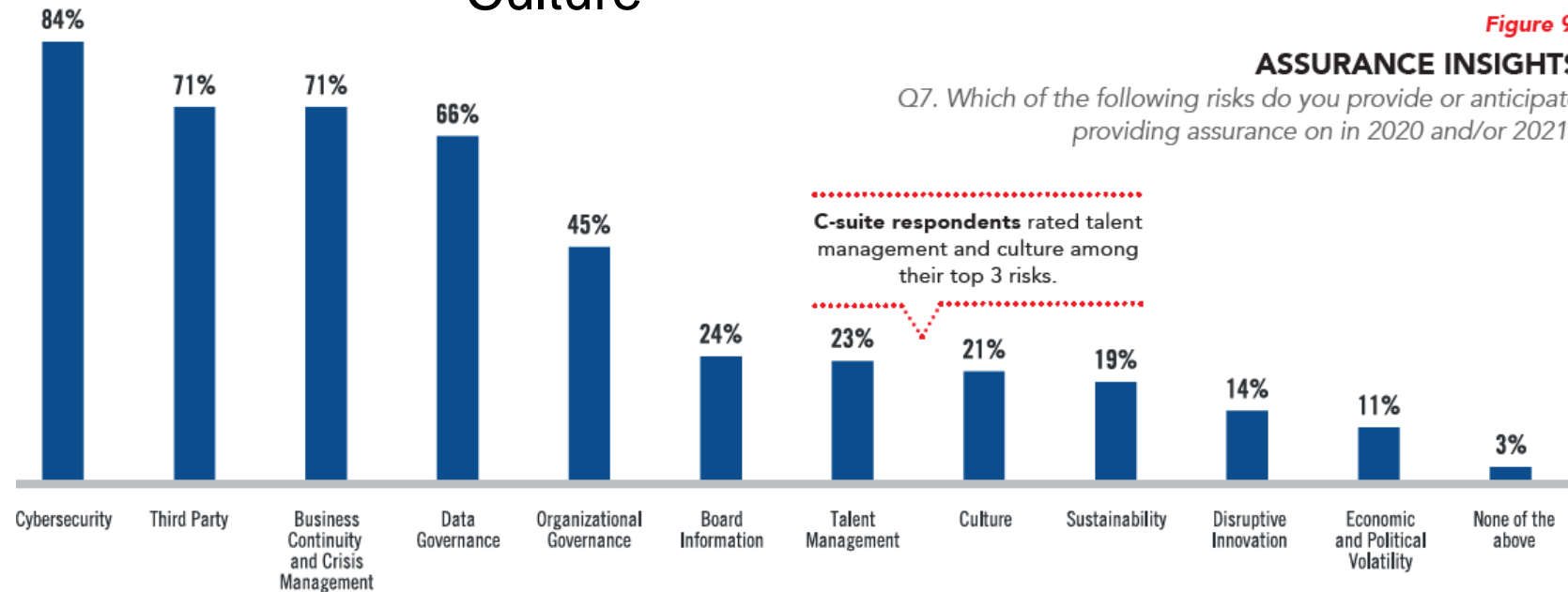
Understanding Risk



Top Risks for 2021



- Cybersecurity
- Third party
- Board information
- Economic and Political Volatility
- Disruptive innovation
- Business continuity and crisis management
- Data governance
- Culture
- Organizational governance
- Talent management
- Sustainability



Source: OnRisk 2021 quantitative, n = 348., OnRisk 2021 qualitative, n = 30.

COVID-19 Impact on Risk Management

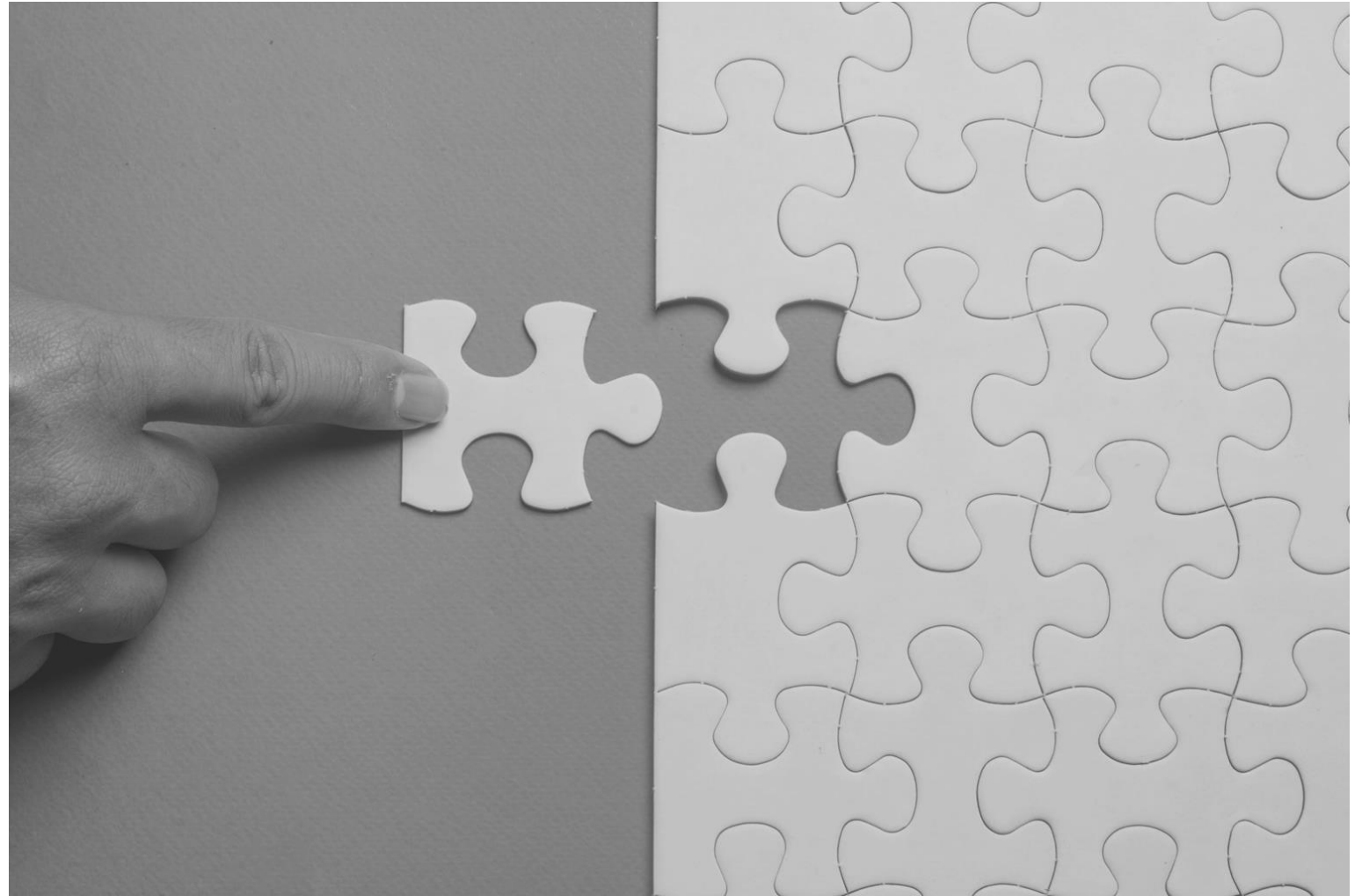


"COVID-19 has been an unexpected, unwelcomed, and unstoppable test of risk management" - IIA

- Exposes the strengths and weaknesses of risk management and governance
- Tests management's agility and flexibility to manage through crisis

Disruptive Innovation has transformed business processes, culture, and customer experiences to meet the demands of a post-COVID-19 world.

Aligning Risk



Risk Management Ratings

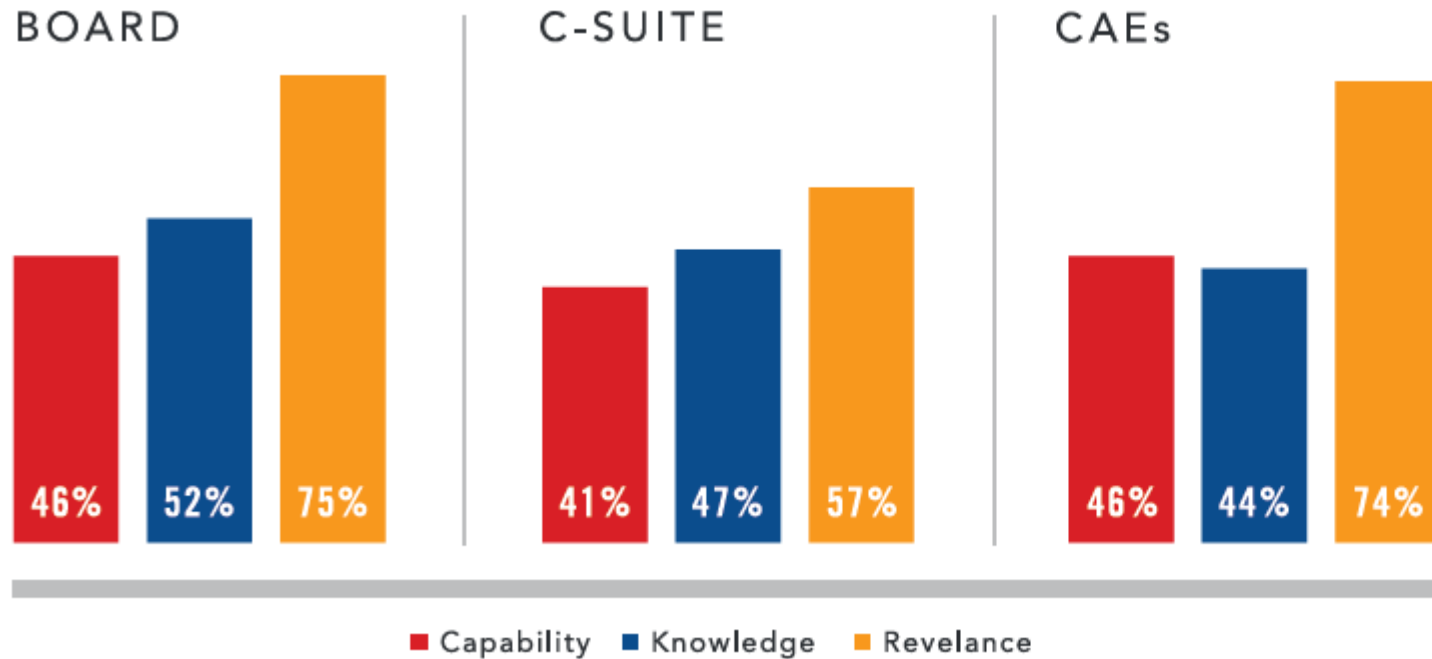


Figure 4:
AVERAGE RATINGS BY RESPONDENT GROUP

Source:
OnRisk 2021
qualitative survey.
n = 90.

Key Take-Aways:

Strong alignment among all three risk management players on Organizational Capability and Personal Knowledge.

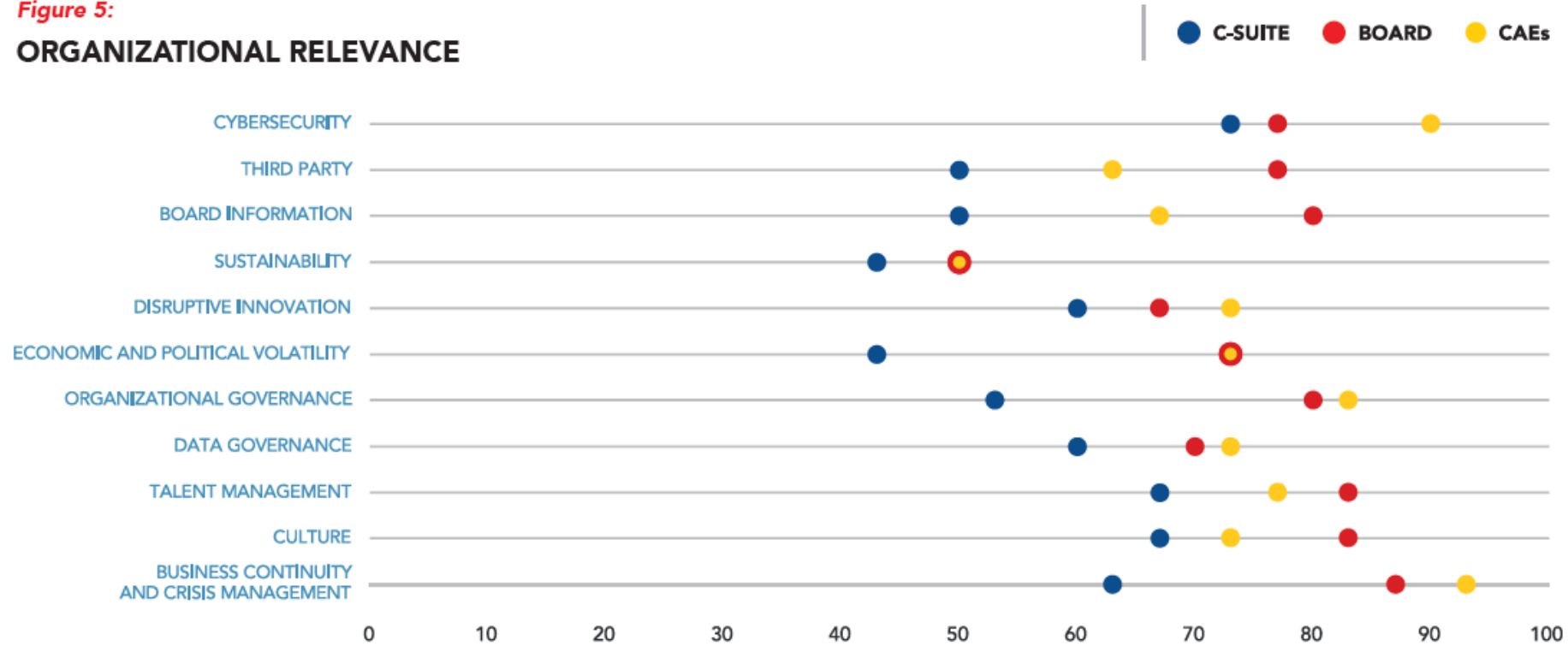
Management/C-Suite is not aligned on Organizational Relevance.

Organizational Relevance by Risk Type



Figure 5:

ORGANIZATIONAL RELEVANCE



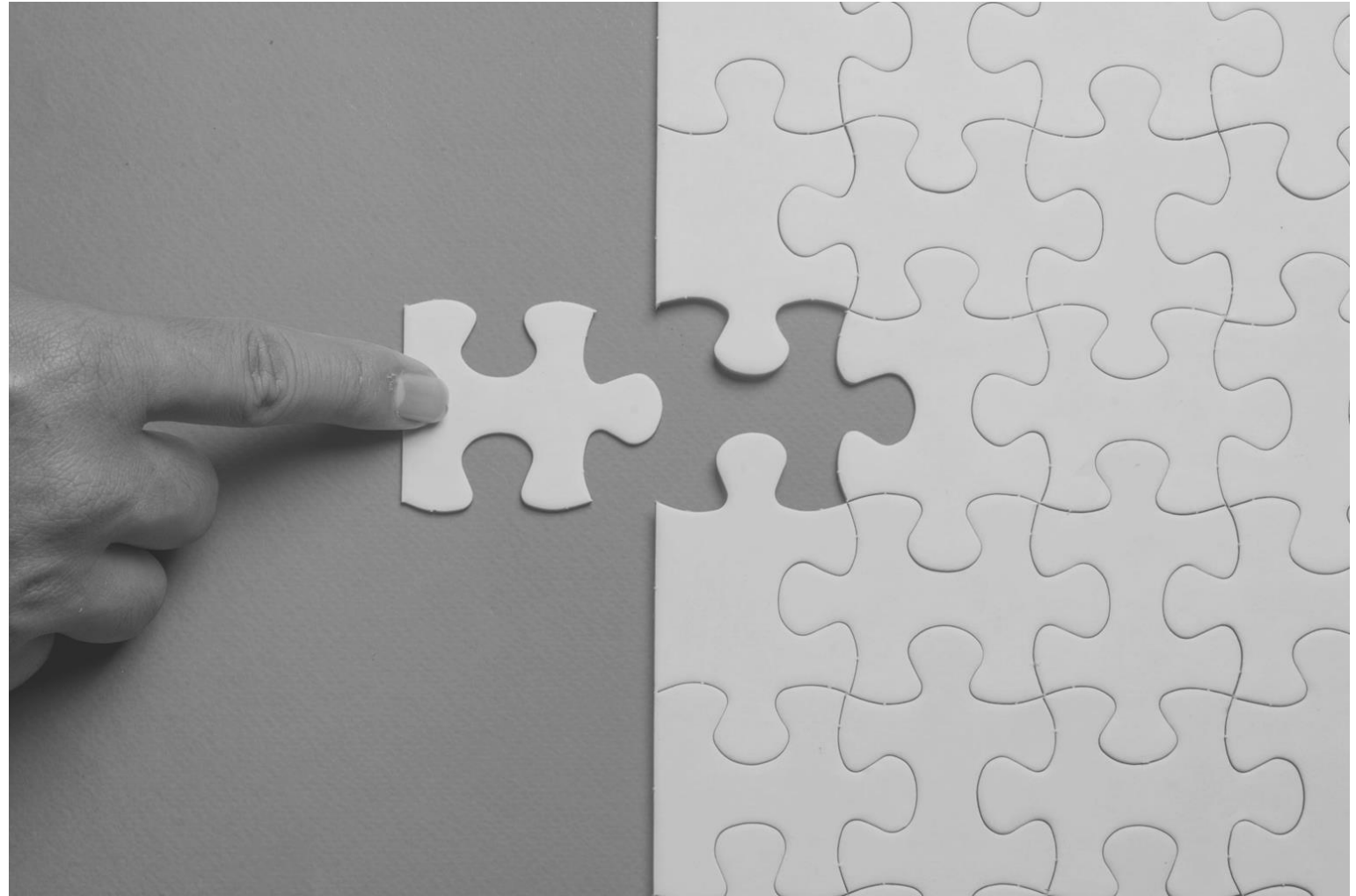
Source: OnRisk 2021 qualitative survey. n = 90.

Key Take-Aways:

Board and CAE are more closely aligned on organizational relevance ratings for each risk.

Board and CAE assign more relevance to each risk than management/C-suite does.

Optimizing Risk

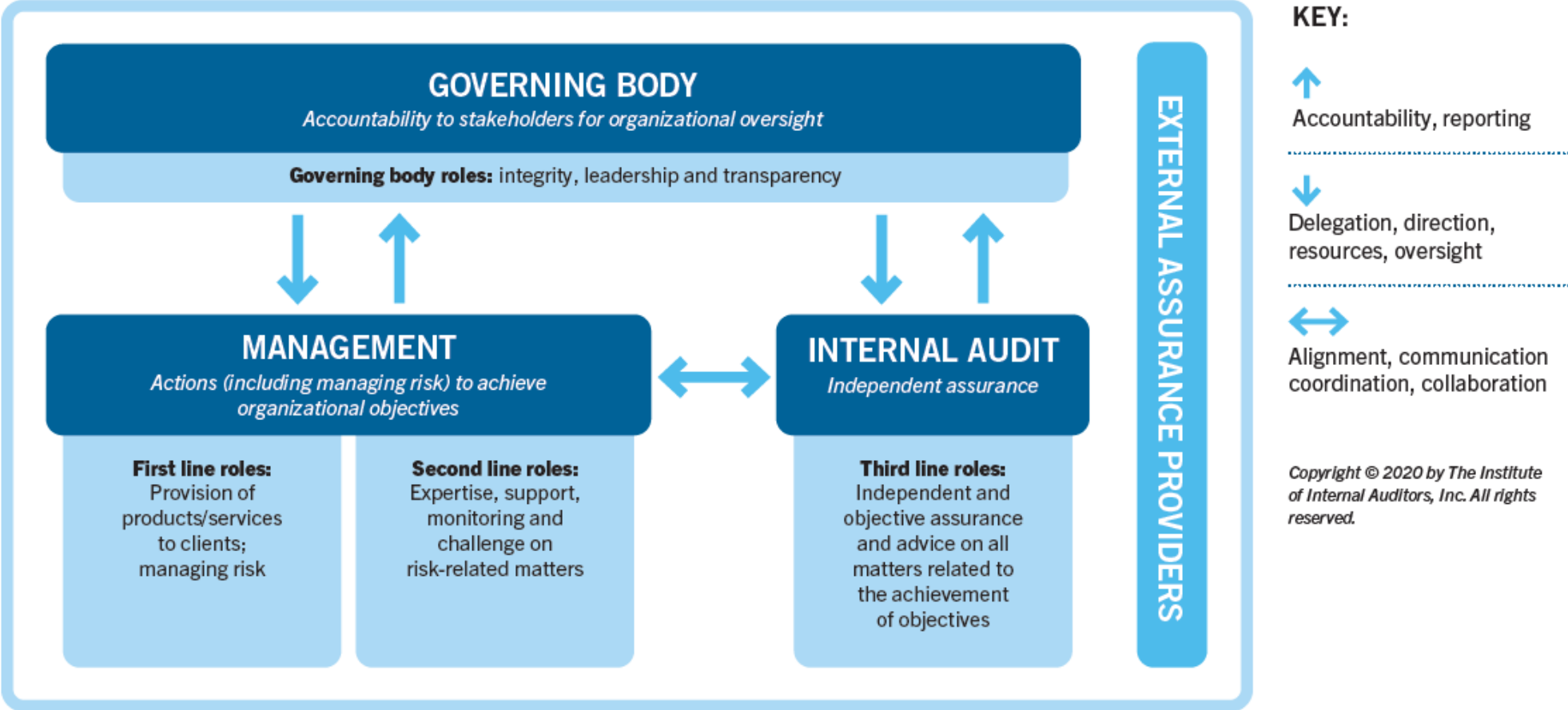


The IIA's Three Lines Model



Figure 8:

The IIA's Three Lines Model



Improving Assurance Services & Processes



Figure 10:

TIPS ON ASSURANCE

OnRisk 2021 respondents offered a number of recommendations to improve assurance services and processes.

- Ensure internal audit's scope of work reflects the organization's assurance needs. Internal auditors must do more than just check boxes.

- Ensure internal audit reports directly to the board to create more transparency and improve information sharing.

- Ensure the audit team is well rounded and staffed with knowledgeable, confident, and assertive practitioners.

- Focus on obtaining high-quality assurance services from internal audit, not just consulting services.

- Clarify roles for internal and external auditors.

"I've seen a big difference in companies in terms of the role of IA. In some cases, they're a policeman, people don't really like them. In other cases they're a real business partner to improve controls and seen as a resource for well-trained employees."

– Board, Retail/Grocery

Source: OnRisk 2021 qualitative survey. n = 90.

Questions



ONRISK

A GUIDE TO UNDERSTANDING, ALIGNING, AND OPTIMIZING RISK

2021



TABLE OF CONTENTS

Introduction	3
The OnRisk Approach	4
Top Risks, 2021	5
Key Observations	6
Key Observations Explained	7
Pandemic Response Drives Relevance Ratings on Risks.....	8
Priorities for Organizational Improvement.....	9
Management Not Aligned on Risk Relevance	11
Greater Overall Alignment on Capability	12
Misalignment on Organizational Governance Risk.....	13
COVID-19's Impact on Risk Management	15
Risk Assurance and The Three Lines Model	16
The Risks	19
Cybersecurity	20
Third Party	22
Board Information	23
Sustainability	24
Disruptive Innovation	26
Economic and Political Volatility	27
Organizational Governance	28
Data Governance	29
Talent Management	31
Culture.....	32
Business Continuity and Crisis Management.....	33
Methodology	35
How to Use This Report	36
Leveraging the Methodology	37
The Stages of Risk	38
Figures	39

INTRODUCTION

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives.

— IIA International Professional Practices Framework (IPPF)

Risk is part and parcel to modern economic theory. Indeed, nearly from the beginning of organized society, the push to recognize, leverage, and manage risk has driven humankind to excel. As social, business, and government institutions have become more complex, global, and entwined, mastering the art and science of risk management has become ever-more imperative — and elusive.

Last year, The Institute of Internal Auditors published *OnRisk 2020: A Guide to Understanding, Aligning, and Optimizing Risk*, which for the first time brought together essential perspectives of boards, management, and chief audit executives (CAEs) — the three key players in risk management. Through a series of interviews with members of all three groups, along with a survey of CAEs, *OnRisk 2020* offered a unique and insightful examination of the interactions and views of those who most directly affect risk management. The inaugural guide was designed to improve alignment among these three risk management players by measuring their views on top risks, based on personal knowledge and organizational capability to manage those risks. *OnRisk 2021* adds key players' views on organizational risk relevance as a factor in measuring alignment.

Observations gleaned this year show improved alignment on key risk knowledge and capability, but potential misalignment on how relevant some risks are viewed. The report also examines where organizations turn for assurance over risk management.

No examination of risk in 2020 would be complete without addressing the influence of COVID-19. Beyond the obvious fallout from shuttering the global economy for extended periods, response to the pandemic contributed to generally improved alignment among risk management players on business continuity, risk management, and communications. The pandemic also exposed the strengths and weaknesses of how organizations manage disruption. However, COVID-19's most influential long-term impact may be the marked acceleration of technology's positive and negative effects on cybersecurity, talent management, economic and political volatility, and disruptive innovation.

THE ONRISK APPROACH

The OnRisk approach uses an innovative methodology that uniquely brings together the perspectives of major contributors to organizational risk management. Alignment of these players' views on risk knowledge, capability, and relevance is a significant step toward achieving strong risk management in support of effective governance.

The methodology employed qualitative interviews of 30 board members, 30 C-suite executives, and 30 CAEs from 90 different organizations. Further support came from a quantitative survey of CAEs, which drew 348 responses.

The combination of qualitative and quantitative research provides robust data sets to examine top risks facing organizations and allows for both objective data analysis and subjective insights based on responses from risk management leaders. Further detail regarding the OnRisk methodology and how to use and leverage this report, as well as details explaining the Risk Stages Model developed in conjunction with OnRisk can be found in the appendices of this report.



TOP RISKS, 2021

The 11 risks were selected from a wide assortment that are likely to affect organizations in 2021 and vetted through in-depth interviews with board members, management, and CAEs. Some of the risks are unchanged from the inaugural OnRisk report, some descriptions have been updated, and other risks are new to the list. These risks should be relevant universally, regardless of an organization's size, industry, complexity, or type. However, this list does not cover all the significant risks in every organization; risks excluded from this analysis may have particular relevance — even significant relevance — to organizations, depending on their specific circumstances.

CYBERSECURITY: The growing sophistication and variety of cyberattacks continue to wreak havoc on organizations' brands and reputations, often resulting in disastrous financial impacts. This risk examines whether organizations are sufficiently prepared to manage cyber threats that could cause disruption and reputational harm.

THIRD PARTY: For an organization to be successful, it has to maintain healthy and fruitful relationships with its external business partnerships and vendors. This risk examines organizations' abilities to select and monitor third-party relationships.

BOARD INFORMATION: As regulators, investors, and the public demand stronger board oversight, boards place greater reliance on the information they are provided for decision-making. This risk examines whether boards feel confident that they are receiving complete, timely, transparent, accurate, and relevant information.

SUSTAINABILITY: The growth of environmental, social, and governance (ESG) awareness increasingly influences organizational decision-making. This risk examines organizations' abilities to establish strategies to address long-term sustainability issues.

DISRUPTIVE INNOVATION: We are in an era of innovative business models, fueled by disruptive technologies. This risk examines whether organizations are prepared to adapt to and/or capitalize on disruption.

ECONOMIC AND POLITICAL VOLATILITY: National elections, multinational trade agreements, new or extended protectionary tariffs, and uncertainty around timing of routine macroeconomic cycles all create volatility in the markets in which organizations operate. This risk examines the challenges and uncertainties organizations face in a dynamic and potentially volatile economic and political environment.

ORGANIZATIONAL GOVERNANCE: Governance encompasses all aspects of how an organization is directed and managed: the system of rules, practices, processes, and controls by which it operates. This risk examines whether organizations' governance assists or hinders achievement of objectives.

DATA GOVERNANCE: Organizations' reliance on data is expanding exponentially, complicated by advances in technology and changes in regulations. This risk examines organizations' overall strategic management of data: its collection, use, storage, security, and disposition.

TALENT MANAGEMENT: A growing gig economy, dynamic labor conditions, and the continuing impact of digitalization are redefining how work gets done. This risk examines challenges organizations face in identifying, acquiring, upskilling, and retaining the right talent to achieve their objectives.

CULTURE: "The way things get done around here" has been at the core of a number of corporate scandals. This risk examines whether organizations understand, monitor, and manage the tone, incentives, and actions that drive the desired behavior.

BUSINESS CONTINUITY AND CRISIS MANAGEMENT: Organizations face significant existential challenges, from cyber breaches and pandemics to reputational scandals and succession planning. This risk examines organizations' abilities to prepare, react, respond, and recover.

KEY OBSERVATIONS

The research for **OnRisk 2021** provides a snapshot of how the principal drivers of risk management interact and which risks pose the greatest challenges to their organizations. Analyses of the data led to the identification of five key observations that shed light on how risks are understood and how an organization's ability to manage risk is perceived. In-depth examinations of these observations are found later in this report.

- **Business continuity and crisis management and cybersecurity are the top-rated risks for 2021.** Unprecedented challenges brought on by the COVID-19 pandemic as well as expanding reliance on technology and data drove these two risks to the top of the list. They often were paired as some cyber threats were heightened by the sudden relocation of employees to less secure work-from-home environments as well as an intense shift to e-commerce brought on by the pandemic response.
 - **Two risks offer priorities for organizational improvement.** All respondents rated disruptive innovation and talent management among the most relevant risks. Yet, C-suite respondents ranked their personal knowledge and the organization's capabilities related to these risks among the lowest.
 - **Management perceptions on risk relevance are generally not aligned with boards and CAEs.** Board members and CAEs were largely aligned on their perception of the relevance of risks included in OnRisk 2021. However, management relevance rankings were lower overall, with an especially large gap in the perception of governance and economic and political volatility. Indeed, the C-suite assigned higher relevance to operational risks such as talent management, culture, and business continuity.
 - **Perceptions on capability to manage risks are more aligned.** This year, responses were more tightly clustered in ranking organizational ability to manage risk. The board overconfidence noted in last year's report appears to have eased. Responses to COVID-19, which focused in part on renewed risk assessments and more frequent communication and collaboration among risk management players, likely drove stronger alignment on organizational strengths and weaknesses.
 - **Management sees organizational governance as a less relevant risk than do boards and internal audit.** The disparity in relevance rankings for organizational governance as a risk is significant and telling. Management's lower relevance ranking on this risk, combined with its higher rankings on personal knowledge and organizational capability, signal management overconfidence in this area and a disconnect from boards and CAEs.
-

KEY OBSERVATIONS EXPLAINED

The five key observations are examined in-depth in the following pages. As noted previously, the qualitative and quantitative surveys for OnRisk 2021 were intended to elicit candid perspectives on the nature and understanding of risk management through the eyes of its three principal drivers. The analyses of the data reveal essential insights into interactions and alignment among respondents, leading to enlightening conclusions about how those interactions and alignments impact risk management.

PANDEMIC RESPONSE DRIVES RELEVANCE RATINGS ON RISKS

Based on both qualitative and quantitative surveys, business continuity and crisis management and cybersecurity were the two most relevant risks among OnRisk respondents, which reflects 2020's unique context. The clear and present risk associated with keeping the doors open was rated right alongside the ever-expanding risk related to cyber threats (Figure 1).

Close to 9 in 10 (87%) board members ranked business continuity and crisis management as highly or extremely relevant, while more than 9 in 10 (93%) CAEs rated it as highly or extremely relevant. However, far fewer members of the C-suite identified it as such, with just more than 6 in 10 (63%) describing it as highly or extremely relevant. Generally, C-suite respondents assigned lower relevance rankings for all risks examined.

CAE rankings skewed the overall cybersecurity rating higher, with 90% rating it as highly or extremely relevant. However, board members put other risks ahead of cybersecurity, rating culture, talent management, board information, and organizational governance as more relevant. The C-suite gave cybersecurity its second highest rating overall, but a lower percentage rated it as highly or extremely relevant (73%).

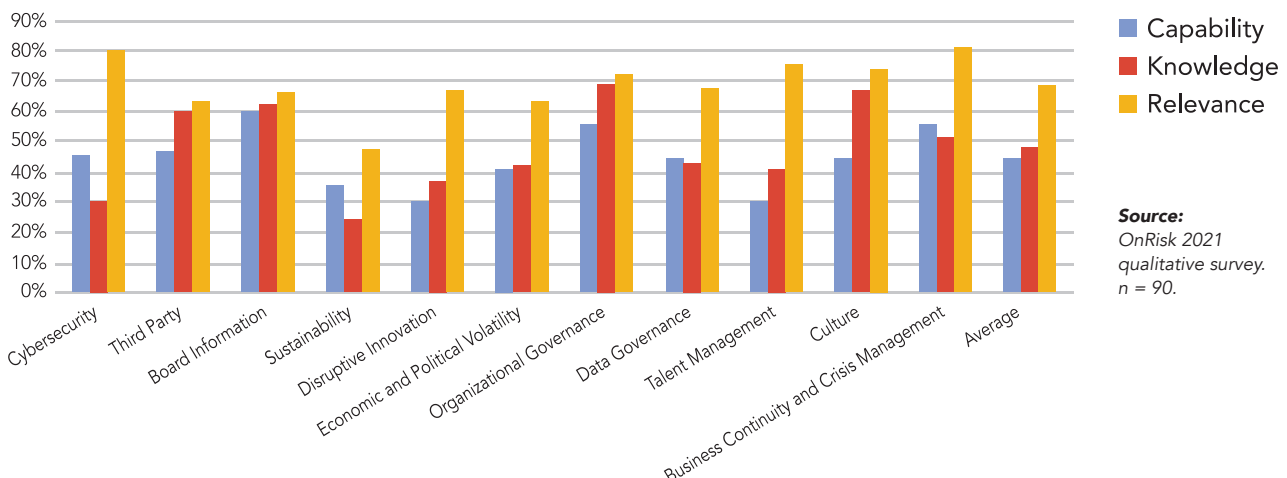
Board and C-suite respondents rate their level of personal knowledge lowest when it comes to cybersecurity. This may reflect continued uncertainty about a risk that is constantly evolving via technological advancement and related disruptive innovation. CAEs continue to be outliers in rating themselves significantly higher in knowledge about this risk. The three respondent groups were aligned and not particularly confident about organizational capability to manage cyber risks. On average, fewer than half of respondents (46%) rated their organizations as very or extremely capable.

COVID-19's influence on the relevance of these two risks is not surprising. The pandemic's existential threat to organizations, combined with the extreme measures taken to cope with the deadly virus, created new cyber vulnerabilities. For example, the newly ubiquitous work-from-home environment introduced the monumental task of enforcing cyber-safety protocols for entire offsite workforces. The perceived relevance and urgency of cyber-related risks was heightened further by changes to operations, mitigating the vulnerabilities of popular communications software, managing customer and vendor relationships strictly online, and internal audit's inability to perform on-site visits.

"COVID definitely heightens the risk... showing financial documents on Zoom calls."

—Board
Manufacturing/Utilities

Figure 1: ONRISK 2021 RISK RATINGS – ALL RESPONDENTS



Source:
OnRisk 2021
qualitative survey.
n = 90.

PRIORITIES FOR ORGANIZATIONAL IMPROVEMENT

Talent management, disruptive innovation emerge as clear areas for improvement.

Among all respondents, talent management and disruptive innovation emerged among the most relevant risks. Yet, C-suite respondents gave their lowest ratings to personal knowledge and organizational capabilities related to those risks. This discrepancy reveals two areas ripe for organizational improvement. The following comparison offers a simple but powerful insight into areas of potential risk management weakness. The X-axes in the graphics below (Figures 2 and 3) reflect relevance assigned by C-suite respondents to each of the 11 identified key risks. The corresponding Y-axes reflect management's rankings on either their personal knowledge or the organization's capabilities to manage each risk. The lower right quadrants of each graph represent areas of high significance but low knowledge or capability. The appearance of talent management and disruptive innovation in the lower right quadrants of both graphs (highlighted) visually depicts that these risk areas offer the greatest opportunities for improvement.

Figure 2:
AREAS FOR IMPROVEMENT: C-SUITE

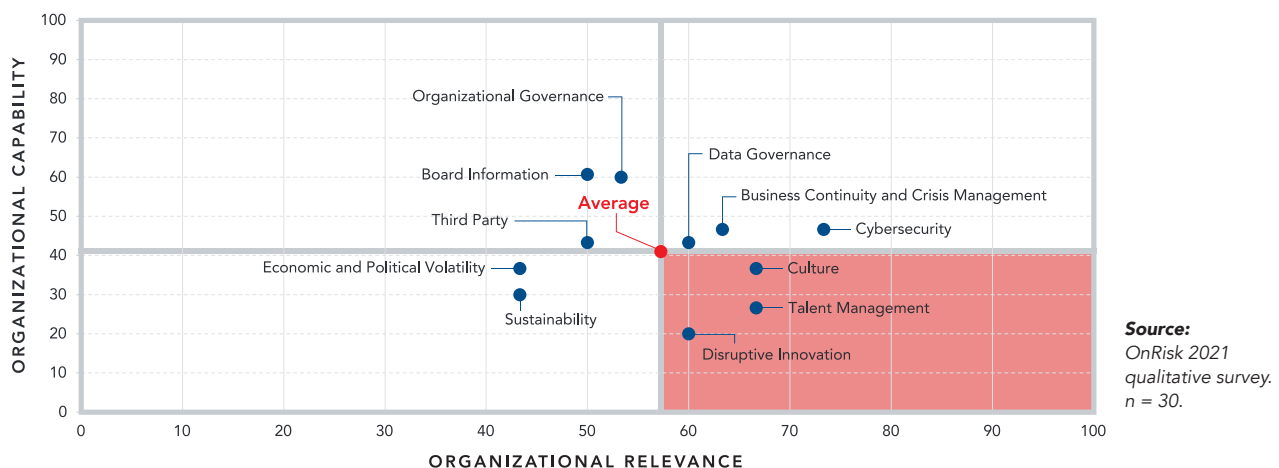


Figure 3:
LEARNING OPPORTUNITIES: C-SUITE



PRIORITIES FOR ORGANIZATIONAL IMPROVEMENT

continued

The timing of the surveys for the OnRisk 2021 report likely influenced the relevancy ratings for both talent management and disruptive innovation. COVID-19 pressed management into making difficult decisions on talent management. Similarly, management recognized and reacted to the potential impacts of continued disruptive innovation at a time when many organizations were particularly vulnerable to competition and felt pressure to quickly adopt new technology to support recovery. However, management's acknowledged lack of confidence in personal knowledge and organizational capabilities related to both areas cannot be dismissed.

TALENT MANAGEMENT

Identifying, hiring, and retaining top talent is a perennial and global challenge. Responding to COVID-19 added significant complexity to this risk category as organizations scrambled to react to lockdowns, related supply-chain and cash-flow disruptions, and an exodus of employees from traditional work sites. Pay cuts, furloughs, and workforce reductions followed as the pandemic's effects stretched from days to weeks to months.

This significant disruption to talent management, as well as its impact on morale, productivity, and workplace culture, will have both short- and long-term implications for organizations. Three areas offer evidence of its potential disruption.

- 1. As organizations have quickly adopted new technologies to adapt to the pandemic, finding talent with new or modified skills has been critical. Organizations that responded most nimbly and effectively to this challenge may be more likely to emerge from the pandemic in a position of strength.*
- 2. The work-from-home phenomenon has fundamentally changed how organizations recruit and manage talent. This accelerated evolution in the employment contract has positive and negative implications. While having a majority of the workforce operating in home settings posed significant immediate challenges in technology, cybersecurity, and logistics, it all but eliminated the limitation of geographic considerations when identifying and hiring the right talent. What's more, generous work-from-home options may become standard if organizations hope to compete for top talent in the future.*
- 3. The "new normal" for employment has complicated the work-life balance equation, yielding multiple talent management implications related to paid time off, productivity, morale, and workplace culture.*

DISRUPTIVE INNOVATION

As organizations felt pressure to find new ways to operate effectively under pandemic-related restrictions, they accelerated the adoption of new technologies and abandoned cautious "wait-and-see" approaches to innovation, at least in the short term. This response bodes well for organizations that can make the leap successfully. However, the pandemic response exposed a potentially significant weakness: practically nothing will slow the pace of technological innovation and its related disruptions; yet, organizations appear ill-prepared to leverage or manage this risk.

Technology-driven assaults have dismantled legacy business models and built some of the 21st century's most recognizable brands — Uber, Amazon, Apple, Netflix. What's more, the greatest acceleration of disruption will likely come from combining powerful technological advances, such as SpaceX's Starlink project, which promises to bring low-cost internet services to remote areas of the world through a fleet of orbiting communication satellites. Organizations that embrace new technology and become leading-edge trailblazers will be best positioned to succeed. This will require 21st century management that not only understands and leverages disruptive innovation, but also nurtures it.

MANAGEMENT NOT ALIGNED ON RISK RELEVANCE

The introduction of relevance in OnRisk 2021 as a measure of overall risk management provides important insights into governance. Overall, there is strong alignment among all three risk management players on personal knowledge and organizational capabilities relative to the 11 key risks examined in the report. However, the average ratings for how relevant the risks are to organizations were better aligned between boards and CAEs (75% and 74%, respectively), than management’s rating (57%) (Figure 4).

A detailed breakdown of relevance ratings further evidences that the board assigns more relevance to each risk than management does. A closer look also reveals which risks were most relevant to each group (Figure 5). For example, while talent management and culture appeared to be highly relevant to both the C-suite and the board, the board’s relevance score exceeded that of management by about 20 points for each. Also, both groups rated business continuity and crisis management with high relevance, but boards rated the risk about 25 points higher than management did. The two groups were most closely aligned on the relevance of cybersecurity risk. However, the risk clearly topped the relevance list for C-suite respondents, while it was the sixth most relevant risk for board members.

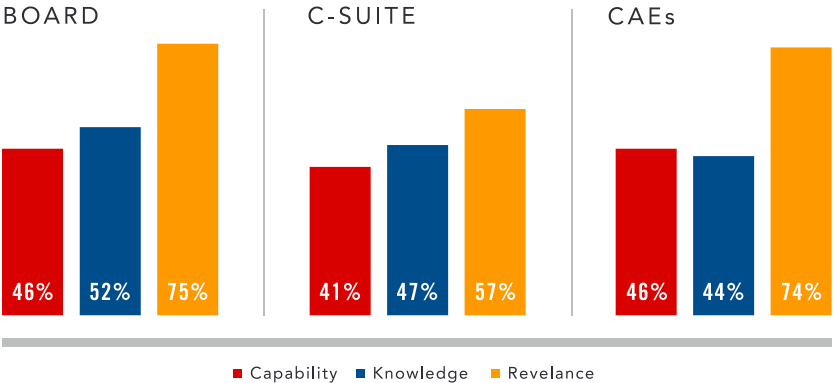
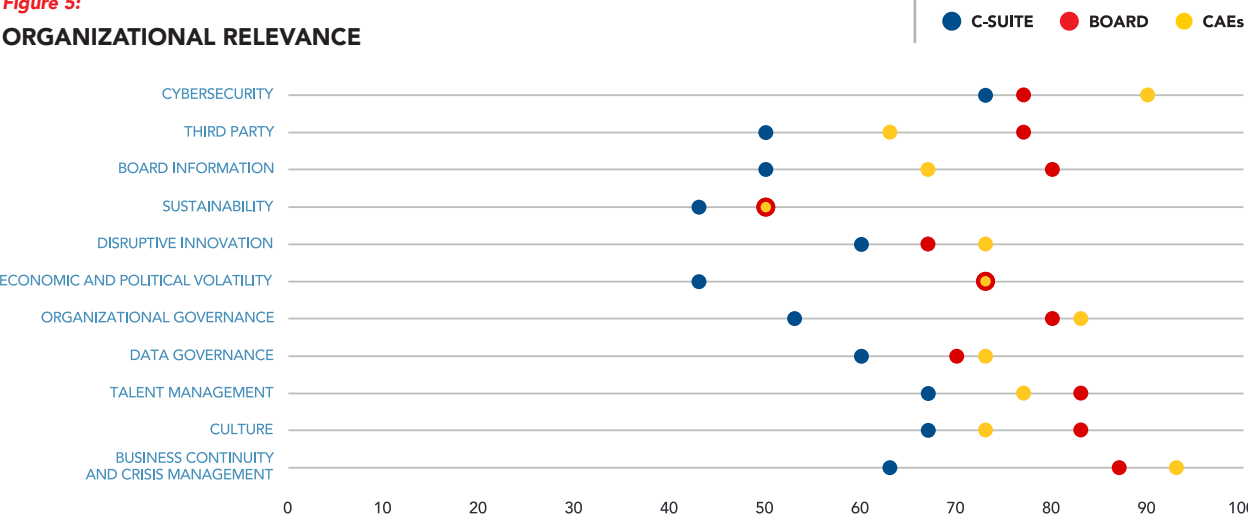


Figure 4:
AVERAGE RATINGS BY RESPONDENT GROUP

Source:
OnRisk 2021
qualitative survey.
n = 90.

Figure 5:

ORGANIZATIONAL RELEVANCE



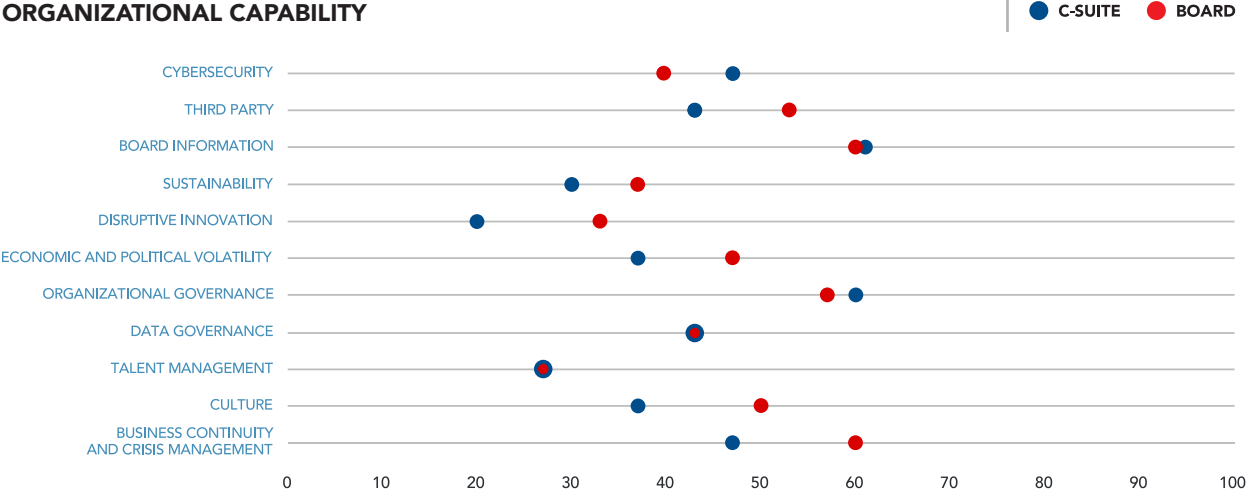
Source: OnRisk 2021 qualitative survey. n = 90.

GREATER OVERALL ALIGNMENT ON CAPABILITY

Boards no longer outliers on ability to manage risks.

Perceptions on organizational capability to manage risks are more aligned compared to 2019, primarily due to lower rankings by boards this year in several risk areas (Figure 6), including talent management, board information, and data governance (previously data ethics, data protection, and data and new technology). This does not necessarily signal loss of confidence, but more likely a more realistic understanding of these risk areas. It is likely the pandemic prompted greater communication and fresh assessment of risks and capabilities. This is supported by board members rating their personal knowledge of risks on average higher this year compared to 2019.

Figure 6:



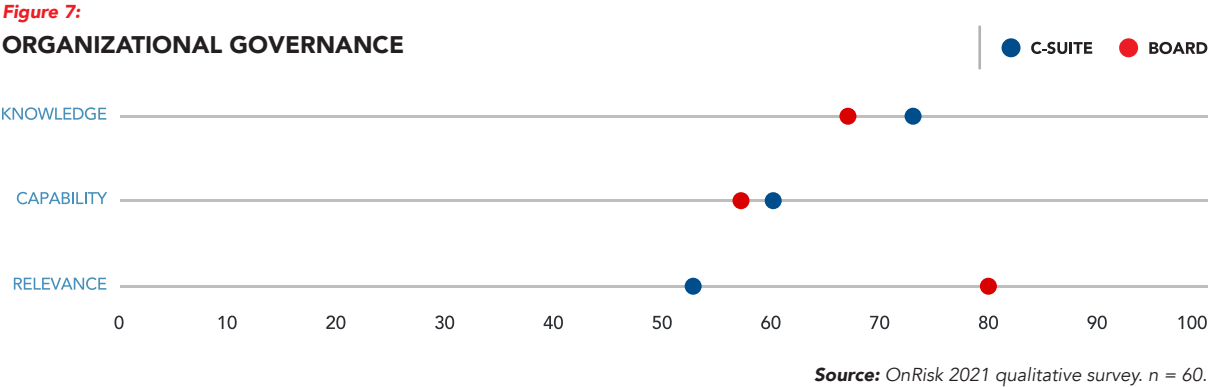
Source: OnRisk 2021 qualitative survey. n = 60.

MISALIGNMENT ON ORGANIZATIONAL GOVERNANCE RISK

Management ranks knowledge and capability higher, relevance lower than do boards.

Management sees organizational governance risk substantially differently than do boards. C-suite respondents ranked their personal knowledge of the risk and the organization’s ability to manage it slightly higher than boards did but ranked the risk much less relevant (Figure 7). This ranking pattern is illuminating.

Governance encompasses all aspects of how an organization is directed and managed, and it is commonly viewed as a useful barometer of management performance. Indeed, the strength of an organization’s overall governance drives its ability to achieve its objectives.



C-suite respondents rated their personal knowledge and organizational capabilities to manage organizational governance risk higher than the board and internal audit. They also rated the relevance lower than both risk management partners.

The gap between the relevance rankings by management and the board should not be easily dismissed. Slightly more than 5 in 10 C-suite respondents ranked the relevance of organizational governance risk as highly or extremely relevant. In contrast, about 8 in 10 board respondents ranked it at those levels. This gap, about 25 points, signals a disconnect. This gap combined with management’s higher ranking on personal knowledge and organizational capabilities reflect that management is either overconfident when it comes to organizational governance risk or simply unaware of the level of concern from board members in this area.

COVID



COVID-19'S IMPACT ON RISK MANAGEMENT

COVID-19 has been an unexpected, unwelcomed, and unstoppable test of risk management. Like no other event in recent memory, the pandemic is compelling organizations to examine risk management practices and performance in the struggle to excel, remain competitive, or simply keep the doors open.

What's more, no organization is being spared, and no two organizations are impacted in the same way. COVID-19 creates unique risk management challenges and opportunities for organizations large and small, public and private, established and start-up. It exposes the strengths and weaknesses of each organization's risk management and governance, as well as their agility and flexibility to manage through crisis. It stimulates leaders to imagine what success and competition will look like in a post-COVID-19 business environment that promises to be dramatically different.

Indeed, the pandemic's impact is evident in all aspects of our existence, from how it blurs the line between work and home to how it continues to redefine social interaction. Video chat platforms are the new boardroom and happy hour bistro. Face masks are killing lipstick sales but booming as fashion accessories. Amazon, UPS, and FedEx trucks invade neighborhoods as the 2020 version of ice cream trucks.

Data from the OnRisk 2021 surveys affirms some anticipated pandemic impacts, such as organizations focusing more on short-term, operational risks. It also tells of improved risk awareness and alignment among risk management players. But the most impactful revelation may be emerging signs of accelerating adoption of new technologies, a movement that promises to fundamentally change how work gets done. One C-suite respondent described this acceleration as "advancing the technology scale a few years in just a few months."

The short- and long-term impacts of this race to embrace disruptive innovation will be diverse and difficult to predict as implementation of technology can be fickle and frustrating even under the best circumstances. Transforming business processes, culture, and customer experiences at warp speed to meet the demands of a post-COVID-19 world will invariably lead to as many disastrous mistakes as happy accidents. It will almost certainly lead to new, as yet unforeseen risks, which organizations must be prepared to manage.

OnRisk 2021 data and additional research by The IIA bear out another moral from the pandemic. Organizations that invested in building strong internal relationships and technology pre-COVID-19 were best able to withstand the pandemic's challenges and uncertainties. This lesson is critical to organizations as they emerge from COVID-19's long shadow. Those that can successfully build and nurture alignment while advancing a clearly defined digital agenda will be best positioned to thrive in the pandemic's aftermath.

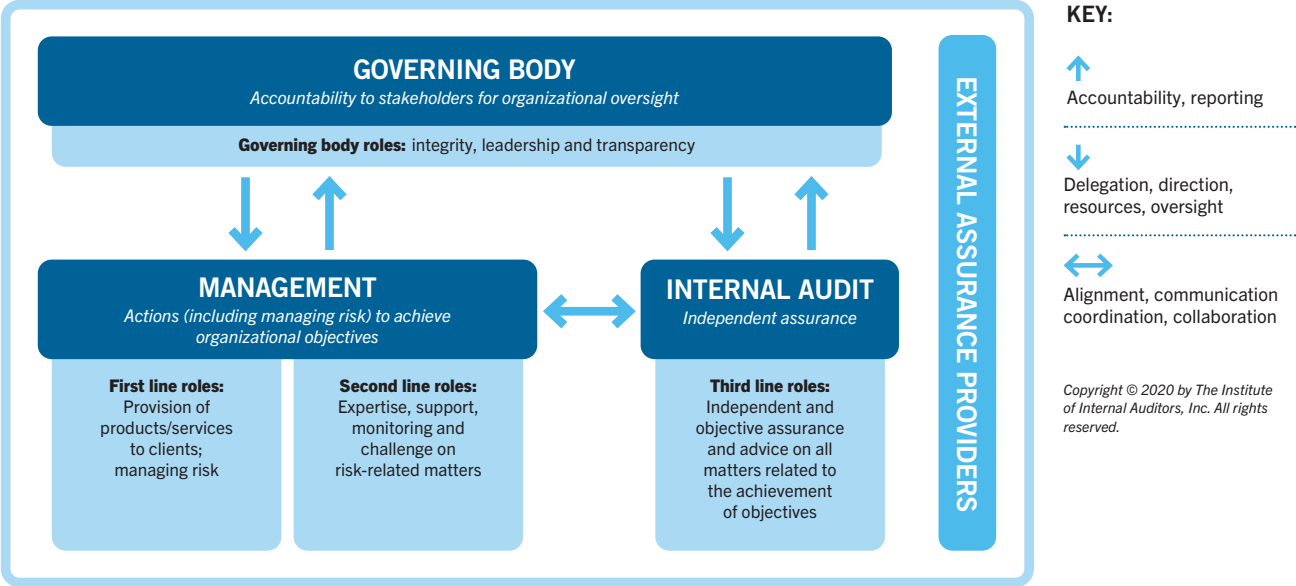
"It's amazing how [disruptive innovation] is driven by this virus. We're advancing the technology scale a few years in just a few months. Fueled disruptive innovation will impact virtually every business."

– C-suite, Insurance

RISK ASSURANCE AND THE THREE LINES MODEL

The **Three Lines Model** (Figure 8) is designed to help organizations identify structures and processes that facilitate strong governance and risk management. The new model, an update of the Three Lines of Defense, published by The IIA in July 2020, provides particular clarity to questions of assurance. The principles-based model identifies appropriate structures, processes, and roles that enable accountability from the governing body, actions (including managing risk) from management to achieve organizational objectives, and assurance from an independent and objective internal audit function.

Figure 8:
The IIA’s Three Lines Model



In clearly delineating roles to accomplish accountability, actions, and assurance, the model offers important guidance on assurance and the value of “improvement through rigorous inquiry and insightful communication” that an independent internal audit function provides.

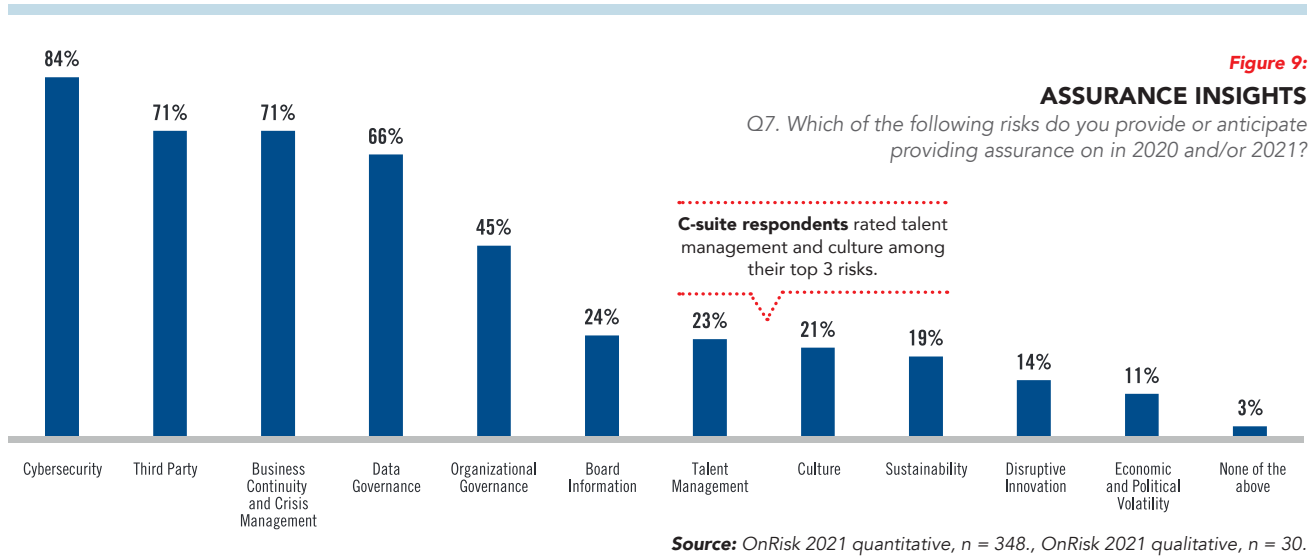
Yet data from both qualitative and quantitative OnRisk 2021 surveys suggest that truly independent assurance is often lacking, and the sources of assurance are typically inconsistent. Leaders generally feel the level of assurance they are getting is satisfactory, regardless of where it comes from. However, this laissez-faire approach fails to address the value of an independent assurance assessment.

Internal audit coverage of key risks is considerable, but far from complete. CAEs report they provide assurance for each key risk examined in OnRisk 2021, but the percentage of those that do drops dramatically beyond cybersecurity, third party, business continuity and crisis management, and data governance (Figure 9). CAEs also report minimal assurance services in the areas of economic and political volatility and disruptive innovation, both of which were rated as higher in relevance by the group.

What's more, when compared to risk relevance rankings by the C-suite, internal audit provides minimal assurance on two of the C-suite's top three risks (see Figure 5 on page 11). This incomplete coverage may be due to limitations on resources, skills, or scope of work.

"Generally speaking, I'd say it's enough. We haven't had any major issues with it...so far, so good."

- C-suite, Finance



Yet another factor influencing assurance is the use of internal audit as a consulting service. Organizations rely increasingly on internal audit's enterprisewide knowledge and perspectives on risk to provide advisory services. Unless sufficiently resourced, this practice can shift assets away from traditional assurance services. OnRisk 2021 respondents offered a variety of perspectives on internal audit's role within the organization. Some board and management respondents retain archaic views of internal auditors as accountants who provide little more than "tick-the-box" services or "police" who cannot be trusted as true business partners. Others point to organizational culture and weak internal audit leadership as contributing factors.

Figure 10: TIPS ON ASSURANCE

OnRisk 2021 respondents offered a number of recommendations to improve assurance services and processes.

- Ensure internal audit's scope of work reflects the organization's assurance needs. Internal auditors must do more than just check boxes.
- Ensure internal audit reports directly to the board to create more transparency and improve information sharing.
- Ensure the audit team is well rounded and staffed with knowledgeable, confident, and assertive practitioners.
- Focus on obtaining high-quality assurance services from internal audit, not just consulting services.
- Clarify roles for internal and external auditors.

"I've seen a big difference in companies in terms of the role of IA. In some cases, they're a policeman, people don't really like them. In other cases they're a real business partner to improve controls and seen as a resource for well-trained employees."

- Board, Retail/Grocery

Source: OnRisk 2021 qualitative survey, n = 90.





THE RISKS

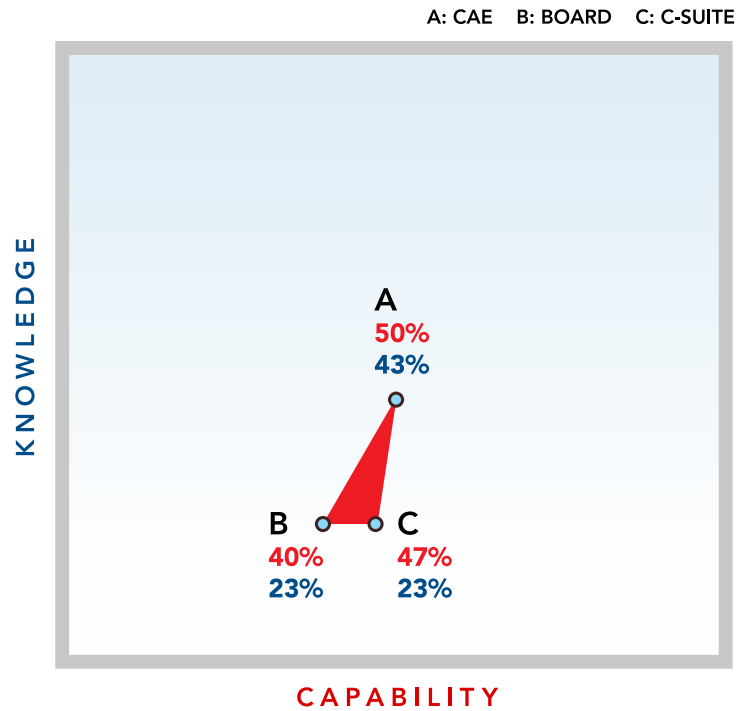
Managing risk is the art of building value by understanding what can be gained or lost from action or inaction, the foreseen or the unforeseen, the planned or the unplanned. Those who know what they don't know can ask questions. Those who don't know what they don't know are paralyzed. This section examines key observations related to individual risks; recommends actions to be taken by the board, management, and CAE to enhance risk management efforts; and identifies the developmental stage of each risk. More information about the methodology that supports these observations and the definitions that determine the stages of risk can be found in the appendices.

THE RISKS

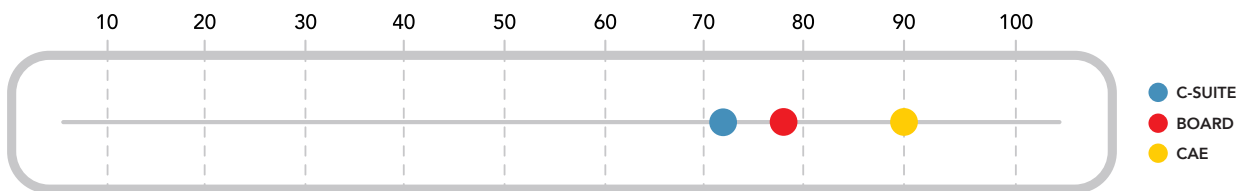
CYBERSECURITY

Analysis:

More members of management see cybersecurity as being highly relevant to their organizations than any other key risk. However, knowledge of this highly impactful risk remains particularly low among members of both the board and management. This low level of knowledge likely stems from the ever-evolving nature of cyber threats. All parties align in perceiving organizational capability to be quite low, especially when compared to the relevance of the risk.



RELEVANCE



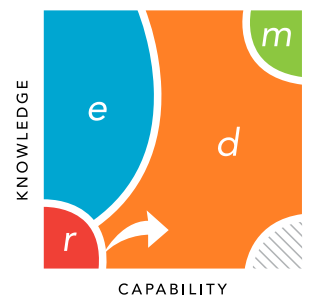
Actions:

C-suite: Dedicate necessary internal and/or external resources to consistently evaluate emerging cyber threats, get complete perspectives on current status, and provide transparent and thorough updates to the board.

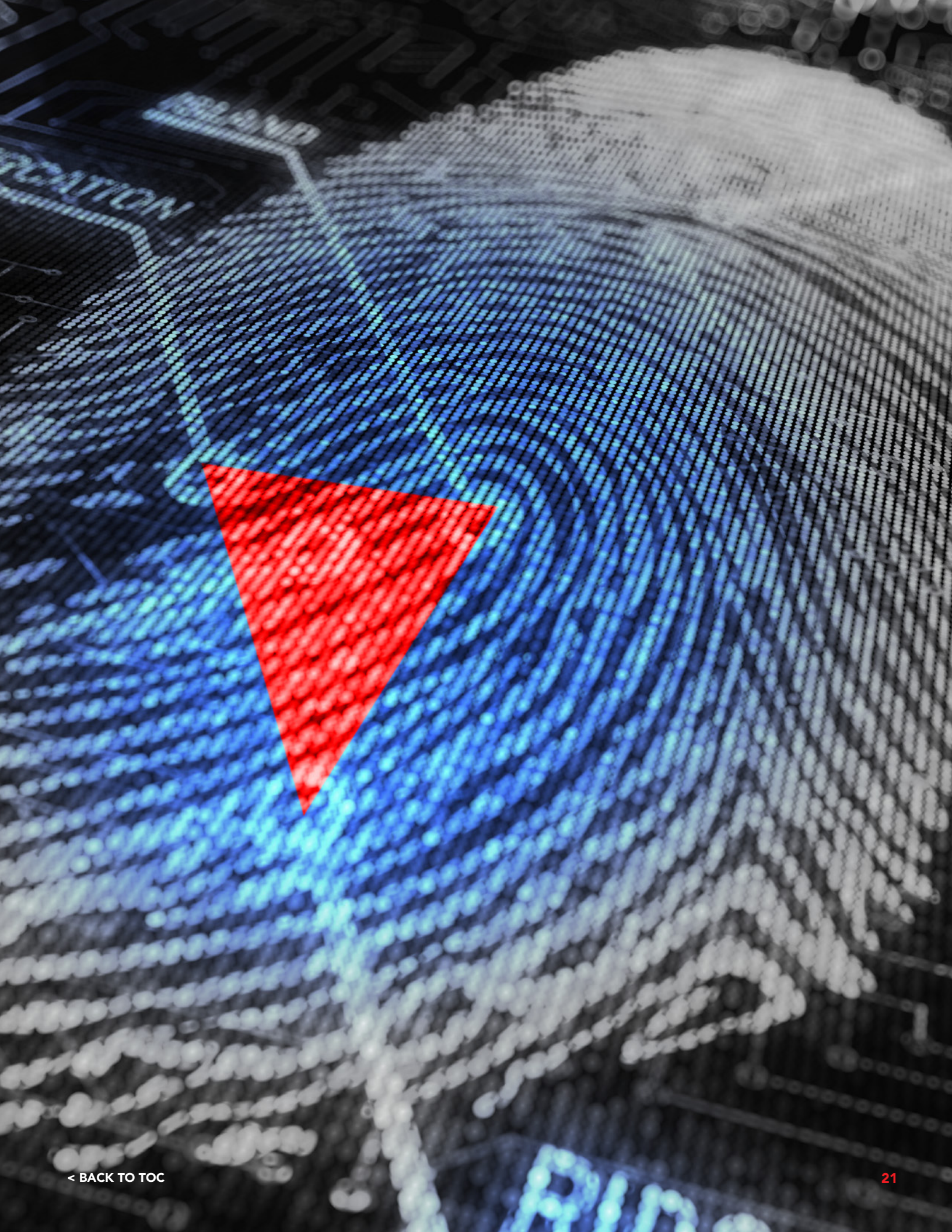
Board: Ensure that appropriate time is allocated in meeting agendas for management, internal audit, and potentially outside subject matter experts to educate members of the board with a realistic perspective on emerging cyber threats, organizational efforts, and existing vulnerabilities.

CAE: Identify opportunities to educate management and the board on emerging cyber risks and perform routine evaluations of all risk management functions related to cybersecurity.

RISK STAGE



Moved from Recognize to Develop

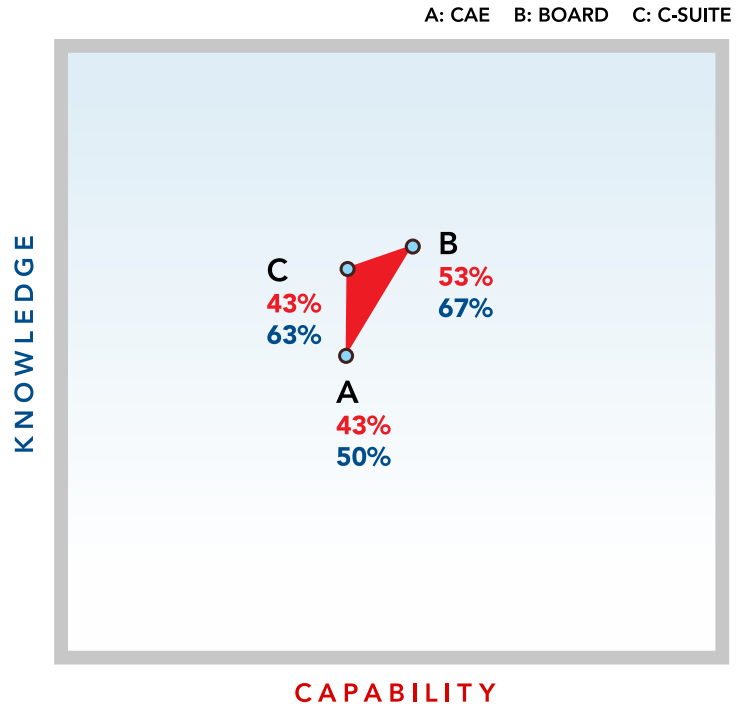


THE RISKS

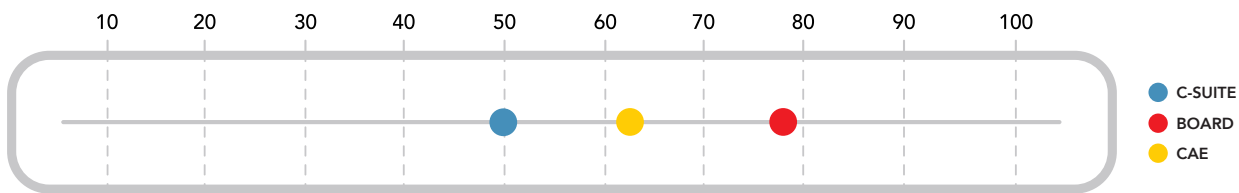
THIRD PARTY

Analysis:

CAEs and members of the C-suite are in agreement about organizational capability to manage third-party risk. However, board members are more confident. Surprisingly, fewer C-suite respondents than board members or CAEs consider third-party risks to be highly relevant.



RELEVANCE



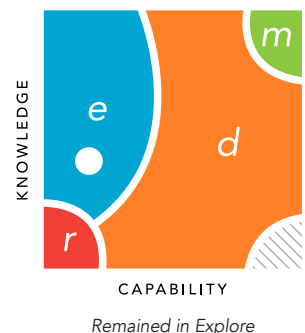
Actions:

C-suite: Management should ensure that a comprehensive list of third-party arrangements is maintained and that a risk-based approach is developed and followed to procure and monitor third-party relationships.

Board: Evaluate internal audit plans to ensure that adequate resources are allocated to third-party risks. Set expectations that management periodically communicates the status of key third-party relationships.

CAE: Periodically and regularly evaluate management processes related to establishing and monitoring third-party relationships. Consider including engagements to review third-party relationships that are operationally or strategically important to the organization.

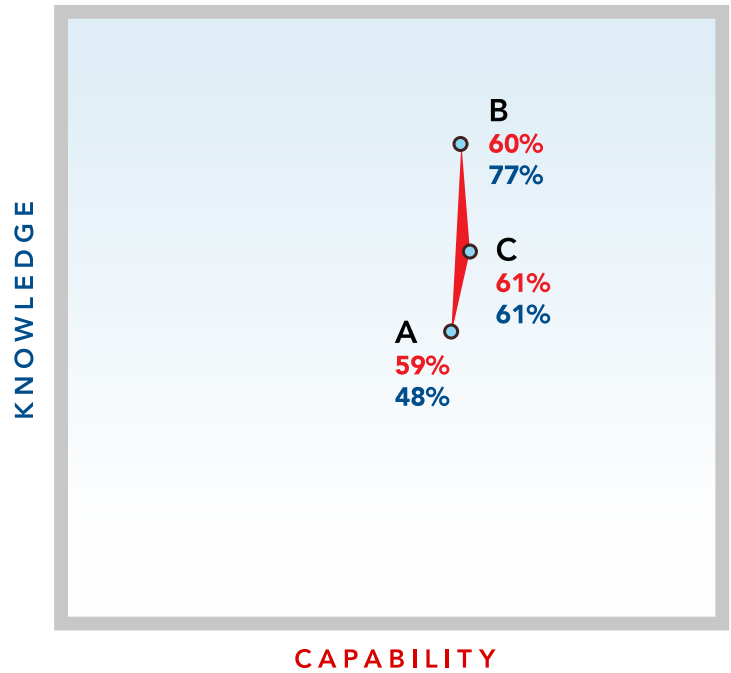
RISK STAGE



THE RISKS

BOARD INFORMATION

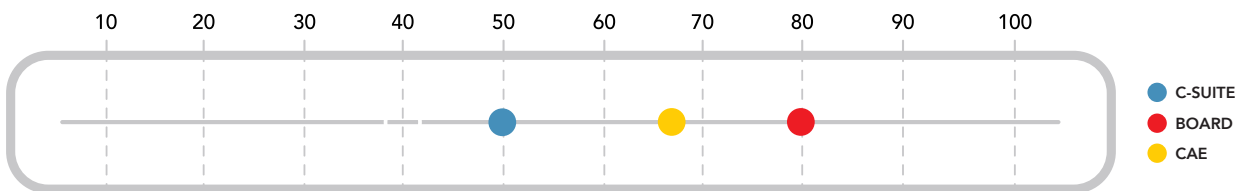
A: CAE B: BOARD C: C-SUITE



Analysis:

All parties are aligned regarding organizational capability to manage risks related to the quality of information provided to boards. Not surprisingly, board members rate themselves as more knowledgeable about this risk category.

RELEVANCE



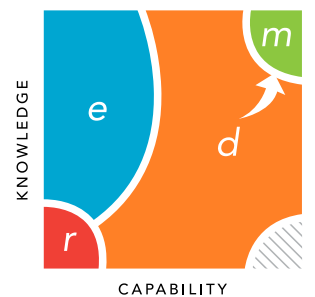
Actions:

C-suite: Enhance communication to ensure transparent, complete, and timely information is provided to the board, particularly regarding key risks.

Board: Set expectations with management and CAEs about the level of information to be provided. Be willing to communicate if excessive amounts of information overwhelm clear messaging. Seek independent assurance related to the quality of information provided.

CAE: Evaluate information provided to the board, noting inconsistencies or omissions. Inquire with board members about the quality of information being provided, and be willing to contribute an objective assessment.

RISK STAGE



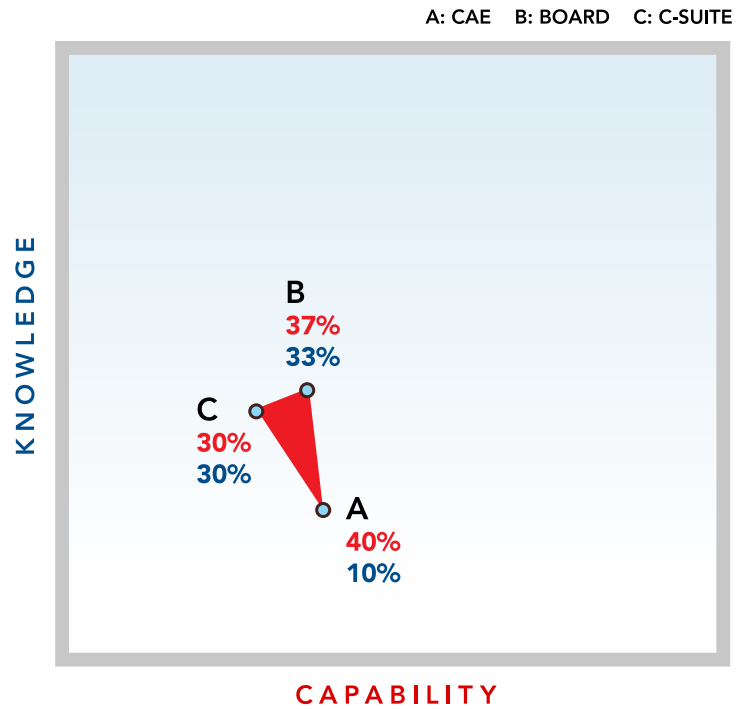
Moved from Develop to Maintain

THE RISKS

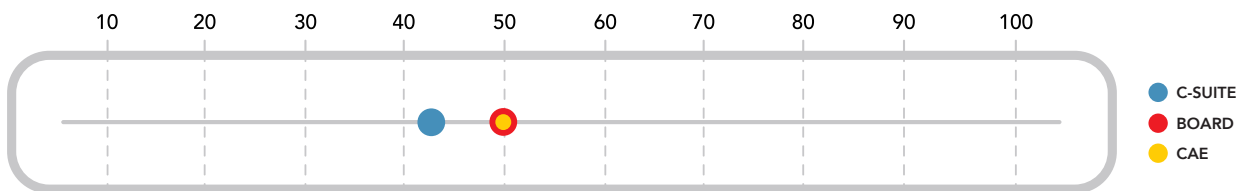
SUSTAINABILITY

Analysis:

All parties are reasonably well aligned with regard to organizations' capability to manage environmental, social, and governance risks, which collectively comprise sustainability. However, confidence is fairly low. CAEs rate their personal knowledge about this increasingly relevant risk category as very low.



RELEVANCE



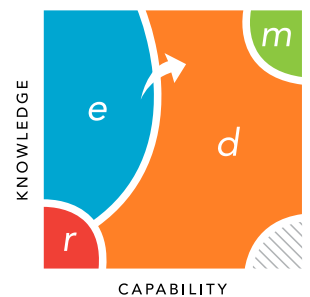
Actions:

C-suite: Recognize sustainability's growing importance to organizational stakeholders, including customers, employees, and investors. Identify opportunities to enhance long-term shareholder value by embracing sustainability leadership as a strategic opportunity.

Board: Pressure management to build sustainability into strategic plans. Set expectations of internal auditors to provide assurance related to voluntary or required sustainability reporting.

CAE: Educate internal audit teams about emerging risks related to sustainability and how sustainability fits into organizations' operational and strategic priorities.

RISK STAGE



Moved from Explore to Develop



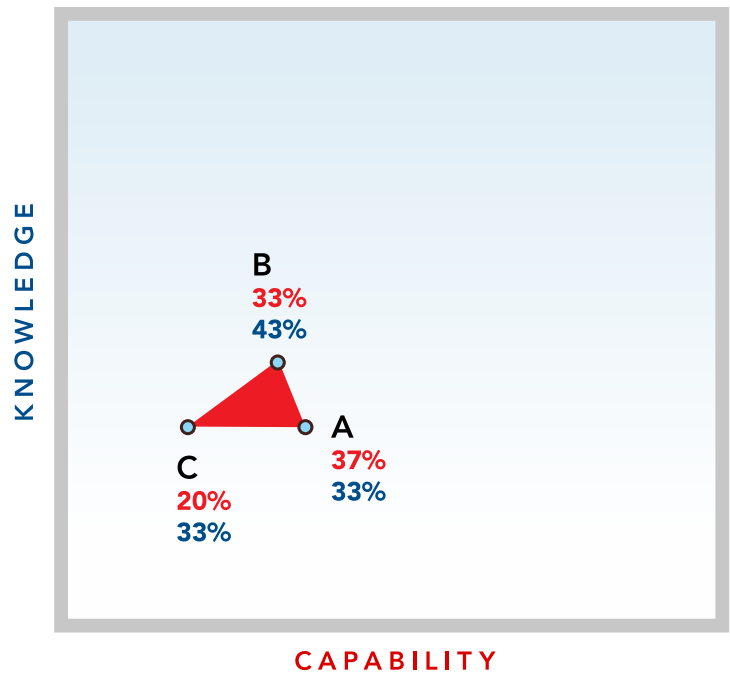
THE RISKS

DISRUPTIVE INNOVATION

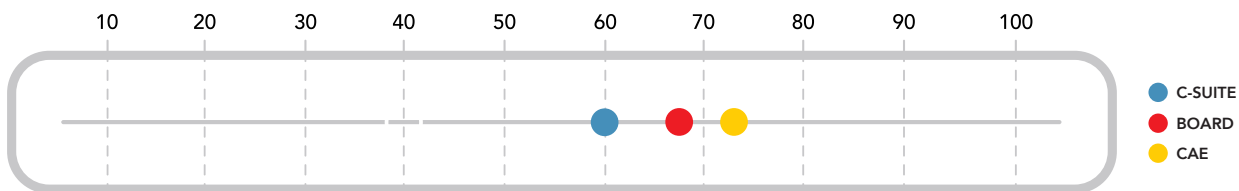
Analysis:

All risk management roles believe that disruptive innovation is one of the most relevant risks, likely owing to changes in the global economy, exacerbated by the global pandemic. However significant misalignment exists regarding personal knowledge and organizational capability. Boards and CAEs are significantly more confident than management in organizations' capabilities to be appropriately proactive and/or reactive to disruptive innovation. Board members also perceive themselves to be significantly more knowledgeable about risks related to disruptive innovation.

A: CAE B: BOARD C: C-SUITE



RELEVANCE



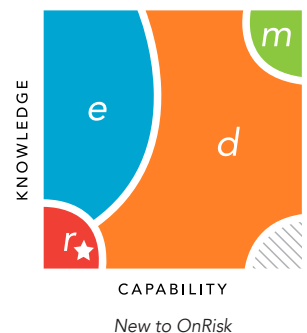
Actions:

C-suite: Leverage the knowledge of board members to identify ways to innovate and identify competitors' attempts to disrupt business as usual.

Board: Share with the organization any guidance and wisdom accumulated through outside and diverse experiences. Set expectations for management to provide proactive strategies that leverage innovation for competitive advantage and to be prepared to react timely to disruption.

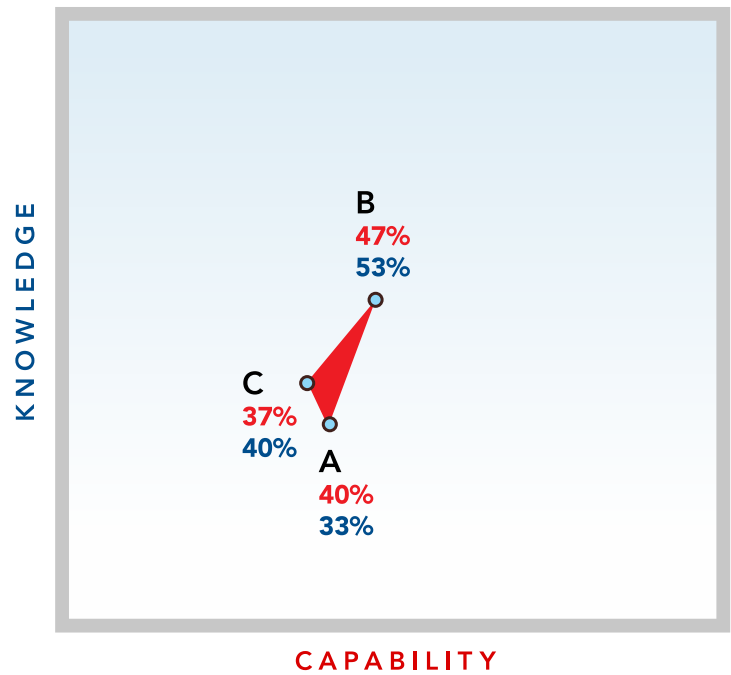
CAE: Ensure a thorough understanding of strategic risks and opportunities to leverage innovation to be disruptive and identify potential risks that could inhibit organizations' strategies to innovate and disrupt.

RISK STAGE



ECONOMIC AND POLITICAL VOLATILITY

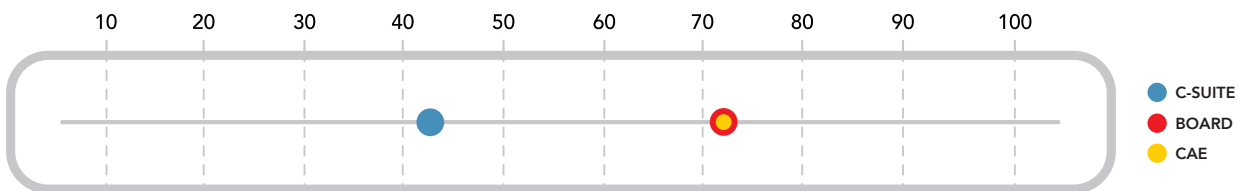
A: CAE B: BOARD C: C-SUITE



Analysis:

All parties are aligned regarding the capability of organizations to manage economic and political volatility, but they diverge on levels of personal knowledge about managing external volatility. Further, board members and CAEs are aligned on how relevant this risk is to organizations, but far fewer in management see this as a highly relevant risk.

RELEVANCE



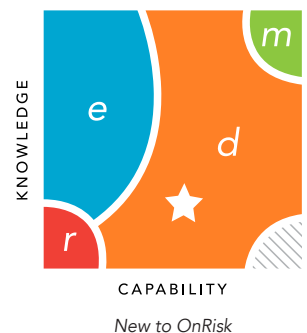
Actions:

C-suite: Build contingencies and scenario plans for dealing with potential outcomes. Communicate with the board about the potential upsides and downsides of political changes and economic swings.

Board: Engage management and internal auditors in discussions regarding potential economic and political outcomes and inquire about the readiness of organizations to be flexible.

CAE: In order to properly assess organizational capabilities to manage this risk, internal auditors must better educate themselves on how economic and political uncertainties may affect the likelihood of achieving organizational objectives.

RISK STAGE

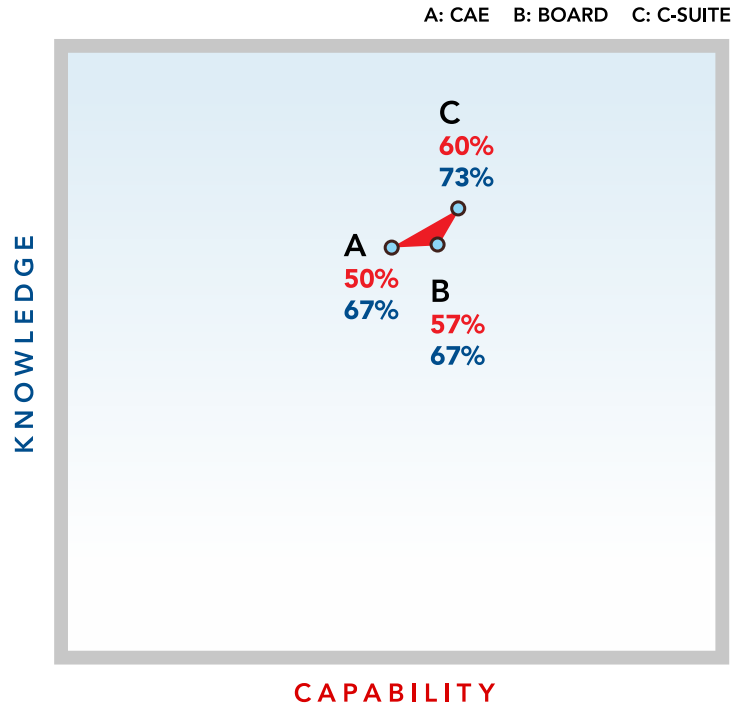


THE RISKS

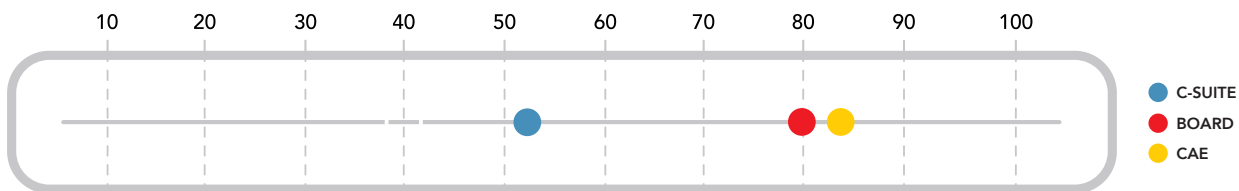
ORGANIZATIONAL GOVERNANCE

Analysis:

For this mature risk, there is very strong alignment among all stakeholders regarding individual knowledge and organizational capability. However, while board members and CAEs are well aligned on the relevance of this risk, fewer members of the C-suite see it as highly relevant to organizational ability to achieve objectives.



RELEVANCE



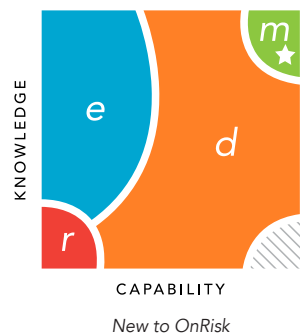
Actions:

C-suite: Align with the board on the relevance of organizational governance and continue to maintain healthy dialogue around risk management and all three key governance roles.

Board: Ensure that senior management understands and agrees upon organizational governance as a priority for achieving organizational objectives.

CAE: Maintain a consistent line of communication with board members to ensure their needs are being met.

RISK STAGE

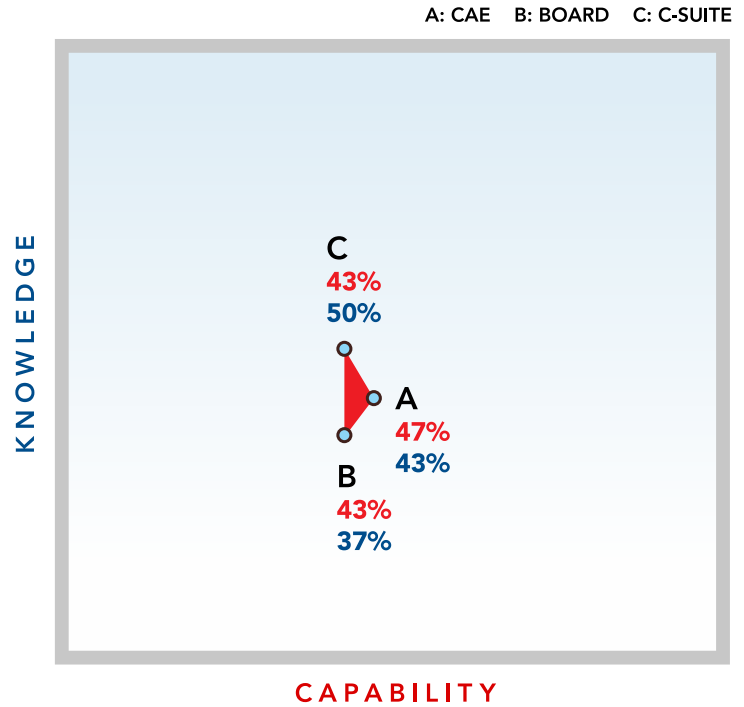


THE RISKS

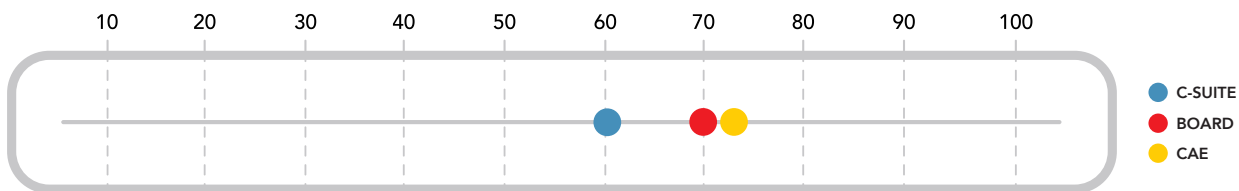
DATA GOVERNANCE

Analysis:

There is very strong alignment among all stakeholders regarding organizational capability and reasonable alignment regarding the relevance of this risk to achieving organizational objectives. However, board members view their personal knowledge about the governance over data significantly lower than do either management or CAEs, perhaps because they perceive this governance to be related to the technical aspects of data.



RELEVANCE



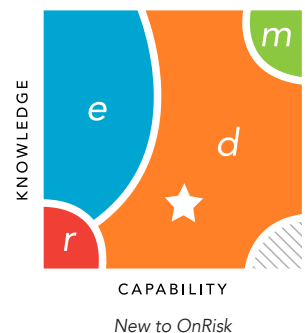
Actions:

C-suite: Drive leading practices in data governance that ensure compliance with laws and regulations as well as progress toward meeting strategic objectives.

Board: Expect education on key aspects of data governance and request briefings from management and internal audit on how the organization strategically manages data.

CAE: Provide training to board members on the key aspects of data governance and provide assurance that management practices are leading edge.

RISK STAGE



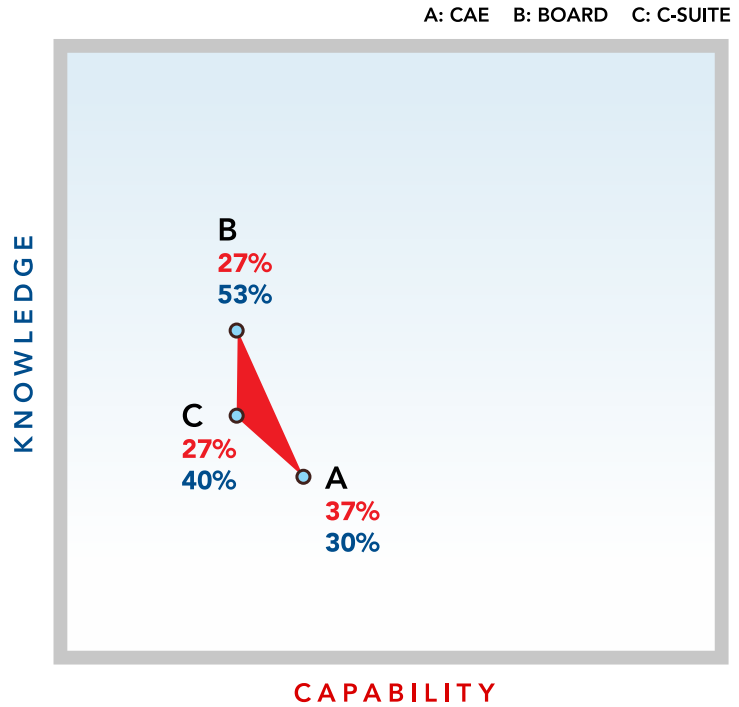


THE RISKS

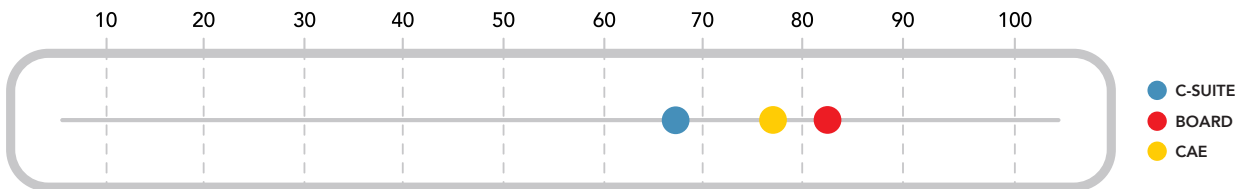
TALENT MANAGEMENT

Analysis:

Management and the board agree on organizational capability to address risks related to talent management. However, board members perceive themselves as having greater knowledge and view this risk as having more relevance than do members of management.



RELEVANCE



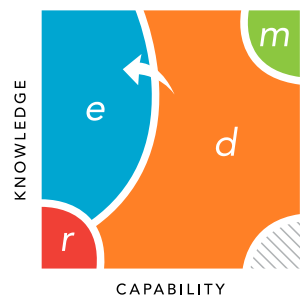
Actions:

C-suite: Focus on evolving the competencies that are most in demand, and develop strategies for ensuring that the organization has and will continue to have the talent to fill those competencies through effective succession planning, upskilling strategies, and recruitment.

Board: Continue to ensure that management is committed to managing talent at all levels of the organization, and set expectations for consistent briefings on talent-related processes and initiatives.

CAE: Consider engagements focused on providing assurance to stakeholders around talent management processes, and maintain open lines of communication with the board regarding its perspectives of key areas of talent focus.

RISK STAGE

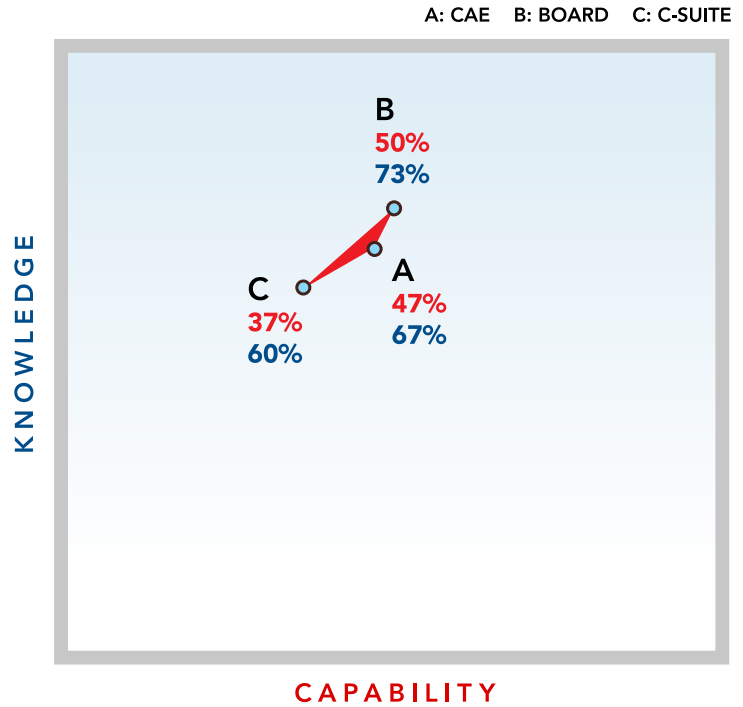


Moved from Develop to Explore

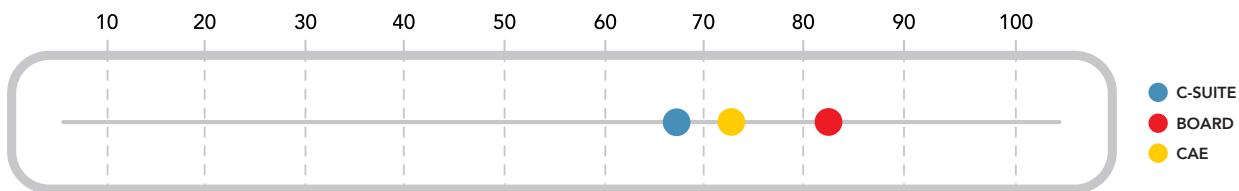
CULTURE

Analysis:

Most of the key players in risk management see culture as highly relevant to organizational success and are relatively confident in their personal knowledge of the topic. However, a significant gap exists with regard to how many feel that their organizations are highly capable of managing this critical risk. Board members, who are inherently more removed from the working culture of the organization, have higher confidence overall than do management respondents and CAEs.



RELEVANCE



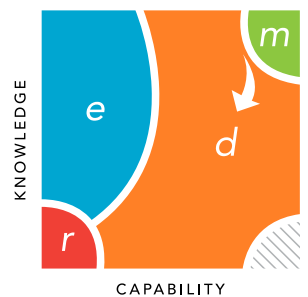
Actions:

C-suite: Act in a manner that promotes an effective culture. Establish consistent processes to gauge the culture and communicate those perceptions to the board timely.

Board: Review assessments of organizational culture with the internal audit function and management. Ensure that executive goals and incentives are aligned with the promotion of an effective organizational culture.

CAE: Consider performing engagements that provide an objective assessment of organizational culture. Provide assurance that management's actions are aligned with leading practices related to organizational culture.

RISK STAGE

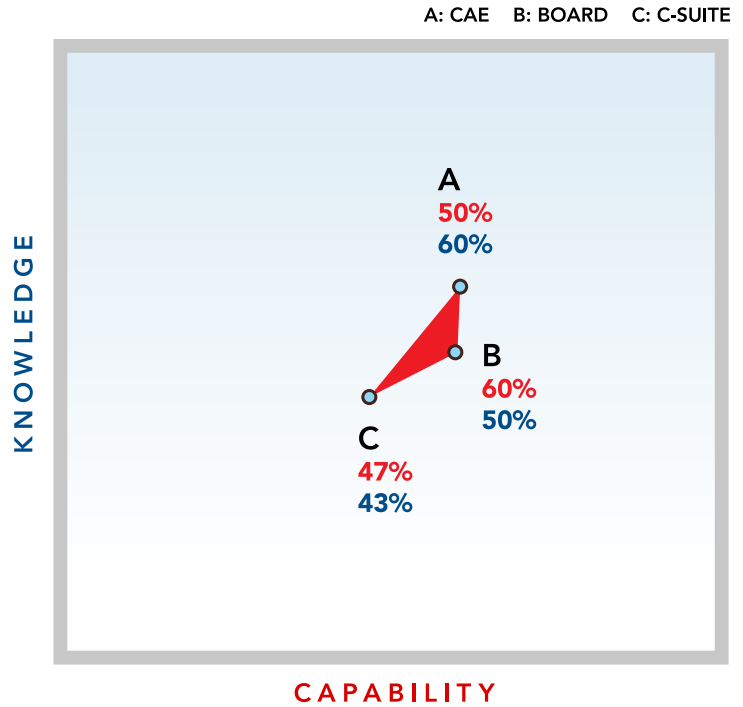


Moved from Maintain to Develop

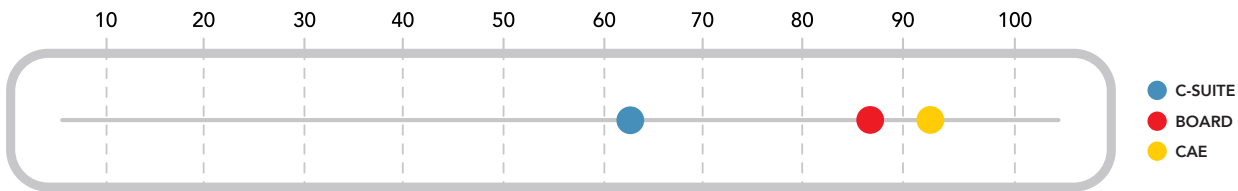
BUSINESS CONTINUITY AND CRISIS MANAGEMENT

Analysis:

Not surprisingly given the events of 2020, nearly all board members and CAEs see this risk as highly relevant to organizations. Ironically, a lower percentage of management respondents see this risk as highly relevant and a significantly lower percentage of management respondents are confident in their organizations' capabilities to manage this key risk.



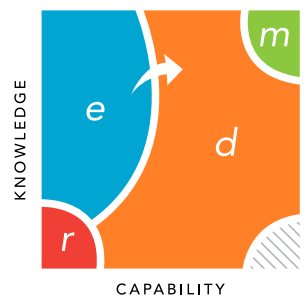
RELEVANCE



Actions:

All: Leverage experiences of the global pandemic to identify organizational strengths and opportunities for improvement, and work collaboratively to implement improvements where necessary.

RISK STAGE



Moved from Explore to Develop

APPENDICES



METHODOLOGY

Qualitative and quantitative surveys

The OnRisk 2021 report continues The IIA's groundbreaking approach of collecting stakeholder perspectives on risk and risk management in support of good governance and achieving organizational success. The combination of quantitative and qualitative research provides a robust look at the top risks facing organizations in 2021. It allows for both objective data analysis and subjective insights based on responses from risk management leaders.

The addition of relevance ratings for each of the 11 key risks provides additional comparative information about how risks are leveraged and managed. While the qualitative and quantitative surveys were limited to organizations based in North America, many of them have global footprints.

The quantitative survey covers top risks as viewed by 348 North American internal audit leaders, primarily CAEs. The comprehensive survey also addressed organizational approaches to risk management, including where internal audit provides assurance and focuses its efforts.

The qualitative survey is based on a total of 90 in-depth interviews with professionals in North American boardrooms, C-suites, and internal audit functions. The respondents came from 90 different organizations. As part of the interviews, respondents were asked to evaluate 11 key risks on three scales: their personal awareness and knowledge of each risk, their perception of their organization's capability to address each risk, and their views of the relevance of each risk to their organization. The ratings were based on a seven-point Likert Scale, with "Not at all knowledgeable," "Extremely incapable," and "Not at all relevant" being the lowest ratings (1) and "Extremely knowledgeable," "Extremely capable," and "Extremely relevant" being the highest ratings (7).

The combined responses for the knowledge and capability ratings were then used to plot the position of each respondent group for each risk, where the X axis delineates perceived organizational capability, and the Y axis delineates personal knowledge of the risk (Figure 11). The plot points were determined by the percentage of respondents who answered a 6 or 7 on the 7-point scale, representing high confidence in personal knowledge and/or organizational capability relating to the risk under consideration. The triangle created by connecting each plot point graphically depicts the alignment among the three respondent groups for each risk.

New this year are the relevance ratings from each respondent group, which are delineated on a single horizontal axis for each risk.

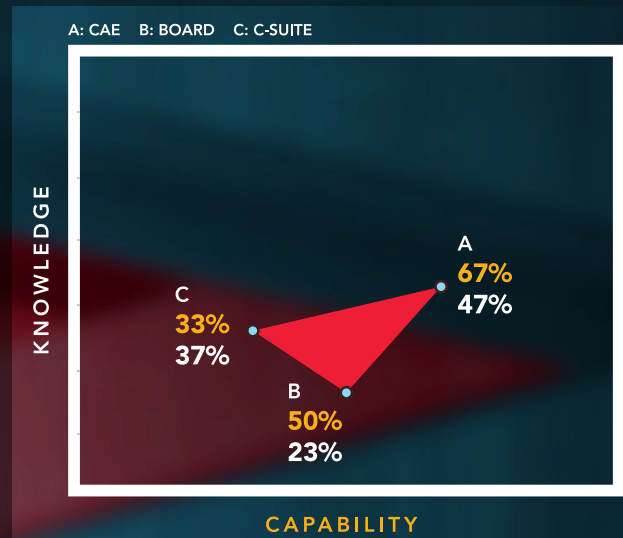


Figure 11: Personal Knowledge/Organizational Capability Graph

HOW TO USE THIS REPORT

Explanation of graphics

Based on in-depth interviews with 90 professionals, the knowledge and capabilities of each of the three respondent groups were measured and plotted for each risk. Simple quadrant mapping provides an effective and consistent tool to reflect those views.

The four quadrants of the graph correspond to the magnitude of each of the two measures. For example, responses with high averages for knowledge and capability would be plotted in the top right quadrant. Conversely, responses averaging low for knowledge and capability would be plotted in the lower left quadrant. As described in the previous section, the averages are determined based on the percentage of respondents who provided a top-two rating for the knowledge or capability characteristics.

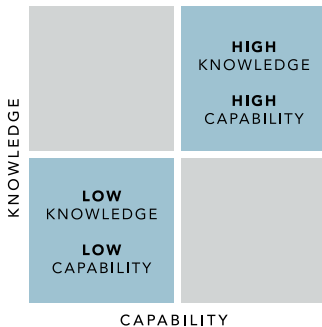


Figure 12: QUADRANT GRAPH

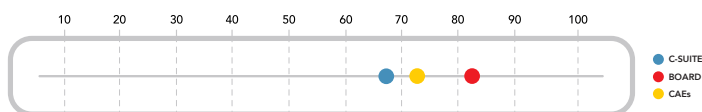
Position plotting

Positions for each of the three respondent groups are plotted on the quadrant map not only to identify the relative knowledge and capability on each risk, but also to graphically illustrate any misalignment among the groups that may exist. The resulting triangles — referred to simply as alignment triangles in this report — provide a strong indicator of how well a risk is understood and managed collectively. The size, shape, and location of each triangle also provides insights on what is driving any misalignment (SEE RELATED SIDEBAR).

New relevance graphic

Each respondent group's rating on relevance is plotted along a single axis, providing a clear depiction of variations in the relevance rankings by board members, management, and CAEs.

Figure 13: RELEVANCE GRAPH



Alignment Triangles: What do they mean?

The alignment triangles created by plotting each respondent group's perspectives on each risk offer insights into how the risk is currently being managed. The shape of each triangle can provide valuable information, as well.



SHORT AND NARROW

Triangles with this basic shape suggest strong alignment on what each group knows about a risk, but significant disagreement by one respondent group about the organization's capability for addressing the risk.

TALL AND NARROW

Conversely, triangles with this basic shape suggest significant range of knowledge among respondent groups, but strong alignment on their views on organizational capability.



SHORT AND BROAD

This basic shape suggests disagreement by more than one respondent group, with the most significant disagreement relating to the organization's capability to address the risk.



TALL AND BROAD

This basic shape suggests misalignment by more than one respondent group, with significant disagreement on both knowledge and capability.



SMALL AND SYMMETRICAL

This shape suggests strong alignment of all three respondent groups on knowledge and capability. Depending on the location of the triangle, this could reflect a risk that is well understood and managed (top right quadrant) or one that is not well understood or managed (lower left quadrant).



LEVERAGING THE METHODOLOGY

Readers of OnRisk 2021 should review and analyze the data for each of the 11 key risks addressed in this report and are encouraged to conduct a similar analysis among their own organizations' boards, management, and internal audit functions.

Comments from qualitative interview participants are interspersed throughout OnRisk 2021 to offer a glimpse into not just what they think of each risk, but how they think about them. While these comments provide some insights, it is vital for every organization to have similar discussions about how each player in the risk management process understands risk, the organization's capability to manage risk, and the relevance of individual risks to the organization's efforts to set and achieve goals.

A critical step in such an analysis is to undertake a clear-eyed examination of how those charged with risk management understand and execute their roles. The IIA's recently published Three Lines Model provides additional guidance for understanding the essentials of governance and the roles that support those essentials:

- *Accountability — by the governing body (board) to stakeholders for oversight.*
- *Actions (including managing risk) — by management to achieve organizational objectives.*
- *Assurance and advice — by an independent internal audit function to provide insight, confidence, and encouragement for continuous improvement.*

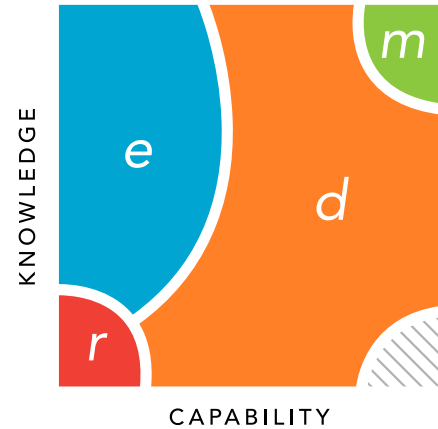
As noted earlier in this report, the COVID-19 pandemic has impelled organizations toward improved communications, ongoing risk assessments, and closer alignment on key risks. When combined with a strong understanding of roles, this new collaboration and communication create ideal conditions for successful risk management and governance.

THE STAGES OF RISK

The risks discussed in this report fall into one of four stages as they relate to the potential impact on organizations and what actions organizations should be taking to address them — recognize, explore, develop, and maintain. The Risk Stages Model (Figure 14) reflects how risk management evolves on the same scale as two of the risk rankings — knowledge and capability.

Additionally, the relevance of each risk should be understood as unique to each organization. Where each risk ranks in relevance depends on various factors including the organization’s size, industry, and type as well as competition, maturity, supply chain, liquidity, and other factors. As noted earlier, there are likely risks not included in this analysis that have particular relevance to some organizations, depending on their specific circumstances. Because of this unique aspect, relevance is not depicted in the Risk Stages Model.

Figure 14:
RISK STAGES MODEL



Risk stages are Recognize (r), Explore (e), Develop (d), Maintain (m).

Stages of Risk Explanation

RECOGNIZE

A risk is perceived as emerging and knowledge of the risk among stakeholders is low. Risk response strategies are not implemented or are not assumed to be effectively designed given the low understanding of the underlying risk. Monitoring processes have not been contemplated. Inherent risk levels are not well understood.

Knowledge – Low
Capability – Low



EXPLORE

Knowledge of the risk is growing among some stakeholders but not all. The risk may be perceived as emerging or dynamic. Risk response strategies have been contemplated but not fully implemented. Monitoring processes have not been contemplated or are not implemented. Inherent risk levels are generally understood.

Knowledge – Mid to High
Capability – Low



DEVELOP

Risk knowledge is high, at least with management teams. Risk response strategies may be developed or in process of being implemented. Monitoring processes may be in contemplation but are not likely to have been fully implemented. Residual risk is generally understood.

Knowledge – Low to High
Capability – Mid to High



MAINTAIN

Risk is well understood by all relevant stakeholders and is not perceived to be changing significantly. Risk response strategies have been developed and implemented, consistent with the perceived relevance of the risk. Monitoring processes are utilized to ensure risk response strategies are operating effectively as designed. Residual risk levels are understood and believed to be at an acceptable level for the organization.

Knowledge – High
Capability – High



FIGURES

Figure 1 – OnRisk 2021 Risk Ratings – All Respondents

Source: OnRisk 2021 qualitative survey. Questions: How knowledgeable are you about each of the following risks? How capable is your organization when it comes to handling each of the following risks? How relevant are each of the following risks to your organization? Combined percentage for scores of 6 or 7, with 7 being the highest level. n = 90

Figure 2 – Areas For Improvement: C-suite

Source: OnRisk 2021 qualitative survey: Questions: How capable is your organization when it comes to handling each of the following risks? How relevant are each of the following risks to your organization? Combined percentage for scores of 6 or 7, with 7 being the highest level. n = 30

Figure 3 – Learning Opportunities: C-suite

Source: OnRisk 2021 qualitative survey: How knowledgeable are you about each of the following risks? How relevant are each of the following risks to your organization? Combined percentage for scores of 6 or 7, with 7 being the highest level. n = 30

Figure 4 – Average Rating By Respondent Group

Source: OnRisk 2021 qualitative survey: Questions: How knowledgeable are you about each of the following risks? How capable is your organization when it comes to handling each of the following risks? How relevant are each of the following risks to your organization? Combined percentage for scores of 6 or 7, with 7 being the highest level. n = 90

Figure 5 – Organizational Relevance

Source: OnRisk 2021 qualitative survey: Question: How relevant are each of the following risks to your organization? Combined percentage for scores of 6 or 7, with 7 being the highest level. n = 90

Figure 6 – Organizational Capability

Source: OnRisk 2021 qualitative survey: Question: How capable is your organization when it comes to handling each of the following risks? Combined percentage for scores of 6 or 7, with 7 being the highest level. n = 60

Figure 7 – Organizational Governance

Source: OnRisk 2021 qualitative survey. Questions: How knowledgeable are you about each of the following risks? How capable is your organization when it comes to handling each of the following risks? How relevant are each of the following risks to your organization? Combined percentage for scores of 6 or 7, with 7 being the highest level. n = 60

Figure 8 – The IIA's Three Lines Model

Source: The Institute of Internal Auditors

Figure 9 – Assurance Insights

Source: OnRisk 2021 quantitative survey: Q7. Which of the following risks do you provide or anticipate providing assurance on in 2020 and/or 2021? n = 348. OnRisk 2021 qualitative survey C-suite respondents: How relevant are each of the following risks to your organization? Combined percentage for scores of 6 or 7, with 7 being the highest level. n = 30.

Figure 10 – Tips On Assurance

Source: OnRisk 2021 qualitative survey. Q 11. Where do you get your assurance on the effectiveness of risk management? n = 90

Figure 11 – Personal Knowledge/Organizational Capability Graph

Source: The Institute of Internal Auditors

Figure 12: Quadrant Graph

Source: The Institute of Internal Auditors

Figure 13: Relevance Graph

Source: The Institute of Internal Auditors

Figure 14: Risk Stages Model

Source: The Institute of Internal Auditors



About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit www.globaliia.org.

Disclaimer

The IIA publishes this document for informational and educational purposes. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. The IIA recommends seeking independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this material.

Copyright

Copyright © 2020 The Institute of Internal Auditors, Inc. All rights reserved. For permission to reproduce, please contact copyright@theiia.org.

Global Headquarters

The Institute of Internal Auditors
1035 Greenwood Blvd., Suite 149
Lake Mary, FL 32746, USA
Phone: +1-407-937-1111
Fax: +1-407-937-1101
www.globaliia.org






February 2, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

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

BACKGROUND

According to the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing (Standards), the Chief Audit Executive, must establish risk-based plans to determine the priorities of the internal audit activity and ensure audit resources are appropriately allocated to address top priorities and key risk areas for the organization.

To remain in compliance with the Standards, as well as the Audit Committee Charter, Internal Audit developed the FYE 2021 Audit Plan (Audit Plan) which was approved by the Committee in July 2020 (Attachment A). The Audit Plan currently consists of 47 projects in the areas of assurance, consulting, advisory and other Internal Audit activities. As of January 31, 2021, there are 28 projects that have been completed or are in progress towards completion. A brief description of each project is included in Attachment B.

Staff have made significant progress in completing the Audit Plan. The following highlights audit activities since the last Committee meeting.

Audits

Of the six audits in progress as of the December 2020 meeting, two were completed and four audits are in various stages of completion as noted in the table below. Deliberate efforts to enhance and refine, the audit process, our audit workpapers and the audit reporting process have required a significant amount of staff resources. When these processes are fully developed and our metrics further refined, we expect to have a much more efficient and consistent audit process.

Audit	Description of Project	Status
Death Legal Process Audit	Audit of the Benefits, Member Services, and Legal divisions' processes for tracking and processing member death and legal split cases.	Report issued 2/1/2021
SSN Verification Systems Audit	The scope of this audit was expanded from a Continuance Audit Program (CAP) Test, to a full audit. The objective of the audit was to 1.) Identify deceased benefit payee accounts receiving benefit payments and 2) Validate operational processes are functioning in an adequate manner to prevent benefit payments to deceased member accounts.	Report issued 2/3/2021
Quality Assurance Audit	Review of Quality Assurance and Metrics operations, audit processes, and reporting to assess effectiveness and efficiency.	Drafting Audit Report. Estimated completion 2/28/21
Accounts Payable Audit	Audit of accounts payables, payment vouchers, and ACH transactions for accuracy.	Drafting Audit Report. Estimated completion 2/28/21
Rehired Retiree	Audit of LA County's rehired retirees to ensure compliance with PEPRA	Audit work In Progress. Estimated completion 3/31/21
Real Estate Check Review	Incident follow-up review which includes verification of check deposits and review of internal controls of related processes.	Audit work In Progress. Estimated completion 3/31/21
Continuous Audit Program (CAP)	CAP is continuous audit testing for fraud and compliance incorporating data analytics as the primary auditing tool. Five CAP testing have been completed thus far and twelve are in various stages of completion or planned to begin during the third and fourth quarters of this fiscal year.	Continuous

Other Projects

A significant amount of Internal Audit resources has been deployed for ongoing and unplanned projects. The following reflects the work performed since the December 2020 meeting and anticipated upcoming work:

Recommendation Follow-Up

Internal Audit completed an extensive review of the past three years of recommendations. This included reviewing all recommendations, transferring documents from TeamMate Desktop to TeamMate AM (cloud version), and having recommendations re-approved by the CAE. Furthermore, we revised Internal Audit's procedures for updating open recommendations to include monthly updates from the Division Manager, and bi-monthly meetings with the Executive Office to discuss and review open recommendations.

To add consistency to the process, we created and successfully tested Extension of Open Recommendation and Acceptance of Risk forms with Systems, Benefits, Administrative Services, and the Executive Office. We will be creating a Monthly Update form as well. In March, we plan to provide an introductory session to the Management team on our new process.

Internal Audit also worked with the Systems and Information Security divisions to consolidate IT recommendations that overlapped or were repetitive. We were able to consolidate 19 recommendations into four and can now manage these recommendations more efficiently.

Teammate Systems Upgrade

Internal Audit is also transitioning to Teammate (TM) Plus, an upgraded version of current TM systems used for audit workpapers and reporting. This is an extensive project requiring staff resources for the migration of legacy audit projects, configuration of the new system, and will encompass approximately 12 hours of training for each staff member. Implementation will occur over a four-month period.

RFP for External Audit Services

Internal Audit issued a Request For Proposal (RFP) to hire a pool of external audit firms to perform auditing and consulting services. This has been a very extensive project requiring staff resources in the development and administration of the RFP and responses. Additional time will be necessary for the review of proposals, selection of firms and establishment of contracts. We anticipate having the pool of external firms to begin on audits in the 4th quarter of the fiscal year.

Systems & Organizational Controls (SOC-1) Engagement

In mid-January 2021, Plante Moran provided their data requests for LACERA's first SOC-1 engagement. Internal Audit has reviewed the data requests, worked with the key stakeholders to ensure delivery of data, coordinated the upcoming interviews, and other logistics to ensure the project goes smoothly.

LA County Audit Follow-Up

In January 2021, Internal Audit reviewed the status of the LA County Audit open and recently closed recommendations with the key stakeholders responsible for implementing the recommendations. We provided the Executive Office a summary of the status and a proposed timeline to complete the open recommendations. After receiving approval from the Executive Office, we set up upcoming meetings with the stakeholders to review the items needed to close out the open recommendations.

Vendor Evaluation

In December 2020, Internal Audit developed a Vendor Evaluation template for LACERA's financial auditor and actuaries which was distributed to key stakeholders to complete. We met with stakeholders in January 2021 to discuss the results of the vendor evaluation.

Audit Committee Calendar and Timing of Work

In December 2020, Internal Audit began to map out the Audit Committee's and Internal Audit's responsibilities as outlined in the respective charters. The goal of the project is to provide the Audit Committee a calendar which aligns responsibilities and timing of work with the Audit Committee meetings. We anticipate providing the Audit Committee a calendar at the April meeting.

Quality Assurance Improvement Program (QAIP)

The QAIP includes ongoing improvement of IA performance through periodic and ongoing internal self-assessments, focused discussions on quality and improvement, client surveys, and communication of results to key stakeholders. Improvements resulting from the QAIP, thus far include enhancements to our audit report structure, the establishment of risk rankings for findings, and preliminary risk assessment to develop audit scope

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

AUDIT PLAN STATUS REPORT

As of 01/31/2021

ATTACHMENT A

Audit Projects	Project Type	Hours	YTD Hours	Est. Hours	Hrs. Remaining	Stat
EXECUTIVE / LEGAL / ORGANIZATION						
1 Audit Committee Composition	Advisory	10	58	150	92	Completed
2 LA County Audit – Oversight	Consulting	12	26	100	74	In Progress
3 Form 700 Compliance Audit	Assurance		17	200	183	Q3 Assignment
4 Fiduciary Review Planning	Advisory		0	250	250	Q3 Assignment
5 Business Continuity / Disaster Recovery	Assurance	23	30	300	270	Ongoing
6 Ethical Cultural Assessment	Consulting		2	300	298	Q4 Assignment
7 SOC 1 Type 2 Engagement (External)	Assurance	12	23	400	377	In Progress
8 Governance, Risk, Ethics, Fraud, Compl.	Consulting		14	500	486	Ongoing
9 Ethics Hotline & Investigations	Consulting	56	99	200	101	Ongoing
ADMINISTRATION						
10 IT End-User Manual	Advisory		90	150	60	Completed
11 Penetration Tests (External)	Assurance		0	150	150	TBD
12 Contract Compliance	Assurance	6	6	300	294	Q3 Assignment
13 Security Incident Management Review	Assurance		3	100	97	Q4 Assignment
14 Privilege Access Review	Assurance		0	100	100	Q3 Assignment
15 Updated Inventory Process	Consulting		7	150	143	Q3 Assignment
16 Employee Salary Bonuses	Assurance		0	200	200	Q4 Assignment
17 Continuous Auditing Program	Assurance	6	51	400	349	In Progress
INVESTMENTS & FASD						
18 Accounts Payables	Assurance	16	145	150	5	In Progress
19 Corporate Credit Cards	Assurance	18	431	300	(131)	Report issued
20 Investments Due Diligence	Assurance		0	400	400	Q3 Assignment
21 Oversight of Actuarial Services (External)	Advisory	15	91	150	59	Ongoing
22 Oversight of Financial Audit (External)	Advisory	5	356	450	94	Ongoing
23 Oversight of THC RE Financial Audits	Advisory		75	150	75	Ongoing
24 Real Estate Manager Reviews	Assurance	115	274	200	(74)	In Progress
25 Custodial Bank Services	Advisory		0	100	100	Q3 Assignment
26 Updated Wire Transfer Process	Advisory		0	150	150	Q4 Assignment
OPERATIONS						
27 Death Legal Process Audit	Assurance	114	141	200	59	Report issued 2/2/21
28 LA County Rehired Retirees	Assurance	101	235	200	(35)	Ongoing
29 Member Benefits Calculation Audit	Assurance		0	300	300	Q3 Assignment
30 Quality Assurance Operations Review	Consulting	191	497	450	(47)	In Progress
31 Foreign Payee Audit	Assurance		0	150	150	Q3 Assignment
32 Governance, Risk, and Controls - Benefits	Consulting		2	400	398	Q3 Assignment
33 Governance, Risk, and Controls - RHC	Consulting		0	250	250	Q3 Assignment
34 Account Settlement Collections (ASC)	Advisory		0	150	150	Q3 Assignment
35 Continuous Audit Program - Operations	Assurance	109	289	500	211	In Progress
IA ADMINISTRATION PROJECTS						
36 Audit Pool – RFP	Assurance	90	285	400	115	In Progress
37 TeamMate Optimization	Admin	52	270	500	230	In Progress
38 Annual Risk Assessment & Audit Plan	Assurance		147	300	153	Q3 Assignment
39 External Quality Assessment Review	Admin		7	100	93	Q4 Assignment
40 Audit Committee Support	Admin	126	314	300	(14)	Ongoing
41 Professional Development	Admin	55	177	250	73	Ongoing
42 Quality Assurance & Improvement Program	Admin	54	223	300	77	Ongoing
43 Recommendation Follow-Up	Assurance	198	617	250	(367)	Ongoing
UNPLANNED PROJECTS						
44 KPMG Reco Follow-up	Admin	24	205	0	(205)	Report Issued
45 Real Estate THC Deposit Review	Assurance	51	238	0	(238)	In Progress
46 THC Operations Review	Advisory	2	11	0	(11)	In Progress
47 SSNV Audit	Assurance	81	224	0	(224)	Report issued 2/2/21
TOTALS		1461	5456	11000	5544	

Completed

In Progress

AUDIT PLAN FYE 2021

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

	Audit Projects	Description of Project
EXECUTIVE / LEGAL / ORGANIZATION		
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)	Planning of the review. The purpose of the 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.
ADMINISTRATION		
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 CMS audit from FY 2019-2020, perform compliance testing of a broad sample of contracts, including a review of third-party data security.
13	Security Incident Event Management Review (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.
INVESTMENTS & FASD		
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.
21	Oversight of Actuarial Services	Internal Audit manages the relationship with the Actuarial Consultant and Auditor for services relating to actuarial projects.


	Audit Projects	Description of Project
	INVESTMENTS & FASD	
22	Oversight of Financial Audit	Internal Audit manages the relationship with LACERA's external financial auditors for the 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 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.
	OPERATIONS	
27	Death Legal Process Audit	Benefits: Review Benefits, Member Services, and Legal divisions' processes for tracking and processing member death and legal split cases.
28	LA County Rehired Retirees	Benefits: Audit of LA County's rehired retirees to ensure compliance with PEPRRA.
29	Member Benefits Calculation Audit / Database	Benefits: 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	Benefits: Periodic audit that confirms the living status of retirees living abroad.
32	Governance, Risk, and Controls Benefits Division	Benefits: Working with division to gain a deeper understanding of its governance, risks, and controls.
33	Governance, Risk, and Controls RHC	RHC: Working with division to gain a deeper understanding of its governance, risks, and controls.
34	Account Settlement Collections	Benefits: The review will serve as a follow-up of management's progress in addressing areas of concern and deficiencies from the FY 2019 review and IA will consult with Benefits on their development of new policies and procedures.
35	CAP - Operations	Continuous Automated Program (CAP) is automated testing of LACERA's transactions and information systems. CAP provides continuous assurance in key areas of compliance and includes fraud detection audits.
	IA ADMINISTRATION PROJECTS	
36	Audit Pool – RFP	RFP for audit firms to assist with specialized audit work.
37	TeamMate Optimization	Working and training to re-configure TeamMate for improved efficiency and effectiveness.
38	Annual Risk Assessment & Audit Plan	Updating Audit Universe, Risk Assessments, and develop Audit Plan.
39	External Quality Assessment Review	Working with an external independent reviewer for the required Quality Assessment Review.
40	Audit Committee Support	Preparation of Audit Committee materials and attendance at meetings.
41	Professional Development	Annual self-assessment, developing self-development program, and allocating for 30 hours of 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.
	UNPLANNED PROJECTS	
44	KPMG Reco Follow-up	Audit Committee engagement to review IA Recommendation Follow-Up Process.
45	Real Estate THC Deposit Review	Incident follow-up to review internal controls.
46	THC Operations Review	Review of real estate bank operations and advise key divisions on controls, and procedures to improve processes.
47	SSN SSN Verification Systems Audit	The scope of this audit was expanded from a Continuance Audit Program (CAP) Test, to a full audit. The objective was to identify deceased benefit payee accounts receiving benefit payments and validate operational processes are functioning in an adequate manner to prevent benefit payments to deceased member accounts.





February 2, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

Gabriel Tafoya 
Senior Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

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

BACKGROUND

As of August 2020, Internal Audit began to report to the Audit Committee a summary of recommendations being monitored related to system and network security audits and assessments. There are currently seven sensitive information technology (IT) engagements, detailed on Table 1, that Internal Audit has been monitoring.

CONSOLIDATION

During our monthly reviews with the Systems Division and Information Security Office (ISO), we noted that several recommendations overlapped or were repetitive. To manage these outstanding recommendations more efficiently, in January 2021, Internal Audit, Systems Division, and the Information Security Office worked together to consolidate overlapping and/or repetitive recommendations into a singular recommendation. We were able to consolidate 19 recommendations into four recommendations, see Table 1.

Recommendation Follow-Up for Sensitive Information Technology Areas

February 2, 2021

Page 2 of 4

Table 1: Recommendations Status – By Audit Engagement

Engagement Name	Report Date	Total Recos	In Progress	Implemented	Consolidated	In Progress
Recommendation Status by Risk Level			October 2020	Nov - Jan 2021		January 2021
PM SOC Readiness Assessment February 2020						
High		—	—	—	—	—
Medium		10	6	—	1	5
Low		—	—	—	—	—
Clear Skies Penetration Test and VeraCode Report March 2020						
High		1	1	1	—	—
Medium		25	25	2	—	23
Low		17	17	—	—	17
Net Force Engagement May 2019						
No Risk Levels		12	8	1	7	—
Tevora 2019 Penetration Test June 2019						
High		—	—	—	—	—
Medium		—	—	—	—	—
Low		5	3	—	1	2
Tevora 2019 Social Engineering Test May 2019						
No Risk Levels		1	1	—	1	—
Tevora 2018 Security Risk Assessment July 2018						
High		—	—	—	—	—
Medium		3	3	—	3	—
Low		6	6	—	2	4
Alston & Bird Privacy Audit (attorney-client privileged) October 2016						
No Risk Levels		7	5	—	4	1
Consolidated Recos January 2021						
High		2	—	—	—	2
Medium		2	—	—	—	2
Low		—	—	—	—	—
Totals		91	75	4	19	56

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 Information Security Office has added two additional staff members to help create, review, and monitor policies and processes.
- The Information Security Office is working with Human Resources to formalize its Security Awareness Training by February 2021.
- Systems management has begun to address many of the Tevora 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 remaining medium and low-level recommendations by June 2021.

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.

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:

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

Recommendation Follow-Up for Sensitive Information Technology Areas

February 2, 2021

Page 4 of 4

System Development & Change Management	Controls provide reasonable assurance that changes to or development of applications is authorized, tested, and approved. Controls also, provide reasonable assurance that segregation of duties exist.
System Monitoring & Maintenance	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.

Table 2: Recommendations Status – By IT General Control Areas (description on page 4)

	Total Recos	Completed During Prior Periods	Implemented During Period	Consolidated January 2021	In Progress January 2021
Data Back Up & Recovery	1	—	—	—	1
Environmental	—	—	—	—	—
Information Security	22	6	1	—	15
Logical Access	46	4	2	16	24
Physical Security	—	—	—	—	—
System Development & Change Management	3	—	—	—	3
System Monitoring & Maintenance	19	2	1	3	13
Total # Recos by Implementation Status	91	12	4	19	56

Staff will be available to address questions at the January 2021 Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

RPB:cl:gt



February 10, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Gabriel Tafoya 
Senior Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

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).

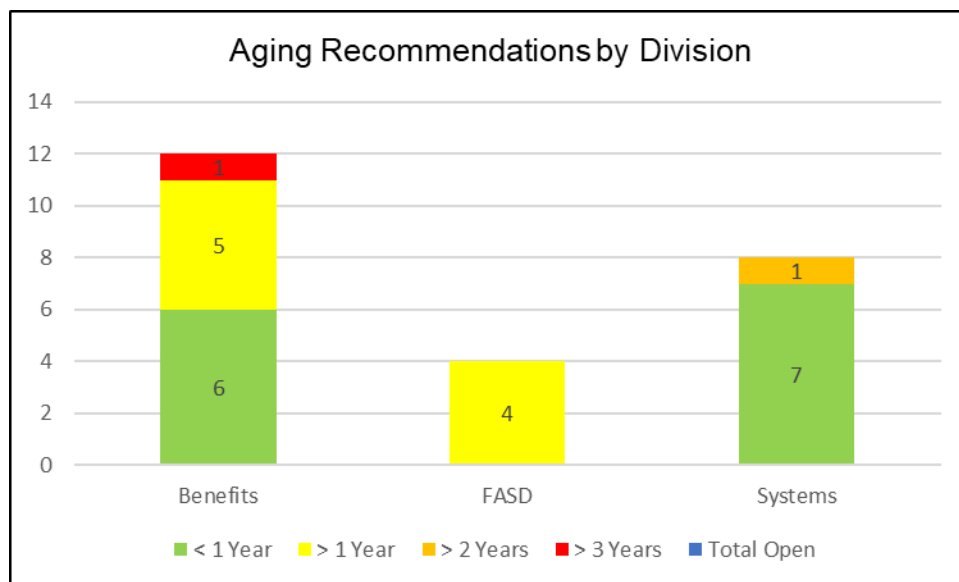
A breakdown of outstanding recommendations by Division is represented in the following matrix with activity since the October 2020 report to the Audit Committee.

	Admin Services	Benefits	FASD	HR	Systems	Total
Beginning	3	6	13	1	10	33
New	0	7	0	0	0	7
Accepts Risk	-1	0	0	0	0	-1
Implemented	-2	-1	-9	-1	-2	-15
Ending	0	12	4	0	8	24

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	
	13	9	1	1	24	15

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



Staff from the respective divisions will be present at the February 19, 2021 Audit Committee meeting to address any questions.

AUDIT RECOMMENDATION FOLLOW-UP REPORT as of 2/10/2021

Project Name						
Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Date Issued						
Administrative Services Division						
Contract Monitoring Program 2018 33 June 19, 2018	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.	N/A	The Systems Division work with Administrative Services to integrate Microsoft Great Plains with CMS where practical to minimize redundant work.	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.	10/31/2018 6/30/2020	Management Accepts Risk The request to include payments for a contract in the Contract Management System was completed by Systems on 9/11/2020 and released for the RIM Unit to test in October 2020. Admin Services has since concluded after further discussions with Systems that the current CMS system did not meet their needs and would like to explore a third-party solution. Systems management is in support of this alternative and included a budgeted line item for a third-party solution that will be presented for approval to the Executive Office on 2/18/2021 as part of the Fiscal Year 2021-2022 Budget.
Contract Management 2020 76 June 15, 2020	Strengthen controls in the administration of the current CMS application.	Medium	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.	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.	12/31/2020	Implemented Per Admin Services, CMS training was conducted on 12/17/2020 with a list of contract data for each division to review and update. Contract data will be provided to each division to review on a quarterly basis. The notification feature was also turned on after the training was completed on 12/17/2020. Divisions are now receiving automatic notifications. These recommendations are complete.
Contract Management 2020 76 June 15, 2020	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.	Low	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.	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	11/30/2020	Implemented Per email dated 2/3/2021, the Executive Office has reviewed and agrees with the general CMS plan outline. This recommendation is complete because Admin Services has provided and confirmed receipt of the report from the Executive Office. In addition, Admin Services will be meeting with the CEO to discuss the project and implementation in more detail on 2/11/2021.

Project Name							
Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status	Last Status Update
Date Issued							
Benefits Division							
Duplicate Special Payments 2017 40 Jan 19, 2017	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.	N/A	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.	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.	12/31/2017 10/31/2017 10/7/2019 6/30/2020 9/30/2020 11/30/2020 Approved Extension Date 4/30/2021	Pending Extension Approved by Executive Office	Due to organizational changes in Systems Division management in mid-year 2020 and competing priorities, we are requesting an extension of the implementation date. Systems has completed the development for an automated special payments approval process into Workspace however has not performed user acceptance testing (UAT) with Benefits staff participation.
Benefits Exception Reports 2020 57 Nov 22, 2019	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.	N/A	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.	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.	6/30/2020 12/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office	Due to organizational changes in both Systems and Benefits Division management in the second half of 2020, we are requesting an extension of the implementation date. Systems and Process Management have completed some development changes in the batch process to replace exception reports with work objects. However, Systems, Advanced Payroll, and PMG will need to further collaborate on this project to develop appropriate Standard Operation Procedures (SOPs) that documents the appropriate periodic reviews to ensure reports remain accurate, relevant, and effective.

Project Name	Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Benefits Exception Reports	2020 57	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.		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: a. Identifying a complete population of key reports and documenting the purpose of each report. b. Documenting LACERA's exposure to additional risks and liabilities associated with the information in those key reports. c. Defining procedures to consistently validate the completeness and accuracy for those reports when changes occur to business rules or the law.	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. Original Implementation date: 6/30/2020.	6/30/2020 12/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office Due to organizational changes in both Systems and Benefits Division management in the second half of 2020, we are requesting an extension of the implementation date. Systems and Process Management have completed some development changes in the batch process to replace exception reports with work objects. However, Systems, Advanced Payroll, and PMG will need to further collaborate on this project to develop appropriate Standard Operation Procedures (SOPs) that documents the appropriate periodic reviews to ensure reports remain accurate, relevant, and effective.
Benefits Exception Reports	2020 57	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.	N/A	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.	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.	3/31/2020 12/31/2020 Approved Extension Date 5/31/2021	Pending Extension approved by Executive Office Due to organizational changes in Benefits Division management in the second half of 2020, we are requesting an extension of the implementation date. The current management team will evaluate the archive workflow process of the Report Control Center (RCC) and develop a Standard Operation Procedure (SOP) that documents the inventory and disposal process that aligns to LACERA's records retention policies.

Project Name	Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Benefits Exception Reports	2020 57	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.	N/A	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.	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. Current Status: 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.	6/30/2020 12/31/2020 Approved Extension Date 5/31/2021	Pending Extension approved by Executive Office Due to organizational changes in both Systems and Benefits Division management in the second half of 2020, we are requesting an extension of the implementation date. Systems and Process Management have completed some development changes in the batch process to replace exception reports with work objects. However, Systems, Advanced Payroll, and PMG will need to further collaborate on this project to develop appropriate Standard Operation Procedures (SOPs) that documents the appropriate periodic reviews to ensure reports remain accurate, relevant, and effective.
Benefits Exception Reports	2020 57	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.	N/A	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.	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.	6/30/2020 12/31/2020 Approved Extension Date 5/31/2021	Pending Extension approved by Executive Office Due to organizational changes in both Systems and Benefits Division management in the second half of 2020, we are requesting an extension of the implementation date. Systems and Process Management have completed some development changes in the batch process to replace exception reports with work objects. However, Systems, Advanced Payroll, and PMG will need to further collaborate on this project to develop appropriate Standard Operation Procedures (SOPs) that documents the appropriate periodic reviews to ensure reports remain accurate, relevant, and effective.
CAP - SSN to SSNVS	2021 10	Five Members Receiving Payments were Reported as Deceased by SSNVS	Medium	BPU should validate the SSNVS status of benefit recipients residing in non-death reporting states on a quarterly basis to minimize risk of benefit overpayments.	Benefits Management agrees with the recommendation and will validate the SSNVS status of benefit recipients residing in non-death reporting states on a quarterly basis beginning, 4/1/2021, and on an on-going quarterly basis.	4/1/2021	Pending
CAP - SSN to SSNVS	2021 10	Two Payees Reported as Deceased by SSNVS Were Previously Identified	Low	Business processes should be updated to require BPU staff place a payment hold on member's account when they determine that circumstances indicate that a member is deceased. If the data of death is unknown, the payment hold should still be placed by BPU rather than relying on another business unit or process to place the payment hold.	Benefits Management agrees with the recommendation and has incorporated the recommendation into its process.	1/1/2021	Implemented Benefits management updated its BPU procedures to require staff to place a hold on a payee account when the investigation concludes the payee has deceased.

Project Name Project Code Date Issued	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
CAP - SSN to SSNVS 2021 10 Feb 3, 2021	Six Members Receiving Benefit Payments Have Mismatched SSNs	Medium	Benefits management should counsel staff when working with survivor documents to verify that the Workspace system SSN should match the SSN on documents being processed	Benefits Management agrees with the recommendation and will incorporate the recommendation into its process.	2/26/2021	Pending
Death Legal Unit 2020 51 Feb 1, 2021	#1 No Documented Policy or Procedure for Six of the Nine Work Queues	Low	For the six queues that have no documented policy or procedure, we recommend management implement policies and/or procedures for the related processes.	The Benefits management agrees with the recommendation and has continued its efforts to develop policies and procedures for the remaining queues. The existing methods are currently under review to identify further development of the processes involved with the work queues, and any new methods will be incorporated into the policies and procedures.	1/29/2022	Pending
Death Legal Unit 2020 51 Feb 1, 2021	#2 No Criteria for Determining Unclaimed Accounts	Medium	We recommend management implement a procedure, which includes criteria to determine when an account is to be label as an "unclaimed account."	The Benefits management agrees with this recommendation. They will address the resolution of this recommendation in three phases: Phase I: As an immediate remedy, Benefits will work with Systems to identify all unlocked, deceased accounts that remain for more than a year and lock the accounts. March 31, 2021 Phase II: Benefits will work with PMG to draft business rules for when these accounts should be locked. May 1, 2021 Phase III: Benefits will work with Systems to create an automated process to lock the accounts. July 29, 2021	7/29/2021	Pending
Death Legal Unit 2020 51 Feb 1, 2021	#3 Service Level Expectations Do Not Effectively Manage Workloads	Medium	We recommend the Benefit's Division Process Management Group coordinate the determination of organizationally accepted and agreed-upon service level expectations (SLEs) for death and legal processing between Member Services and Benefits.	The Benefits management agrees with a recommendation to work with the Executive Office and Systems Division to develop a plan and timeline by July 29, 2021.	7/29/2021	Pending
Death Legal Unit 2020 51 Feb 1, 2021	#4 Workspace Does Not Provide Automate Case Tracking for Pending Death Cases	Medium	As of March 2020, the Case Management project is one of the organization's "top four Strategic Plan goals" with a workgroup meeting regularly to move the project forward. The workgroup has identified 23 processes, one of which is death processing that would address this risk. We recommend Benefits Management work with the Executive Office and the Systems Division to develop a plan and timeline to address the implementation of the death processing through the Case Management project	The Benefits management agrees with a recommendation to work with the Executive Office and Systems Division to develop a plan and timeline by July 29, 2021.	7/29/2021	Pending

Project Name	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status
Project Code						Last Status Update
Date Issued						
Financial Accounting Services Division (FASD)						
Board & Staff Education and Travel 2019 18 June 20, 2019	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.	N/A	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.	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. This recommendation is expected to be completed by June 30, 2020.	6/30/2020 12/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office In November and December 2020, the Joint Committee and the Boards provided direction with respect to the Mosaic Travel consulting report. Based on this information, staff updated the existing Travel Policy and the Boards jointly approved a 2020 Trustee Travel Policy. The Trustee Travel Policy is included as a topic within the Board Orientation materials for new and returning Trustees. The legacy Travel Policy applies to staff travel and FASD will offer annual training.
Board & Staff Education and Travel 2019 18 June 20, 2019	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.	N/A	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.	Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.	1/31/2020 9/30/2020 12/31/2020	Implemented On December 16, 2020, the Joint Boards approved two new Board Policies - a Trustee Education Policy and a Trustee Travel Policy. These revised policies considered the risks and recommendations identified in IA's June 2019 report, LA County's November 2019 Administrative Review, and the Mosaic 2020 report. The revised Trustee Travel Policy addresses on pg. 6 J. Ground Transportation this risk and recommendation. Domestic travel only allows for public transportation, taxis, and ride sharing. International travel allows for executive car services.
Board & Staff Education and Travel 2019 18 June 20, 2019	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.	N/A	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.	Management concurs with the recommendation. FASD will update the Travel Expense Voucher to include clear written instructions for completing the document.	6/30/2020 9/30/2020 12/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office In November and December 2020, the Joint Committee and the Boards provided direction with respect to the Mosaic Travel consulting report. Based on this information, staff updated the existing Travel Policy and the Boards jointly approved a 2020 Trustee Travel Policy. FASD will update the expense voucher to include written instructions.

Project Name	Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Board & Staff Education and Travel	2019 18	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.	N/A	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.	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.	6/30/2020 9/30/2020 12/31/2020 Approved Extension Date 9/30/2021	Pending Extension Approved by Executive Office In November and December 2020, the Joint Committee and the Boards provided direction with respect to the Mosaic Travel consulting report. Based on this information, staff updated the existing Travel Policy and the Boards jointly approved a 2020 Trustee Travel Policy. The staff memo included language regarding the evaluation and implementation of new technology as it relates to travel expenses and reporting. FASD will partner with the Executive Office and IT to explore technology solutions. FASD's budget request for FY 21-22 budget includes a request to explore new travel technology.
Board & Staff Education and Travel	2019 18	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.	N/A	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.	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.	6/30/2020 9/30/2020 12/31/2020 Approved Extension Date 9/30/2021	Pending Extension Approved by Executive Office This recommendation is a combination of updating traveler instructions and exploring technology solutions.
Board & Staff Education and Travel	2019 18	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."	N/A	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.	Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.	1/31/2020 9/30/2020 12/31/2020	Implemented On December 16, 2020, the Joint Boards approved two new Board Policies - a Trustee Education Policy and a Trustee Travel Policy. These revised policies considered the risks and recommendations identified in IA's June 2019 report, LA County's November 2019 Administrative Review, and the Mosaic 2020 report. The Trustee Travel Policy now clarifies Administrative Travel on pg. 6 IV.

Project Name	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Project Code Date Issued Board & Staff Education and Travel 2019 18 June 20, 2019	<p>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.</p> <p>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>	N/A	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.	Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.	1/31/2020 9/30/2020 12/31/2020	<p>Implemented</p> <p>On December 16, 2020, the Joint Boards approved two new Board Policies - a Trustee Education Policy and a Trustee Travel Policy.</p> <p>These revised policies considered the risks and recommendations identified in IA's June 2019 report, LA County's November 2019 Administrative Review, and the Mosaic 2020 report. The Trustee Educational Policy on pg. 5 C2. In-Person External Conferences now clarifies that external conferences within CA are not counted toward the external conference limits.</p>
Board & Staff Education and Travel 2019 18 June 20, 2019	<p>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>	N/A	<p>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>	Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.	1/31/2020 9/30/2020 12/31/2020	<p>Implemented</p> <p>On December 16, 2020, the Joint Boards approved two new Board Policies - a Trustee Education Policy and a Trustee Travel Policy.</p> <p>These revised policies considered the risks and recommendations identified in IA's June 2019 report, LA County's November 2019 Administrative Review, and the Mosaic 2020 report.</p>

Project Name	Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Board & Staff Education and Travel	2019 18 June 20, 2019	<p>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.</p> <p>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>	N/A	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.	Management concurs with this recommendation. Management will bring the issue to the JOGC for further discussion.	1/31/2020 9/30/2020 12/31/2020	<p>Implemented</p> <p>On December 16, 2020, the Joint Boards approved two new Board Policies - a Trustee Education Policy and a Trustee Travel Policy.</p> <p>These revised policies considered the risks and recommendations identified in IA's June 2019 report, LA County's November 2019 Administrative Review, and the Mosaic 2020 report. The Trustee Travel Policy addresses in the Appendix A. I. A. Airline Travel. "Air travel will only be reimbursed at the lowest available non-refundable fare at the time of purchase (for class travel authorized under this Policy). Trustee may elect to fly on United, American, Delta, JetBlue, or Southwest Airlines for the dates and times of travel. Other carriers are authorized, but reimbursement shall not exceed the lowest non-refundable fare offered either amongst the five major airlines carriers mentioned above or other major carriers who fly to selected destination."</p>
Corporate Credit Card	2020 52 Oct 5, 2020	<p>Non-compliance with certain sections of the Corporate Credit Card Policy</p> <p>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.</p>	Medium	<p>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.</p> <p>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>	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.	12/31/2020	<p>Implemented</p> <p>FASD has provided training to card holders on December 2020. A make-up training for those that missed will be provided Jan. 26, 2021. Part of the training included FASD making card holders aware of the new corrective action plan and escalation process.</p> <p>The escalation process includes reporting to the Executive Office for offenders requiring action. This corrective action plan is driven by the "Corrective Action Matrix.</p>
Corporate Credit Card	2020 52 Oct 5, 2020	<p>Four instances of non-compliance with the Policy. 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.</p> <p>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.</p>	Medium	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 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	12/31/2020	<p>Implemented</p> <p>FASD has provided training to card holders on December 2020. A make-up training for those that missed will be provided Jan. 26, 2021. Part of the training included FASD making card holders aware of the new corrective action plan and escalation process.</p> <p>The escalation process includes reporting to the Executive Office for offenders requiring action. This corrective action plan is driven by the "Corrective Action Matrix.</p>

Project Name	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Project Code Date Issued Corporate Credit Card 2020 52 Oct 5, 2020	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." 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.	Low	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 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.	12/31/2020	Implemented Systems Division submitted a memo to Administrative Services notifying them of the disaster related purchases made on the credit card and submitted the required documentation.
Corporate Credit Card 2020 52 Oct 5, 2020	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."	Low	FASD should update its desk procedures to account for the proper termination and disposal of returned cards.	FASD will update the desk procedures to include the existing process. 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.	12/31/2020	Implemented FASD has updated their desk procedures to address this.

Project Name	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status
Project Code						Last Status Update
Date Issued						
Human Resources (HR)						
Timekeeping Audit 2020 25 Nov 22, 2019	Internal Audit obtained and reviewed the only written documentation provided by HR which was a 12-pages document titled Quick Guide to Timesheet Submission ("HR Guide"). The HR Guide was limited to brief instructions on how to submit one's own timecard in the eHR system. No other LACERA documentation related to timekeeping was provided by HR or available on LACERA's Intranet site.	N/A	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.	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. Human Resources Division will send the timekeeping policy and procedures annually to all Staff Members and update the FAQs on the Intranet as needed.	3/31/2020 7/31/2020 12/31/2020	Implemented As of December 31, 2020, the Human Resources Division has made the Timekeeping & Time Reporting Policy, Procedures and Guidelines available to all staff and posted on the Intranet. The Timekeeping & Time Reporting Policy, Procedures and Guidelines considered the risks and recommendations identified in IA's November 2019 report. The new Timekeeping & Time Reporting Policy, Procedures and Guidelines contains information on Timekeeping, eHR system functionalities, payroll, staff member timekeeping responsibility, staff member accountability, supervisor/manager responsibility and accountability, role of the division timekeeper, proxy, HR payroll coordinator responsibilities, and HR leave & return-to-work coordinator, and enforcement.

Project Name	Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status
							Last Status Update
Systems Division							
Data Backup and Retention Testing	2017 41	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.	N/A	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.	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.	12/31/2018 7/31/2018 9/30/2020 1/31/2021	Implemented In January 2021, LACERA successfully conducted a coordinated test of the Systems Divisions' disaster recovery capabilities. Internal Audit was present each of the three days, January 11-13 2021, and was able to observe all communications and that issues brought up during discussions were resolved in a timely manner. Internal Audit observed that all DR testing objectives were met.
Member Applications Change Control	2018 49	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. 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.	N/A	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.	Initial Management Response: 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. Current Status: Appropriate resources to complete a transition to a new deployment tool are planned to be hired in July, 2020. We are currently interviewing candidates for this position. Once the position is filled, we should be able to complete the recommended action within six months or sooner after hiring date. Planned for completion by 12/31/2020. The Systems Division indicated that if this can be completed earlier, it will be. Internal Audit anticipates that this will be completed by September 30, 2020, so that we are in alignment with Plante Moran's SOC readiness recommendations.	6/30/2019 2/28/2020 9/30/2020 Approved Extension Date 3/1/2021	Pending Extension Approved by Executive Office Due to organizational changes in Systems Division management in mid-year 2020 and formation of a new Information Security Office (IS), we are requesting an extension of the implementation date. Systems has developed a system generated report for monitoring changes in application code. Systems will further develop a Standard Operation Procedure (SOP) that documents the necessary testing, documentation, provisioning, and authorizations required during code deployment to production.
Member Applications Change Control	2018 49	A formal policy does not exist to provide guidelines for granting staff administrator access and system management privileges. A formal policy does not exist to provide guidelines for granting staff administrator access and system management privileges.	N/A	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.	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. Current Status: 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. Planned for completion by 9/30/2020.	9/30/2020	Implemented The Privilege Access Management Policy was finalized and issued to all privilege users on February 10, 2021. Internal Audit reviewed the Policy and determined it met all requirements.

Project Name Project Code Date Issued	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Mobile Device Audit 2020 56 June 4, 2020	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.	High	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: a. Require execution of a formalized and documented annual inventory that includes active, inactive, vacant, and test devices. 3b. Documented responsibility for mobile device inventory asset accountability and tracking, device master listing maintenance, asset reconciliations and verification counts.	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.	12/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office Due to organizational changes in Systems Division management in mid-year 2020 and competing priorities, we are requesting an extension of the implementation date. To address recommendation 3a, Systems Division management completed a reconciliation of wireless service lines and mobile devices registered in MaaS360 in November 2020. The reconciliation created a mobile device master listing that includes active, inactive, vacant and test devices. Systems provided Administrative Services the list of mobile devices to record in Great Plains. For recommendation 3b, Administrative Services is currently performing an Offsite Equipment Inventory that includes mobile devices assigned to staff. Administrative Services is ~ 70% complete and once the offsite inventory is finalized, Systems will perform a follow up reconciliation to identify discrepancies.
Mobile Device Audit 2020 56 June 4, 2020	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.	Medium	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 such as spare or test devices.	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.	10/31/2020 3/30/2021	Pending In September 2020, Systems completed and the Executive Office approved the Mobile Device Management Policy, which states all organization issued mobile devices must be registered to the MDM tool. Systems has stated they registered mobile devices to the MDM tool in November 2020 but this recommendation is pending review of a reconciliation between LACERA's mobile devices versus devices registered to the tool. Internal Audit anticipates addressing this by March 30, 2021.

Project Name	Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Mobile Device Audit	2020 56	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.	Medium	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.	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.	10/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office Systems has completed 5a; the comprehensive and consolidated Mobile Device Management Policy was completed and approved by the Executive Office in September 2020 and includes mobile device usage and security configurations. Due to organizational changes in Systems Division management in mid-year 2020 and competing priorities, we are requesting an extension of the implementation date for 5b. Systems Division Management will develop a Standard Operation Procedure (SOP) that documents that appropriate periodic review of policy settings and documented exceptions to the policy. Systems will complete the SOP and perform a reconciliation to each security configuration and users assigned to them by 5/31/2021.
Mobile Device Audit	2020 56	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.	High	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.	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.	10/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office Due to organizational changes in Systems Division management in mid-year 2020 and competing priorities, we are requesting an extension of the implementation date. A comprehensive and consolidated Mobile Device Management Policy was completed and approved by the Executive Office in September 2020 which provides an overview of mobile device issuance standards for staff and trustees and testing devices. To complete this recommendation, Systems Division Management will develop a Standard Operation Procedure (SOP) 1) that documents the current year's standard issued equipment, and 2) that documents the process for testing mobile devices and the appropriate use cases.

Project Name	Project Code	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Mobile Device Audit	2020 56	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.	High	7. Systems Division management should improve the administrative process over mobile device acknowledgement and usage forms. The process should include the following: a. Inclusion of the Form in the comprehensive and consolidated Mobile Device Management Policy. b. Requirement that staff and Trustees re-sign a mobile device acknowledgement form annually and whenever provided a new device.	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	10/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office Due to organizational changes in Systems Division management in mid-year 2020 and competing priorities, we are requesting an extension of the implementation date. The comprehensive and consolidated Mobile Device Management Policy was completed and approved by the Executive Office in September 2020 and includes reference to the mobile device acknowledgement and usage forms. Systems has updated its process to require all staff and Trustees sign the same acknowledgement form when provided a mobile device. Systems is also currently awaiting Admin Services to complete of their Offsite Equipment Inventory process so an updated reconciliation of mobile devices can be performed. Systems will then request all mobile device users to re-sign an acknowledgement form for the current year.
Mobile Device Audit	2020 56	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: a. LACERA has not disposed of any old or obsolete tablets or smartphones since inception of the mobile device program. b. Formal documentation to validate that old or obsolete and devices returned by staff were appropriately reset to factory settings or the data was wiped is not maintained. c. 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. d. Former Trustees could purchase their LACERA issued iPad. However, documentation outlining the approval and process was not maintained.	High	9. Systems Division management should 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: a. A timeframe and methodology for the disposal of devices. b. 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. c. An accurate inventory of out of service devices is maintained.	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	10/31/2020 Approved Extension Date 5/31/2021	Pending Extension Approved by Executive Office Due to organizational changes in Systems Division management in mid-year 2020 and competing priorities, we are requesting an extension of the implementation date. A comprehensive and consolidated Mobile Device Management Policy was completed and approved by the Executive Office in September 2020 and references the appropriate policy for mobile device disposal. Systems Division Management will develop a Standard Operation Procedure (SOP) that documents that appropriate timeframe and methodology for disposal of devices, documentation, and inventory requirements.

Project Name	Finding	Risk Levels	Recommendation	Response	Estimated Implementation Date(s)	Status Last Status Update
Project Code Date Issued Mobile Device Audit 2020 56 June 4, 2020	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.	Medium	10. Systems Division management strengthen the process for managing workstations that have USB access enabled. The process should include: a. A periodic review of USB enabled workstations to ensure such access is still appropriate. b. A periodic reconciliation of the deny USB access listing against Administrative Services Fixed Asset Register. c. Encryption required for USB devices connected to LACERA workstations.	Management agrees with the recommendation and plans to complete implementation by October 31, 2020.	10/31/2020 Approved Extension Date 4/1/2021	Pending Extension Approved by Executive Office Due to organizational changes in Systems management and formation of a new Information Security Office, management is requesting an extension of the implementation date. Systems and InfoSec are currently evaluating a project timeline to migrate LACERA to a new Active Directory forest and evaluate all security settings for LACERA workstations. The planned changes will address all Group Policy Object (GPO) security settings, resolve conflicting GPO's that hinder the process of managing workstations, and include encryption for USB devices where appropriate. Management will perform a review of USB enabled workstations as part of the evaluation and implement a periodic reconciliation procedure once the recommended security settings are approved.




February 3, 2021


TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

George Lunde
Senior Internal Auditor

Gabriel Tafoya 
Senior Internal Auditor

Nathan K. Amick 
Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

SUBJECT: Continuous Auditing Program (CAP)

BACKGROUND

Internal Audit performs its **Continuous Auditing Program (CAP)** throughout the year. We have defined CAP as continuous audit testing for fraud and compliance incorporating data analytics as the primary auditing tool.

- **Fraud Testing** – Provides timely insight into fraud indicators.
- **Compliance Testing** – Ensures compliance through testing transactional data against established internal control rules and transactional profiles (e.g., *960-Hour Limit Test*).

Our primary data analytics tool **Audit Command Language** (ACL) allows us to examine large data sets to uncover exceptions, anomalies, hidden patterns, unknown correlations, and to assist with the audit process. ACL gives us the ability to review every transaction, not just sampling, which enables a more efficient analysis on a greater scale.

The intention of CAP is to give Internal Audit and LACERA Management greater visibility into processes, activities, and transactions, while adding value by means of improved compliance, risk management, and the ability to achieve business goals.

CAP Schedule Fiscal Year 2020-2021

To determine the CAP projects for the fiscal year, Internal Audit first assesses LACERA’s databases for the type of data held. Next, we brainstorm as many tests as possible for compliance and fraud scenarios. Internal Audit then assess the risk levels related to the possible tests.

Should any of our CAP testing identify a systematic breakdown of controls, the project would be elevated, and a full audit would be performed. In such a case, the Audit Committee would be notified.

Audit Projects	Division	Service Type	Status
Annual Census Data Testing	Exec	Compliance	Begin Q3
PEPRA-960 Hours	Exec	Compliance	Pending
Workspace Terminated User	Systems	Compliance	Completed 11/02/2020
Terminated Staff Key Cards	Systems	Compliance	Begin Q1
Duplicate Vendor Payments	FASD	Fraud	Begin Q4
Duplicate Member Payments	FASD	Fraud	Begin Q4
Emp & Vendor Same Address	FASD	Fraud	Completed 11/02/2020
High Risk Over 90 Payees	Benefits	Fraud	Pending Q2 & Begin Q4
New Payees	Benefits	Fraud	Completed 01/13/2021
Foreign Payees	Benefits	Fraud	Begin Q3
Multiple Payments to Payee	Benefits	Fraud	Begin Q4
No Medical Deductions	Benefits	Fraud	Begin Q4
70.5 Required Distributions	Benefits	Compliance	Pending
Legal Split	Benefits	Fraud	Pending
Minor Survivor	Benefits	Compliance	Begin Q4
SSN to SSA	Benefits	Fraud	Completed as a limited-scope audit 02/03/2021
Pay Code Testing	QA	Compliance	Completed 09/29/2020

See the next page for a detailed list of the above recently completed project name, purpose, methodology, coverage period, test results, and the frequency at which the tests are performed.

Continuous Audit Program (CAP) Testing Summary

FRAUD TESTING

DIVISION	PROJECT NAME	PURPOSE	COVERAGE PERIOD	TEST FREQUENCY	METHODOLOGY	RESULTS
Benefits	New Payees	100 percent test of all new payees added to the retirement payroll to ensure no ghost (fraudulent) payees added.	07/01/2020 to 12/31/2020	Monthly	Traced all new payees, per the monthly payroll, to valid historical member data from LACERA and the plan sponsor.	No exceptions were noted.
FASD	Employees & Vendor w/Same Address	Identify employees with same address as a vendor in attempt to uncover possible fraud.	01/01/20 to 10/31/20	Annual	Identify employees with same address as a vendor. Use ACL to identify vendor and employees with same or similar address.	No exceptions were noted.
Benefits	SSN to SSA	Validate processes are functioning in an adequate manner to prevent benefit payments to decedent accounts	As of 07/31/20	Annual	Submit file of payees to SSNVS and investigate negative responses.	Opportunities for improvements were noted. Refer to Social Security Number Verification System (SSNVS) Audit report 02/03/21.

COMPLIANCE TESTING

DIVISION	PROJECT NAME	PURPOSE	COVERAGE PERIOD	TEST FREQUENCY	METHODOLOGY	RESULTS
Executive Division	Pay Codes Testing	Determine all pay codes used by plan sponsor are BOR approved.	04/01/20 to 08/31/20	Quarterly	Match the LACERA pay codes master listing against the Los Angeles County (LAC) Auditor-Controller's pay code file, to identify discrepancies.	No exceptions were noted.

COMPLIANCE TESTING (continued)						
DIVISION	PROJECT NAME	PURPOSE	COVERAGE PERIOD	TEST FREQUENCY	METHODOLOGY	RESULTS
Systems Division	Workspace Terminated User	To validate the timely termination of access to the Workspace application for terminated employees/contractors.	01/01/2020 to 08/31/2020	Annually	Match the terminated employee listing file to the Workspace application user listing file, to identify discrepancies.	No exceptions were noted.






FOR INFORMATION ONLY

February 5, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: LACERA's Real Estate Conversion Team

Esmeralda del Bosque, Senior Investment Officer 
Trina Sanders, Investment Officer 
Cindy Rivera, Senior Investment Analyst 
Calvin Chang, Senior Investment Analyst 
Michael Huang, Accounting Officer II 
Margaret Lei Chwa, Senior Accountant 

FOR: February 19, 2021 Audit Committee Meeting

SUBJECT: Real Estate Administration and Performance Conversion Update

At the December 2020 Audit Committee meeting, the Committee requested an update on the conversion of real estate accounting and performance data related to Board action at the September 2020 Board of Investments meeting. At the September meeting, the Board approved State Street Bank and Trust Company ("State Street") as the Real Estate Fund Administrator to serve as the official book of record for ~120 real estate assets comprised of ~20 commingled funds and ~100 special purpose entities that hold title to LACERA's separate account properties.

At that same meeting, the Board also approved hiring State Street/Solovis ("Solovis") as LACERA's total Fund performance measurement provider. As highlighted in both searches, State Street provides accounting, administration, and performance services for every asset class except real estate; the Townsend Group ("Townsend") has served as administrator for real estate accounting and performance.

Hiring State Street/Solovis for real estate administration creates more independence, transparency, and a consistent operational practice across LACERA's asset classes. It is worth noting that the Board of Investments approved the Stepstone Group to replace Townsend as LACERA's real estate consultant at its January 2021 meeting.

Immediately following the contracting of both services with State Street, the transition of real estate data ensued. Importantly, the main LACERA Investments and Financial Accounting Services Division ("FASD") staff that were part of the Real Estate Administrator search are also currently working with State Street/Solovis on the real estate implementation.

Key members of LACERA's real estate conversion team include:

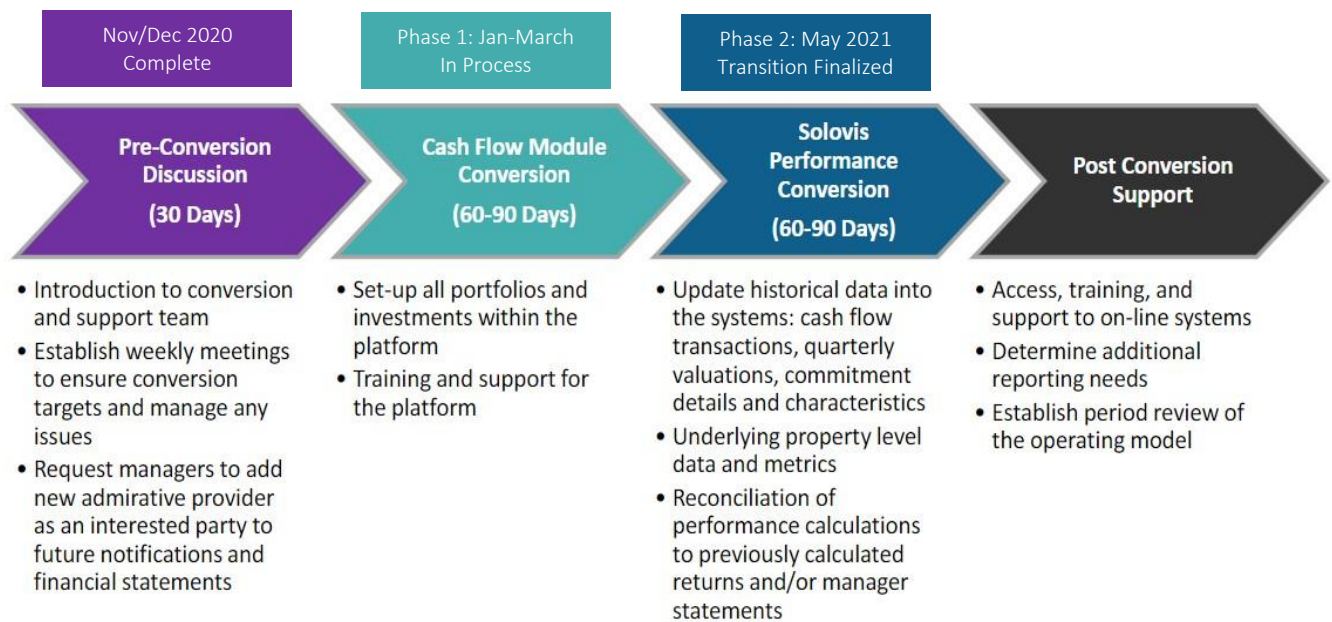
Esmeralda del Bosque^{*}, Investments – Senior Investment Officer
Trina Sanders^{*}, Investments – Investment Officer
Cindy Rivera, Investments – Senior Investment Analyst
Calvin Chang^{*}, Investments – Senior Investment Analyst
Michael Huang, FASD – Accounting Officer II
Margaret Lei Chwa, FASD – Senior Accountant
**denotes members of the Real Estate Administrator search*

To date, the conversion team has worked with State Street/Solovis on creating the transition plan, conducting weekly meetings, establishing the general ledger and accounting structure, identifying cash and wire movement protocols, agreeing on calculation methodology, constructing the necessary data architecture, and receiving historical data from Townsend and real estate investment managers. It should be noted that the vast majority of the conversion relates to the separate account real estate data migration. The conversion team has worked with State Street to increase the amount of transparency for these accounts and confirm that State Street constructs its approach to calculate independent valuation, cashflow, and performance metrics. These efforts ensure that an independent book of record is established. FASD has played a vital role in the development of the operating model and has confirmed that the accounting treatment of real estate data will meet LACERA's financial and Comprehensive Annual Financial Reporting standards.

The conversion consists of two phases: One for implementing data on a go-forward basis and another for loading the 20-plus years of historical real estate data. As part of the first phase, commingled fund information has already been added to the accounting structure. The next steps are to migrate the data for the separate accounts onto the State Street and Solovis platforms. State Street anticipates that the first phase of the conversion will be completed by the end of March 2021 with the ability to incorporate "current" data into LACERA's fiscal year-end total fund performance Board report.

Once that is complete, the second phase, focusing on the backload of historical data, will begin. State Street anticipates that given the historical record's length, they can complete that project by May 2021. For each phase, State Street will reconcile their results versus Townsend and investment managers.

Below is a visual representation of the onboarding process and State Street's timeline for both the accounting and performance real estate book of record conversions:



Noted and Reviewed:

Jonathan Grabel
Chief Investment Officer

**FOR INFORMATION ONLY**

January 29, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Kathryn Ton 
Senior Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

SUBJECT: Real Estate Manager Review Reports

In 2018, Internal Audit prequalified 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. There have been 8 compliance reviews completed thus far.

At the October 2020 Audit Committee meeting, staff provided the Committee with a summary of the recent compliance audits. These audit engagements included a property manager review of Avison Young which was performed by Conrad LLP, and a RREEF investment manager review performed by Kreisher Miller. The Committee subsequently requested staff to provide the Avison Young and RREEF audit reports, which are attached for your review.

Staff will be available to address questions at the February 19, 2021 Audit Committee meeting.

Attachment
RPB:kt



**LOS ANGELES COUNTY EMPLOYEES
RETIREMENT ASSOCIATION**

**Standard Compliance Work Program
Evaluation for Property Managers**

**Avison Young – Southern California, LTD.
300 North Lake Avenue (*aka* Gateway Plaza)
Pasadena, CA**

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (*aka* Gateway Plaza)
Pasadena, CA**

Table of Contents

	<u>Page</u>
Independent Accountant’s Report on Applying Agreed-Upon Procedures.....	1
Executive Summary	2
Findings and Recommendations	3
Exhibit I – Complete Response of Avison Young – Southern California, LTD	
Exhibit II – Agreed-Upon Procedures	



Mr. Richard Bendall
Chief Audit Executive
Los Angeles County Employees Retirement Association
Pasadena, CA

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

At the request of the Los Angeles County Employees' Retirement Association ("LACERA"), we have performed the agreed-upon procedures attached as Exhibit II for property managers on 300 North Lake Avenue (*aka* Gateway Plaza) managed by Avison Young – Southern California, LTD. (the "Property Manager").

The procedures, which were agreed to by LACERA, were applied solely to assist LACERA in determining if the Property Manager was in compliance with the terms of the property management agreement for the period July 1, 2019 through June 30, 2020. The Property Manager is responsible for the reporting and related accounting records pursuant to the applicable property management agreement. This engagement to apply agreed-upon procedures was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of LACERA. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Findings and recommendations have been documented beginning on page three of this report.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. We did not perform additional agreed-upon procedures related to the Property Manager's response and express no opinion on it.

This report is intended solely for the use of LACERA and is not intended to be, and should not be used by anyone other than the party specified above.

Conrad LLP

Lake Forest, CA
September 4, 2020

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (*aka Gateway Plaza*)
Pasadena, CA**

Executive Summary

Conrad LLP was engaged to apply the applicable agreed-upon procedures to the property management function of 300 North Lake Avenue (*aka Gateway Plaza*) for the period July 1, 2019 through June 30, 2020 (the “Review Period”) in order to ensure compliance with the Property Management Agreement (the “Agreement”) dated April 6, 2016 between LACERA Gateway Property Inc. (the “Owner”) and Avison Young – Southern California, LTD. (the “Property Manager”).

300 North Lake Avenue (*aka Gateway Plaza*) is an office building located in Pasadena, California. The property was constructed in 1989 and consists of approximately 281,896 rentable square feet. As of June 30, 2020, the property was 98.86% occupied.

Detailed descriptions of each finding and recommendation begin on page three of the agreed-upon procedures report. Below is a summary of the findings:

Finding Description	Finding No.
Finding Noted with Regard to Property Security Deposit Ledger	D-1
Findings Noted with Regard to Property Rent Roll	D-2
Finding Noted with Regard to CAM Reconciliation	D-3
Finding Noted with Regard to Construction Supervision Fees	D-4
Finding Noted with Payroll Processing Fees	D-5
Findings Noted with Leasing Commissions	E-1
Findings Noted with Tenant Insurance	E-2
Observation Noted During Physical Inspection	F-1

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

Findings and Recommendations

In accordance with the agreed-upon procedures, we noted the following findings and recommendations:

A. General Procedures

We obtained and read the Agreement along with the subject property's financial reports for the Review Period ended June 30, 2020. We conducted an entrance conference with the Property Manager to obtain specific information regarding the status of the property and discussed any general concerns.

Results: No exceptions were noted as a result of applying the procedures.

B. Company Background Procedures

We obtained information regarding the organization and staffing of the Property Manager. We reviewed insurance coverages maintained by the Property Manager. We made inquiries regarding any pending litigation involving the property and the use of affiliated companies.

Results: No exceptions were noted as a result of applying the procedures.

C. Internal Control Procedures

We submitted an internal control questionnaire to the Property Manager and read their responses. We followed up with the Property Manager's personnel regarding the completed questionnaire and made inquiries of on-site personnel regarding cash collection and disbursement controls and procedures.

Results: No exceptions were noted as a result of applying the procedures.

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

D. Accounting and Financial Procedures

We reviewed a sample of significant balance sheet accounts, including property bank accounts, accounts receivable, and other assets and liabilities. We agreed the reported revenue to a sample of leases. We agreed a selection of expenses incurred to the supporting invoices, as well as reviewing the accuracy of payments made to the Property Manager during the Review Period.

Results: See findings #1 through #5 below.

1. Finding Noted with Regard to Property Security Deposit Ledger

During our sample review of tenant lease files, we compared the security deposit per the lease documentation to the property security deposit ledger. Based on our review, we noted that the security deposit ledger as of June 30, 2020 reflected a deposit of \$ [REDACTED] for tenant [REDACTED] which did not agree to the security deposit amount of \$ [REDACTED] stated in the lease agreement. We discussed this issue with the Property Manager and prior to the issuance of the draft report, the Property Manager provided an updated ledger showing the correct security deposit amount.

Recommendation

We recommend that the Property Manager ensures that all information stated on the security deposit ledger agrees to the terms stated in the tenant lease agreements.

Property Manager's Response

Prior to the issuance of the draft report, the Property Manager provided an updated ledger showing the correct security deposit amount.

The discrepancy arose as the Lease for [REDACTED] included the pre-payment of Base Rent for the [REDACTED]th, [REDACTED]th, and [REDACTED]st months due under the Lease. The First Amendment to the Lease included a provision to adjust the square footage and changes were made accordingly to the Base Rent schedule. This resulted in the pre-payment of rent for the

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

█st month of the Lease to be \$█ less than what was stated in the Lease. We notified the tenant and applied the credit to rent for September 2020.

Avison Young agrees with the recommendation to ensure the stated amount on the security deposit ledger agrees to the terms stated in the tenant lease agreements.

Conrad LLP Comments

We concur with the Property Manager's corrective action.

2. Findings Noted with Regard to Property Rent Roll

During our sample review of tenant lease files, we compared pertinent lease terms per the lease documentation to the property rent roll as of June 30, 2020. Based on our review, the following was noted:

- a. For tenant █, the property rent roll stated that the total rentable square footage was █, which did not agree to the lease agreement square footage of █. This issue was discussed with the Property Manager and prior to the issuance of the draft report, the Property Manager provided an updated rent roll reflecting the correct square footage.
- b. The property rent roll reflected a lease expiration date of █ for the storage space leased by tenant █ which did not agree to the lease agreement expiration date of █. This issue was discussed with the Property Manager and prior to the issuance of the draft report, the Property Manager provided an updated rent roll reflecting the correct expiration date.

Recommendation

We recommend that the Property Manager ensures that all pertinent lease terms are correctly reflected in the property rent roll.

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

Property Manager's Response

Prior to the issuance of the draft report, the Property Manager provided an updated rent roll reflecting the correct square footage and expiration dates.

During the tenant improvements for [REDACTED], the corridor was extended to meet the code requirements for the City of Pasadena. This resulted in a change to square footage. When the tenant was added to the rent roll, the square footage that was used for the space's previous tenant was left as-is, which created a discrepancy in square footage. The rent roll has since been updated and the difference of [REDACTED] square feet was added to the rent roll as "Dead Space" so that the building square footage would remain the same.

During the last renewal for [REDACTED], the expiration date for their storage space was erroneously extended to mirror the new lease expiration for their space on the [REDACTED]th and [REDACTED]th floors. However, the storage space was not included in the renewal. The date has since been changed in the rent roll to reflect the expiration date of [REDACTED] as stated on their Lease for storage space.

Avison Young agrees with the recommendation to ensure that all pertinent lease terms are correctly reflected in the property rent roll.

Conrad LLP Comments

We concur with the Property Manager's corrective action.

3. Finding Noted with Regard to Common Area Maintenance (CAM) Reconciliation

In our attempt to review a sample of 2019 CAM Reconciliations, it was noted that reconciliations had not been sent to the tenants as of August 7, 2020. Based on our sample review of the lease agreement for tenant [REDACTED], we noted that Article [REDACTED] of the lease agreement states, "Landlord shall give to Tenant on or before the first day of August following the end of each Expense Year, a statement which shall state the Direct Expenses incurred or accrued for such preceding Expense Year, and which shall indicate the amount, if any, of any Excess."

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

Recommendation

We recommend that the Property Manager ensures that CAM Reconciliation notices are sent to the tenants within the timeframe specified in the tenants' respective lease agreements.

Property Manager's Response

Per the lease agreement for [REDACTED], the 2019 CAM Reconciliation should have been delivered to the Tenant on or before the first day of [REDACTED]

The CAM Reconciliation is currently being worked on by the Property Manager and was delayed due to the impacts of COVID-19. Historically, for the past twenty years the CAM Reconciliation has been billed in accordance with the respective Lease Agreements.

Avison Young agrees with the recommendation to ensure that CAM Reconciliation notices are sent to the tenants within the timeframe specified in the tenants' respective lease agreements.

Conrad LLP Comments

No further comment necessary.

4. Finding Noted with Regard to Construction Supervision Fees

Schedule [REDACTED] of the Agreement states, "As compensation for Manager's construction supervisory services rendered pursuant to this Agreement in connection with the installation on the Property of capital improvements, Owner shall pay to Manager a Construction Supervision Fee as follows:"

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

Cost of Work

[REDACTED]

Fees as Percent of Cost of Work

[REDACTED]

Based on our review, we noted that the Property Manager did not exclude the initial \$ [REDACTED] from the total cost of work when calculating the construction supervision fee for projects that exceeded \$ [REDACTED]. It was explained by the Property Manager that the intent of the \$0 to \$ [REDACTED] tranche was to have no fee on simple low-cost projects. It was further explained that larger more complex projects would be treated as one project and that it is not the intent to carve out the first \$ [REDACTED] for projects that exceeded \$ [REDACTED].

This matter was discussed with LACERA and it was stated by LACERA that they agree with this calculation methodology. It has been determined, however, that it would be beneficial to add language to the Agreement via amendment to clarify the calculation intent to avoid ambiguity.

Recommendation

We recommend that the Property Manager work with LACERA to amend Schedule F of Agreement to further clarify the intent of the Construction Supervision Fee calculation to avoid ambiguity.

Property Manager’s Response

Avison Young agrees with the recommendation to amend the Agreement to clarify the calculation methodology to avoid any ambiguity.

Conrad LLP Comments

No further comment necessary.

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

5. Finding Noted with Regard to Payroll Processing Fees

Based on our sample review of payroll registers for the pay periods ending November 30, 2019 and March 31, 2020, we noted that the Property Manager charged a █% burden rate, of which █% was related to payroll processing fees. Such fees charged for November 2019 and March 2020 totaled \$█ and \$█, respectively. Article █ of the Agreement states, “Manager shall be responsible for the payment at its own cost and expense of all payroll and expense (including withholding and other payroll taxes) of its employees and all of its general overhead and administrative expenses.”

Costs such as payroll processing fees are considered to be overhead expenses which are to be covered by the property management fee. As such, as the Agreement explicitly states that Property Manager shall be responsible for all of its general overhead and administrative expenses, it has been determined that the █% related to payroll processing fees should be excluded from the total burden rates charged.

Recommendation

We recommend that the Property Manager refrains from charging payroll processing fees to the property going forward. We further recommend that the Property Manager recalculate all payroll processing fees from inception to current and reimburses any overpayment back to the property. If it is the intent by LACERA to allow such costs in payroll burden, we recommend that this intent be memorialized in the Agreement via amendment.

Property Manager’s Response

It was noted that █% of the payroll was attributed to payroll processing fees.

The burden for payroll is █% reimbursed by the property and is included in the approved budget each year.

Avison Young agrees with the recommendation to allow such costs in payroll burden if it is the intent by LACERA to allow such costs and memorialize in the Agreement via amendment.

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

Conrad LLP Comments

Notwithstanding the Property Manger's response, our recommendation remains as previously stated.

E. Leasing and Tenant Procedures

We reviewed the propriety of the leasing procedures. We selected a sample of tenant lease files and performed a review of the completeness of the information maintained on the tenants.

Results: See findings #1 and #2 below.

1. Findings Noted with Regard to Leasing Commissions

Based on our review of the leasing commissions paid for the lease renewals and expansions for tenants [REDACTED] and [REDACTED], we noted that the commissions were calculated based on the "New Leases" provision stated in Schedule [REDACTED] of the Agreement. The New Lease provision states, "Except with respect to Owner Occupied Space, Manager shall be paid [REDACTED] of the total full service gross rental of the first (1st) five years of the lease, and [REDACTED] for the second (2nd) five (5) years of the lease term; provided, however, if an Outside Broker procures the tenant, Owner will pay Manager [REDACTED] of commission computed and payable above from which Manager will pay to such other broker a [REDACTED] share and retain the balance as Manager's compensation."

The "Renewals; Extensions; Expansions" provision of Schedule [REDACTED] of the Agreement states, "Except with respect to Owner Occupied Space, if a lease contains an option or other right to renew or extend the term or to lease additional space, and if the lease is renewed or extended or if a tenant leases additional space, whether pursuant to the option or right contained in the lease or otherwise, Owner will pay to Manager, at the time of the renewal, extension or lease of additional space, a commission of [REDACTED] [REDACTED] for the renewal or extension term, or for such additional space."

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

We performed a recalculation of the respective leasing commissions based on the Renewals; Extensions; Expansions provision and have compared the results to the leasing commissions paid. We have further described and illustrated each discrepancy below:

- a. For the lease renewal and lease expansion of tenant [REDACTED], the total commissions were calculated at [REDACTED], of which [REDACTED] was paid to the Property Manager and [REDACTED] was paid to the outside broker. We recalculated the total commissions for renewal and expansion at [REDACTED] as illustrated below:

	Per Property Manager	Per Analysis	Over(Under) Payment
Lease Renewal	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Lease Expansion	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

- b. For the lease renewal of tenant [REDACTED], the total commission was calculated at [REDACTED], of which [REDACTED] was paid to the Property Manager and [REDACTED] was paid to the outside broker. Furthermore, the lease terms used in the commission calculation did not agree to the Second Amendment Commencement Letter dated [REDACTED]. We recalculated the total commission at [REDACTED] using the lease terms stated in the Commencement Letter as illustrated below:

	Per Property Manager	Per Analysis	Over(Under) Payment
Lease Renewal	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

- c. For the lease expansion of tenant [REDACTED], the total commission was calculated at [REDACTED] for the first five (5) years of the lease term ([REDACTED] for the Property Manager and [REDACTED] for the outside broker), and [REDACTED] for the sixth year ([REDACTED] for the Property Manager and [REDACTED] for the outside broker). We recalculated the total commission at a flat rate of [REDACTED] as illustrated below:

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

	Per Property Manager	Per Analysis	Over(Under) Payment
Lease Expansion	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

Recommendation

We recommend that the Property Manager work with LACERA to determine the appropriate methodology to calculate the leasing commissions for lease renewals, extensions, and expansions. If it is the intent by LACERA to allow the calculation methodology applied by the Property Manager, we recommend that this intent be memorialized in the Agreement via amendment to avoid ambiguity.

Property Manager's Response

Leasing commissions paid for the lease renewal and expansions for [REDACTED] and [REDACTED] were calculated at [REDACTED] total, of which [REDACTED] was paid to the Landlord broker and [REDACTED] was paid to the outside broker.

Although the Agreement may be silent on the amount of commissions paid to the outside broker for renewals, extensions, and expansions, the surrounding market has set the methodology standard at [REDACTED] for the first 5 years, and [REDACTED] for the next five years. This methodology standard has been in place for several years by the commercial real estate community for Class A institutional quality buildings like Gateway Plaza. The total commission paid is [REDACTED] and the Landlord broker receives [REDACTED] of the total commissions.

Through discussions with property managers, leasing brokers and tenant representation brokers, we can confirm the following buildings pay total commissions of [REDACTED] divided by [REDACTED] to the Landlord broker and [REDACTED] to the outside Tenant broker on renewals, extensions, and expansions. For the outside broker, the calculation is: [REDACTED] on Months 1-60 and [REDACTED] on Months 61-120 due in full upon mutual execution and delivery of the Lease; the Landlord broker would receive [REDACTED] on Months 1-60 and [REDACTED] on Months 61-120, due in full upon mutual execution and delivery of the Lease. A survey

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

of comparable and competitive buildings in the Pasadena market that reflect this leasing commission schedule are provided below:

- 201, 225, 251 and 283 S Lake Avenue - Corporate Center
- 103-117 E Colorado Boulevard – Chamber of Commerce Building
- 177 E Colorado Boulevard – AT&T Building
- 234 E Colorado Boulevard
- 790 E Colorado Boulevard and 35 & 155 N Lake Avenue – The Pasadena Collection
- 800 E Colorado Boulevard & 55 S Lake Avenue – Pasadena Towers
- 2 N Lake Avenue
- 35 N Lake Avenue
- 199 S Los Robles Avenue
- 299 N Euclid Avenue
- 301 N Lake Avenue – Lake Corson
- 1055 E Colorado Boulevard
- 80 S Lake Avenue

In addition, the Minimum Leasing Guidelines that are part of the approved budget each year and indicate there is a [REDACTED] commission to the outside brokers. The Minimum Leasing Guidelines are updated annually based on current market conditions.

With regards to the lease terms used in the leasing commission calculation for the lease renewal of [REDACTED], we identified a discrepancy that resulted in an overpayment of \$ [REDACTED] to the outside broker and \$ [REDACTED] to the Property Manager. The discrepancy was a result of the unique rent escalation structure that was tied to the renewal of their existing premises and expansion space. Avison Young will issue a credit back to LACERA for these amounts.

Avison Young agrees with the recommendation to work with LACERA to determine the appropriate methodology to calculate leasing commissions for lease renewals, extensions, and expansions. If it is the intent by LACERA to allow the calculation methodology applied by the Property Manager, we recommend that this intent be memorialized in the Agreement via amendment to avoid any ambiguity.

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

Conrad LLP Comments

We concur with the Property Manager's planned corrective action.

2. Findings Noted with Tenant Insurance

Based on our sample review of tenant lease files, we noted the following:

- a. The initial evidence of insurance maintained and provided by the Property Manager for tenant [REDACTED] dated [REDACTED] did not show evidence of workers' compensation as required by of Articles [REDACTED] of their respective lease agreement. Prior to the issuance of the draft report, the Property Manager obtained and provided evidence of insurance dated [REDACTED] [REDACTED] which reflected the required coverage for this tenant.
- b. The initial evidence of insurance maintained and provided by the Property Manager for tenant [REDACTED] and [REDACTED] dated [REDACTED] and [REDACTED], respectively, did not show evidence of physical damage insurance and loss-of-income and extra expense insurance as required by of Articles [REDACTED] and [REDACTED] of their respective lease agreements. Prior to the issuance of the draft report, the Property Manager obtained and provided current evidence of insurance dated [REDACTED] and [REDACTED], respectively, which reflected the required coverage for these tenants.

Recommendation

We recommend that the Property Manager obtains and retains current evidence of insurance that meets or exceeds the requirements stipulated in the tenant's respective lease agreement.

Property Manager's Response

Prior to the issuance of the draft report, the Property Manager obtained and provided evidence of insurance reflecting the required coverage for tenants.

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (aka Gateway Plaza)
Pasadena, CA**

██ provided the updated certificate to reflect the evidence of workers' compensation.

██ provided the updated certificate to reflect evidence of physical damage insurance and loss-of-income and extra expense coverage.

Avison Young agrees with the recommendation to obtain and retain current evidence of insurance that meets or exceeds the requirements stipulated in the tenant's respective lease agreement.

Conrad LLP Comments

We concur with the Property Manager's corrective action.

F. Operations and Maintenance Procedures

We reviewed the operations and maintenance procedures and obtained representation from the Property Manager regarding the implementation of these procedures. A physical inspection was conducted at the property. We reviewed a sample of vendor service contractor payments for compliance with contractual terms.

Results: See finding #1 below.

1. Observation Noted During Physical Inspection

During our physical inspection on ██████████, we noted that the elevator permits had expired on ██████████. Pursuant to our discussion with the Property Manager at the time of our inspection, it was communicated that the State Department of Industrial Relations has not been contacted regarding an inspection and that the State has not sent any correspondence regarding the expiration or notification of when an inspection will be performed. Prior to the issuance of the draft report, the Property Manager provided evidence of a Request for Inspection dated ██████████ that was sent to the State and a response from the State dated ██████████ was received, which stated that the request is being processed.

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
Standard Compliance Work Program Evaluation for Property Managers**

Avison Young – Southern California, LTD.

**300 North Lake Avenue (*aka* Gateway Plaza)
Pasadena, CA**

Recommendation

We recommend that the Property Manager continues to actively follow up with the State regarding the expired elevator permits.

Property Manager's Response

Prior to the issuance of the draft report, the Property Manager provided evidence of a Request for Inspection from the State of California Department of Industrial Relations.

We received a response from the State confirming the building operations are in compliance with the California Labor Code.

Avison Young agrees with the recommendation to actively follow up with the State regarding the expired elevator permits.

Conrad LLP Comments

No further comment necessary.



Exhibit I

Complete Responses of Avison Young – Southern California, LTD.

September 11, 2020

Robert Ortega
Conrad LLP
23161 Lake Center Drive, Suite 200
Lake Forest, CA 92630

RE: Response to Standard Compliance Work Program Evaluation for Property Managers

Dear Mr. Ortega:

We are in receipt of the report concerning the Standard Compliance Work Program Evaluation for Property Managers on behalf of the Los Angeles County Employees Retirement Association.

We noted the following response to the findings and recommendations contained in the report:

- A. **General Procedures**
 - B. **Company Background Procedures**
 - C. **Internal Control Procedures**
 - D. **Accounting and Financial Procedures**
1. Finding Noted with Regard to Property Security Deposit Ledger

Response

Prior to the issuance of the draft report, the Property Manager provided an updated ledger showing the correct security deposit amount.

The discrepancy arose as the Lease for [REDACTED] included the pre-payment of Base Rent for the [REDACTED]th, [REDACTED]th, and [REDACTED]st months due under the Lease. The First Amendment to the Lease included a provision to adjust the square footage and changes were made accordingly to the Base Rent schedule. This resulted in the pre-payment of rent for the [REDACTED]st month of the Lease to be \$ [REDACTED] less than what was stated in the Lease. We notified the tenant and applied the credit to rent for September 2020.

Avison Young agrees with the recommendation to ensure the stated amount on the security deposit ledger agrees to the terms stated in the tenant lease agreements.

2. Findings Noted with Regard to Property Rent Roll

- a. Square Footage for [REDACTED]
- b. Lease Expiration for [REDACTED] Storage Space

Response

Prior to the issuance of the draft report, the Property Manager provided an updated rent roll reflecting the correct square footage and expiration dates.

During the tenant improvements for [REDACTED], the corridor was extended to meet the code requirements for the City of Pasadena. This resulted in a change to square footage. When the tenant was added to the rent roll, the square footage that was used for the space's previous tenant was left as-is, which created a discrepancy in square footage. The rent roll has since been updated and the difference of [REDACTED] square feet was added to the rent roll as "Dead Space" so that the building square footage would remain the same.

During the last renewal for [REDACTED], the expiration date for their storage space was erroneously extended to mirror the new lease expiration for their space on the [REDACTED]th and [REDACTED]th floors. However, the storage space was not included in the renewal. The date has since been changed in the rent roll to reflect the expiration date of [REDACTED] as stated on their Lease for storage space.

Avison Young agrees with the recommendation to ensure that all pertinent lease terms are correctly reflected in the property rent roll.

3. Finding Noted with Regard to Common Area Maintenance (CAM Reconciliation)

Response

Per the lease agreement for [REDACTED], the 2019 CAM Reconciliation should have been delivered to the Tenant on or before the first day of [REDACTED].

The CAM Reconciliation is currently being worked on by the Property Manager and was delayed due to the impacts of COVID-19. Historically, for the past twenty years the CAM Reconciliation has been billed in accordance to the respective Lease Agreements.

Avison Young agrees with the recommendation to ensure that CAM Reconciliation notices are sent to the tenants within the timeframe specified in the tenants' respective lease agreements.

4. Finding Noted with Regard to Construction Supervision Fees

Response

Avison Young agrees with the recommendation to amend the Agreement to clarify the calculation methodology to avoid any ambiguity.

5. Finding Noted with Regard to Payroll Processing Fees

Response

It was noted that [REDACTED] % of the payroll was attributed to payroll processing fees.

The burden for payroll is [REDACTED] % reimbursed by the property and is included in the approved budget each year.

Avison Young agrees with the recommendation to allow such costs in payroll burden if it is the intent by LACERA to allow such costs and memorialize in the Agreement via amendment.

E. Leasing and Tenant Procedures

1. Findings Noted with Regard to Leasing Commissions

- a. Lease Renewal and Expansion for Raytheon
- b. Lease Renewal for Stantec
- c. Lease Expansion for Stantec

Response

Leasing commissions paid for the lease renewal and expansions for [REDACTED] and [REDACTED] were calculated at [REDACTED] total, of which [REDACTED] was paid to the Landlord broker and [REDACTED] was paid to the outside broker.

Although the Agreement may be silent on the amount of commissions paid to the outside broker for renewals, extensions, and expansions, the surrounding market has set the methodology standard at [REDACTED] for the first 5 years, and [REDACTED] for the next five years. This methodology standard has been in place for several years by the commercial real estate community for Class A institutional quality buildings like Gateway Plaza. The total commission paid is [REDACTED] and the Landlord broker receives [REDACTED] of the total commissions.

Through discussions with property managers, leasing brokers and tenant representation brokers, we can confirm the following buildings pay total commissions of [REDACTED]; divided by [REDACTED] to the Landlord broker and [REDACTED] to the outside Tenant broker on renewals, extensions, and expansions. For the outside broker, the calculation is: [REDACTED] on Months 1-60 and [REDACTED] on Months 61-120 due in full upon mutual execution and delivery of the Lease; the Landlord broker would receive [REDACTED] on

Months 1-60 and [REDACTED] on Months 61-120, due in full upon mutual execution and delivery of the Lease. A survey of comparable and competitive buildings in the Pasadena market that reflect this leasing commission schedule are provided below:

- 201, 225, 251 and 283 S Lake Avenue - Corporate Center
- 103-117 E Colorado Boulevard – Chamber of Commerce Building
- 177 E Colorado Boulevard – AT&T Building
- 234 E Colorado Boulevard
- 790 E Colorado Boulevard and 35 & 155 N Lake Avenue – The Pasadena Collection
- 800 E Colorado Boulevard & 55 S Lake Avenue – Pasadena Towers
- 2 N Lake Avenue
- 35 N Lake Avenue
- 199 S Los Robles Avenue
- 299 N Euclid Avenue
- 301 N Lake Avenue – Lake Corson
- 1055 E Colorado Boulevard
- 80 S Lake Avenue

In addition, the Minimum Leasing Guidelines that are part of the approved budget each year and indicate there is a [REDACTED] commission to the outside brokers. The Minimum Leasing Guidelines are updated annually based on current market conditions.

With regards to the lease terms used in the leasing commission calculation for the lease renewal of [REDACTED], we identified a discrepancy that resulted in an overpayment of \$ [REDACTED] to the outside broker and \$ [REDACTED] to the Property Manager. The discrepancy was a result of the unique rent escalation structure that was tied to the renewal of their existing premises and expansion space. Avison Young will issue a credit back to LACERA for these amounts.

Avison Young agrees with the recommendation to work with LACERA to determine the appropriate methodology to calculate leasing commissions for lease renewals, extensions, and expansions. If it is the intent by LACERA to allow the calculation methodology applied by the Property Manager, we recommend that this intent be memorialized in the Agreement via amendment to avoid any ambiguity.

2. Findings Noted with Tenant Insurance

- a. [REDACTED]
- b. [REDACTED]

Response

Prior to the issuance of the draft report, the Property Manager obtained and provided evidence of insurance reflecting the required coverage for tenants.

████████████████████ provided the updated certificate to reflect the evidence of workers' compensation.

████████ and ██████████ provided the updated certificate to reflect evidence of physical damage insurance and loss-of-income and extra expense coverage.

Avison Young agrees with the recommendation to obtain and retain current evidence of insurance that meets or exceeds the requirements stipulated in the tenant's respective lease agreement.

F. Operations and Maintenance Procedures

1. Observation Noted During Physical Inspection

Response

Prior to the issuance of the draft report, the Property Manager provided evidence of a Request for Inspection from the State of California Department of Industrial Relations.

We received a response from the State confirming the building operations are in compliance with the California Labor Code.

Avison Young agrees with the recommendation to actively follow up with the State regarding the expired elevator permits.

Best regards,

Michael Camarena

Michael Camarena
Senior Property Manager



Exhibit II

Agreed-Upon Procedures

Conrad LLP redacted the AUPs developed in-house for this engagement.

**LOS ANGELES COUNTY
EMPLOYEES' RETIREMENT
ASSOCIATION**

RREEF America LLC

May 27 - 29, 2020

**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RREEF America LLC

Procedures Performed: May 27 - 29, 2020

TABLE OF CONTENTS

INDEPENDENT ACCOUNTANTS' CONSULTING REPORT

EXECUTIVE SUMMARY	1
OBJECTIVES AND SCOPE	2
FINDINGS AND RECOMMENDATIONS	3-5
EXHIBIT I - RREEF RESPONSES TO FINDINGS	6-7
EXHIBIT II - PROCEDURES PERFORMED	8-33
ADDITIONAL EXHIBITS TO EXHIBIT II	
Exhibit 1, Various Procedures - RREEF Representation Letter	
Exhibit 2, Procedure C-1 - Real Estate Performance	
Exhibit 3, Procedure C-3 - Systems	
Exhibit 4, Procedure C-7 - DWS Entity Organizational Chart	
Exhibit 5, Procedure D-1 - Internal Control Documentation	
Exhibit 6, Procedure D-2 - Acquisition, Disposition, Asset Management Policies and Procedures	
Exhibit 7, Procedure D-4 - Due Diligence Process for Real Estate Investments	
Exhibit 8, Procedure E-1 - Valuation Policy	
Exhibit 9, Procedure H-1 - Allocation and Calculation of Fees Policies and Procedures	
Exhibit 10, Procedure K-3 - GIPS Performance Examinations	
Exhibit 11, Procedure L-1 - Code of Ethics Table of Contents	
Exhibit 12, Procedure M-4 - Form ADV-E Accountants' Report	
Exhibit 13, Procedure M-5 - Litigation	
Exhibit 14, Procedure N-3 - Senior Management Biographies	
Exhibit 15, Procedure R-1, R-2, R-3 - Environmental, Social and Governance (ESG)	
Exhibit 16, Procedure S-1, S-2, S-3, S-7 - Investment Manager Response to COVID-19	

Independent Accountants' Consulting Report

Los Angeles County Employees' Retirement Association
Los Angeles, California

We have performed the procedures enumerated in the attached report, which were agreed to by the Los Angeles County Employees' Retirement Association (LACERA), solely to assist LACERA in evaluating RREEF America LLC (RREEF)'s internal business controls and compliance with contractual policies through the procedures in the attached report. RREEF is responsible for its policies, procedures, and internal business controls. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the consulting procedures described below either for the purpose for which this report has been requested or for any other purpose.

This consulting engagement was conducted in accordance with the Standards on Consulting Services of the American Institute of Certified Public Accountants (AICPA). The scope of the engagement is outlined in the body of our report. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on RREEF's compliance with its internal business controls and contractual policies. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We have not independently verified the information contained in this report. The information presented is based on discussions with, and information provided by RREEF and management of LACERA.

This report is intended solely for use by, and restricted to the use by the LACERA Internal Audit Team and management of LACERA, and is not intended to be and should not be used by anyone other than these specified parties.



Horsham, Pennsylvania
July 27, 2020

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

EXECUTIVE SUMMARY

RREEF America LLC (RREEF) is a real estate advisor who provides real estate investment management services to LACERA. RREEF manages on behalf of LACERA, 16 real estate assets held in LACERA's separately managed account and 18 real estate assets in LACERA's take-over portfolio as of December 31, 2019.

We performed the specific procedures in Exhibit II, to assist LACERA in evaluating RREEF's internal business controls and compliance with contractual policies established under the Master Real Estate Investment Advisor Agreement and Advisor Investment Plan. In addition, we performed procedures to assist LACERA in assessing whether RREEF has established policies and procedures for investing, accounting, and reporting portfolio performance to LACERA. Our procedures were primarily focused on the period from January 1, 2019 to December 31, 2019.

We performed the majority of our procedures during video-conferencing meetings with RREEF personnel from various offices across the U.S., between May 27 and May 29, 2020. Exhibit II indicates the procedures we performed, and the results of those procedures.

RREEF personnel were very supportive, cooperative, and transparent during the advance preparation and during the site visit.

We included a summary of our observations and opportunities for improvement in the Findings and Recommendations section of this report. We obtained management responses in Exhibit I - Responses to the Findings from RREEF section of this report.

We are available to present our findings to the Audit Committee, if requested by LACERA staff.

**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

OBJECTIVES AND SCOPE

The objectives and scope of our engagement included assessing whether RREEF America LLC (RREEF) established controls to comply with the following:

- (1) Master Real Estate Investment Advisor Agreement between LACERA and RREEF
- (2) LACERA Investment Policy Statement relating to real estate assets and portfolio management in accordance with the Master Real Estate Investment Advisor Agreement and LACERA policies
- (3) Applicable accounting requirements and financial reporting to LACERA
- (4) Internal control processes and procedures established for business operations and practices
- (5) Proper acquisition, asset management, and disposition policies and procedures
- (6) Proper measurement, accounting, and reporting of investment asset values and liabilities
- (7) Proper accounting and collection of investment income and receivables
- (8) Appropriate establishment and use of bank accounts associated with real estate investments
- (9) Appropriate calculation and allocation of fees
- (10) Accurate reporting of budget, performance, and financial information

We performed additional procedures to understand personnel turnover and environmental, social, and governance (ESG) at RREEF.

FINDINGS AND RECOMMENDATIONS

(1) Asset Management Fees – Annual Reconciliation

Kreischer Miller (KM) noted, in the First Amended and Restated Master Real Estate Investment Advisor Agreement between LACERA and RREEF America LLC (RREEF), asset management fees for Core properties are calculated using [REDACTED]. An annual reconciliation of actual asset management fees for the preceding fiscal year are calculated in the quarter following fiscal year end. RREEF will submit an invoice to LACERA for any amount owed while any excess payments made to RREEF will reduce the asset management fee payable to RREEF during the first subsequent quarter.

During KM's recalculation of asset management fees for the selected quarter ended September 30, 2019, KM noted there was no reconciliation for the actual asset management fee for the preceding fiscal year.

(2) Compliance with Master Real Estate Investment Advisor Agreement

During KM's testing of compliance with the Master Real Estate Investment Advisor Agreement, KM noted that RREEF does not appear to have a formal process in which it tracks compliance with the Statement of Work requirements as outlined in the Master Real Estate Investment Advisor Agreement. KM recommends that RREEF implement a formal process, such as a checklist, to ensure it is meeting requirements as outlined in the Master Real Estate Investment Advisor Agreement.

In addition to implementing a formal process tracking compliance with Statement of Work requirements, KM recommends that RREEF implement a formal process to track side letters and compliance with such letters.

(a) Compliance with the Statement of Work, Phase I (Identification and Selection of Real Estate)

The Advisor is required to deliver a copy of the complete environmental survey of the subject property to LACERA as soon as it is available. Based on support provided by RREEF for the selected subject property, the Mason, a summary of the environmental survey was provided to LACERA. KM recommends that RREEF provide a copy of the complete environmental survey to LACERA for its records, based on the Statement of Work requirement.

(b) Compliance with the Statement of Work, Phase II (Formation of Title Holding Companies and Documentation of the Acquisition of Properties)

The Advisor is required to include its acquisition fee in the closing statements of the subject property. Based on review of the closing statements provided by RREEF for the selected subject property, the Mason, RREEF's acquisition fee was not included.

FINDINGS AND RECOMMENDATIONS

KM recommends that RREEF include an estimate of its acquisition fee with the closing statements, based on the Statement of Work requirement.

(c) Compliance with the Statement of Work, Phase IV (Property Management and Leasing)

The Advisor is required to prepare and deliver the proposed operating budget to LACERA no later than forty-five (45) days prior to the beginning of the coming fiscal year. For the selected subject properties, the Mason and Esprit, the proposed operating budgets were delivered to LACERA on November 22, 2019. RREEF should have delivered the operating budgets by November 15, 2019, 45 days before the coming year, based on the Statement of Work requirement.

(d) Compliance with the Statement of Work, Phase V (Financial Consulting and Reporting)

The Advisor is required to prepare and submit quarterly reports to LACERA no later than forty-five (45) days following the end of each calendar quarter. For the selected subject properties, the Mason and Esprit, the quarterly reports were submitted to LACERA on November 19, 2019. RREEF should have submitted the quarterly reports by November 14, 2019, 45 days after the end of the calendar quarter, based on the Statement of Work requirement.

(e) Compliance with the Statement of Work, Phase V (Financial Consulting and Reporting)

The Advisor is required to include certain information within each quarterly report, as described in Exhibit J of the Master Real Estate Investment Advisor Agreement. Actual results, budgeted amounts, and variances from budget are required to be included for the income statement. While the quarterly reports provided to LACERA contain verbiage regarding variances from budget, KM recommends that RREEF provide actual results, budgeted amounts, and variances from budget in tabular format.

(f) Compliance with the Statement of Work, Phase VI (Disposition of Acquired Properties)

The Advisor is required to deliver to LACERA an estimated schedule of costs and expenses, including all closing costs, not less than 10 business days prior to closing of disposition transactions. For the selected disposed property, Magnolia Vinings, the schedule of costs and expenses was provided to LACERA on September 17, 2019, two days before the closing date of September 19, 2019. RREEF should have sent the estimated schedule of costs and expenses at least 10 business days prior to closing, based on the Statement of Work requirement.

FINDINGS AND RECOMMENDATIONS

(3) Opportunities to Strengthen Review Process - Property Manager SOC 1 Reports

SSAE 18 (SOC 1) reports are reports that indicate the results of a third party's review of service providers' control activities. These reports generally reflect a description of the controls at the service organization, and the results of the testing of those controls performed by an independent third party. KM notes that RREEF obtains SOC 1 reports, where available, from its administrator and from several larger property managers. Discussions with RREEF indicate they review the SOC 1 reports to ensure there is a "clean opinion" and identify any exceptions relevant to RREEF's operations.

Control objectives in SOC 1 reports can be generally achieved if user entity controls are suitably designed and operating effectively. KM notes it was not clear if RREEF reviews the user entity controls sections of the property manager SOC 1 reports. KM recommends that RREEF consider implementing a formal process to review the user entity controls sections of the SOC 1 reports and document how these controls are incorporated into its processes and procedures.

(4) Banking Database - Authorized Signors List

During KM's procedures performed on the establishment and use of bank accounts, KM notes that [REDACTED], former Portfolio Manager, is still listed as an authorized signor. KM recommends that RREEF implement a formal process to review authorized signor lists on an annual basis as well as at the time of departure for an authorized signor.

(5) SEC Examination

[REDACTED]

EXHIBIT I - RREEF RESPONSES TO FINDINGS

(1) Asset Management Fees

RREEF Response: RREEF indicated it had identified an incorrect asset management fee calculation and was currently working with LACERA to reconcile asset management fees for the years 2013 - 2019.

Updated RREEF Response: On June 29, 2020, RREEF notified KM it had completed the 2013 - 2019 fee true-up project. RREEF further indicated the following:

- On June 18, 2020, RREEF provided an update to LACERA indicating the project was still in process and included an explanation on why the FY 2019 true-up adjustment was not included in the September 30, 2019 invoice.
- On June 22, 2020, RREEF notified LACERA the 2013 - 2019 fee true-up project was complete and provided LACERA with an invoice and support calculations for each year.

(2) Compliance with Master Real Estate Investment Advisor Agreement

RREEF Response: RREEF indicated that while secondary reviews are performed, they will consider implementing a formal process, e.g. a checklist, to track compliance with the Statement of Work requirements as outlined in the Master Real Estate Investment Advisor Agreement.

In response to our recommendation that RREEF provide actual results, budgeted amounts, and variances from budget in tabular format within quarterly reports, RREEF indicated that based on their internal discussions, they will make this update in their quarterly reporting to LACERA.

(3) Opportunities to Strengthen Review Process - Property Manager SOC 1 Reports

RREEF Response: RREEF indicated that a formalized tracker is not maintained regarding secondary reviews of SOC 1 reports for property managers. While documentation is maintained over the secondary review of the property manager's SOC 1 report for RREEF's SEC registered fund, this documented process does not occur for separately managed accounts.

[REDACTED]
[REDACTED]. Additionally, RREEF noted that all property managers do not have available SOC 1 reports.
[REDACTED]
[REDACTED]

EXHIBIT I - RREEF RESPONSES TO FINDINGS

(4) Banking Database - Authorized Signors List

RREEF Response: RREEF indicated that it will remove [REDACTED] from the banking database list. RREEF noted a monthly review is typically performed over the in-house authorized signor tracker list and the banking database list for the third party administrator. Per RREEF, [REDACTED] had been removed from the in-house authorized signor list but not the banking database list. RREEF further indicated that based on communication with the third party administrator and the associated banks, [REDACTED] was confirmed to have already been removed as signor on the associated bank accounts. RREEF indicated that it was only the banking database list tracker that needed to be updated.

(5) SEC Examination

RREEF Response:

[REDACTED]

EXHIBIT II – PROCEDURES PERFORMED

A. Compliance with the Investment Mandate under Advisor Agreements

1. **Procedure** – Obtain copies of the relevant executed agreements, e.g. Master Real Estate Investment Advisor Agreement, Advisor Investment Plan, and Property Management Agreement, as applicable, for the Real Estate Investment Manager LACERA has an investment in, and the LACERA Investment Policy Statement relating to real estate assets, and note the dates of the agreements.

Results – Procedure performed without exception. KM obtained the following:

- First Amended and Restated Master Real Estate Investment Advisor Agreement between LACERA and RREEF America LLC dated July 1, 2015
- Amendment No. 1 to the First Amended and Restated Master Real Estate Investment Advisor Agreement between LACERA and RREEF America LLC dated February 27, 2017
- Amendment No. 2 to the First Amended and Restated Master Real Estate Investment Advisor Agreement between LACERA and RREEF America LLC dated October 27, 2017
- Amendment No. 3 to the First Amended and Restated Master Real Estate Investment Advisor Agreement between LACERA and RREEF America LLC dated April 22, 2019
- LACERA Investment Policy Statement dated December 11, 2019
- RREEF Manager Investment Plan for FY 2018-2020 dated July 2018

2. **Procedure** – Obtain side letter agreements, if applicable, between LACERA and the Real Estate Investment Manager and inquire of the Real Estate Investment Manager regarding its process for monitoring compliance with the side letter and whether the Real Estate Investment Manager has complied with the provisions of the side letter agreement.

Results – RREEF America LLC (RREEF) indicated there is a side letter agreement between LACERA and RREEF for one investment, Milford Hotel. KM obtained the side letter dated March 6, 2013 for this investment. The side letter relates to the asset management fees for the Milford Hotel. Refer to Procedure H-3 for consideration of asset management fees charged to LACERA by RREEF. Refer to the recommendation regarding side letters provided in Finding 2 in the "Findings and Recommendations" section of this report.

3. **Procedure** – Select one quarter-end between January 1, 2019 and December 31, 2019.

Results – Procedure performed without exception. KM selected September 30, 2019.

4. **Procedure** – Obtain real estate holdings detail from the Real Estate Investment Manager's portfolio accounting system for the date selected in A-3 above.

Results – Procedure performed without exception.

5. **Procedure** – Using the date selected in A-3 above, and information provided in A-4 above, determine that the portfolio being managed has the characteristics called for in the relevant agreements obtained in A-1 and A-2 above.

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

EXHIBIT II – PROCEDURES PERFORMED

Results – Procedure performed without exception. KM noted the following constraints in the Master Real Estate Investment Advisor Agreement between LACERA and RREEF dated July 1, 2015:

Core:	Minimum 60%
Non-Core:	Maximum 40%
Value-Added:	Maximum 40%
High Return:	Maximum 20%
Public REITs:	Maximum 15% (Domestic)
Private Debt:	Maximum 20%
International:	Maximum 20% (Including International REITs)

Per the LACERA quarterly report as of September 30, 2019, KM noted Core investments and Value-added investments constituted 82.1% and 17.9% of the portfolio, respectively.

B. Applicable Accounting Requirements and Financial Reporting

1. **Procedure** – Obtain from the Real Estate Investment Manager the most recently available audited financial statements of the real estate portfolio LACERA has an investment in. Read and document the following:
 - a. Type of report (audited, reviewed, compiled, none)
 - b. Name of accounting firm identified on opinion
 - c. Years of auditor tenure
 - d. Date the auditors' or accountants' report was signed
 - e. Type of opinion (unmodified, qualified, disclaimer or adverse), if applicable
 - f. The nature of any exceptions to the auditors' or accountants' reports, if any

Results – Procedure performed without exception. RSM US LLP issued unmodified audit reports, as of June 30, 2019, for the following:

- Gateway Properties – RREEF (Title Holding Entities) dated September 9, 2019.
- Gateway MAA Catalyst, LLC dated September 4, 2019.
- 1441 U Street, LLC dated September 5, 2019.
- Gateway Ada JV, LLC dated September 5, 2019.
- Gateway Pacific View, LLC dated September 5, 2019.
- Aliso Viejo RP-V1, LLC dated September 4, 2019.
- 700 Milford Holdings Member, LLC dated September 4, 2019.
- Gateway KVV-Esprit I JV, LLC dated September 9, 2019.
- DNCX Park Lane, L.P. dated September 9, 2019

No exceptions were noted to the auditors' reports.

RREEF indicated that RSM was selected and engaged directly by LACERA and has been the auditor for the years ended June 30, 2018 and 2019. RREEF further indicated that LACERA has selected RSM as its auditor for the fiscal year ended June 30, 2020.

EXHIBIT II – PROCEDURES PERFORMED

2. **Procedure** – Obtain from the Real Estate Investment Manager, copies of internal control letters (such as reportable condition or significant deficiency letters), if any were issued in connection with the audits of the real estate portfolio LACERA has an investment in. During the course of an audit, an auditor may become aware of matters relating to internal control that may be of interest to the audit committee. Specifically, these are matters coming to the auditors' attention that, in their judgment, should be communicated to the audit committee and /or management because they represent significant deficiencies or material weaknesses in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data.

Results – *Procedure not applicable as RREEF indicated there were no internal control letters or other communication provided by the auditors in connection with the audits.*

3. **Procedure** – Obtain an understanding of the reporting requirements detailed in the Master Real Estate Investment Advisor Agreement, Property Management Agreement, or other agreements as applicable, and obtain support from the Real Estate Investment Manager that it has complied with these requirements as of the quarter-end selected in Procedure A-3 above. For annual reporting requirements, obtain support from the Real Estate Investment Manager for reporting on the 12 months ended December 31, 2019 (or the most recent available fiscal year-end, if different from calendar year-end).

Results – *Procedure performed.*

The quarter-end selected was September 30, 2019. KM obtained support from RREEF for compliance with the quarterly reporting requirements in the Master Real Estate Investment Advisor Agreement. Refer to Finding 6 and Finding 7 identified as a result of our procedures in the "Findings and Recommendations" section of this report.

The most recent available fiscal year-end is June 30, 2019. KM obtained support from RREEF for compliance with the annual reporting requirements in the Master Real Estate Investment Advisor Agreement. No exceptions were noted.

4. **Procedure** – Obtain an understanding of the following internal control documentation, as applicable, from the Real Estate Investment Manager:
- a. Internal control narrative discussing the financial reporting, reconciliation and closing process of the Real Estate Investment Manager, including the occurrence of secondary reviews.
 - b. U.S. GAAP checklists or other checklists utilized by the Real Estate Investment Manager to ensure compliance with the reporting requirements.
 - c. Internal control narrative discussing how the Real Estate Investment Manager analyzes the applicability of new U.S. GAAP accounting guidance.

EXHIBIT II – PROCEDURES PERFORMED

Results – Procedure 4.a performed without exception. RREEF provided the following.

[REDACTED]

[REDACTED]

Procedure 4.b performed without exception. RREEF indicated that it does not use checklists to ensure compliance with reporting requirements.

Procedure 4.c performed without exception. RREEF provided the following.

[REDACTED]

5. **Procedure** – Perform a walkthrough of one quarter-end and one year-end, as of the quarter-end and year-end selected in Procedure A-3 above, to determine if the controls described in the narrative above were implemented.

Results – KM performed a walkthrough of one quarter-end, September 30, 2019, and one year-end, June 30, 2019, noting that relevant controls appear to be implemented. Procedure performed without exception.

6. **Procedure** – Select one quarter-end and obtain from the Real Estate Investment Manager the underlying detail of investor capital accounts.

Results – Procedure performed without exception. KM selected September 30, 2019. RREEF provided the quarterly investor and flash reports for the LACERA Portfolio and the LACERA Takeover Portfolio as of September 30, 2019. RREEF indicated the accounts do not have separate capital account statements.

EXHIBIT II – PROCEDURES PERFORMED

7. **Procedure** – For a selected co-investment, if applicable, recalculate the allocation of real estate investment results (profits and losses) to the LACERA for the quarter selected in B-6 above. This may involve the following:
- Agree the beginning capital account amount to the prior schedule or statement
 - Recalculate LACERA's beginning capital percentage
 - Recalculate the allocation of the real estate investment results before fees based on the capital account percentage

Results – Procedure performed without exception. The quarter-end selected was September 30, 2019, and the co-investment selected was the Mason, held by Gateway Ada JV, LLC, a JV entity. No exceptions noted in the recalculations performed.

8. **Procedure** – Obtain representation from the Real Estate Investment Manager regarding the following:
- The analysis of capital accounts is complete and accurate
 - There are no known contingent liabilities for the real estate portfolio investments that are not reflected on their respective financial statements made available to us. If there are contingent liabilities that are not recorded on the books and records of the portfolio real estate investments, include a list of these contingent liabilities in the representation

Results – Procedure performed without exception. See Exhibit 1. RREEF indicated that there were no known contingent liabilities that are not recorded on the books and records of the portfolio real estate investments.

C. Internal Business Operations and Practices

1. **Procedure** – Obtain from the Real Estate Investment Manager, the most recent:
- Comparison of the Real Estate Investment Manager's performance to benchmark
 - Analysis of returns broken down by property or category

Results – Procedure performed without exception. See Exhibit 2.

2. **Procedure** – Obtain the most recent due diligence materials from LACERA. Note the date(s) of the report(s).

Results – KM inquired of LACERA for its most recent due diligence materials for RREEF. LACERA indicated that there were no recent due diligence materials for RREEF.

EXHIBIT II – PROCEDURES PERFORMED

3. **Procedure** – Obtain a list of internal software systems and external service provider systems used by the Real Estate Investment Manager relevant to the investment process impacting LACERA's account, including:
- a. Portfolio accounting software or systems
 - b. Real estate valuation software or systems
 - c. Performance reporting software or systems (or obtain a GIPS Verification Report, if available)
 - d. Third-party database services available
 - e. Other relevant software or systems used in accounting, reconciling, and reporting
 - f. Other relevant systems

Results – Procedure performed without exception. See Exhibit 3.

4. **Procedure** – Obtain a list of the following external service providers for the Real Estate Investment Manager LACERA has an investment in.
- a. Administrator
 - b. Custodian
 - c. Legal counsel
 - d. Auditor
 - e. Property managers or vendors (if applicable)
 - f. External appraisers

Results – Procedure performed without exception.

For administrator, RREEF indicated that BNY Mellon is contracted with DWS to provide various services including asset management accounting oversight, fund finance, client reporting, and cash management for our private real estate funds and separate accounts.

For custodians, RREEF indicated that the following banks are utilized, Bank of America, BBVA Compass (takeover CM engaged), JP Morgan Chase, Pacific Western (takeover CM engaged), PNC, US Bank, and Wells Fargo.

For legal counsel, RREEF indicated that it has to request that LACERA engage counsel for any transaction or litigation. LACERA's current panel of legal counsel consists of Seyfarth Shaw, Cox & Castle, Sheppard Mullin, and DLA Piper. RREEF has discretion for counsel for lease documentation and lease-related issues.

For the auditor, RREEF indicated that the current auditor is RSM US LLP, which is selected by LACERA.

EXHIBIT II – PROCEDURES PERFORMED

For property managers, RREEF indicated that the following are third-party contract property managers for the assets in the LACERA portfolios.

Avenue 5, Avison Young, Boyle Investment Company, CB Richard Ellis (CBRE), Cushman & Wakefield, Greystar, E&S Ring, Holt Lunsford Commercial, Jones Lang LaSalle (JLL), Kidder Mathews, Lincoln Property Company, Marquette Company, Mid America, Ryan Companies, Stiles, The Wilder Companies, Transwestern Property Company, and ZRS Management Services.

For external appraisers, RREEF indicated that the following appraisers are utilized.

Capright, Cushman & Wakefield, Duff & Phelps, and NVC

5. **Procedure** – Inquire of the Real Estate Investment Manager, its process for the selection of service providers, including monitoring procedures.

Results – Procedure performed without exception. RREEF provided the following:

With respect to hiring third parties for real estate services including contract property managers, our teams complete a rigorous and detailed review of potential providers prior to selection, which often includes a lengthy RFP process, analysis of financial information and reference verification.

6. **Procedure** – If available, obtain the most recent SOC 1 / SSAE 18 reports for relevant external service provider systems noted in Procedure C-4, and note if there were any adverse opinions provided by the independent auditors.

Results – Procedure performed without exception. RREEF indicated BNY Mellon provides it with a SOC1 report annually, which is reviewed by the Fund Administration Oversight (FAO) team. BNY Mellon provided KM with the following:

- *The Bank of New York Mellon Alternative Investment Services Scope Letter for the period from October 1, 2018 through September 30, 2019.*

In addition, RREEF provided the SOC 1 reports for its three largest property managers:

- *CBRE, Inc and CBRE Limited's Description of its North America Property Management Accounting System and the suitability of the design and operating effectiveness of controls. The SOC 1 Type II report covered the period October 1, 2018 through September 30, 2019*
- *CBRE, Inc's Description of its Digital & Technology Shared Services Center System and the suitability of the design and operating effectiveness of controls. The SOC 1 Type II report covered the period October 1, 2018 through September 30, 2019*
- *JLL Retail Client Accounting Services Report on Management's Description of its System and the Suitability of the Design and Operating Effectiveness of Controls. The SOC 1 Type II report covered the period October 1, 2018 through September 30, 2019.*
- *Transwestern Property Management Accounting System SOC 1 Type II report for the period January 1, 2019 to October 31, 2019.*

EXHIBIT II – PROCEDURES PERFORMED

7. **Procedure** – Obtain a summary of the relevant entities of the Real Estate Investment Manager and its ownership structure. Inquire if there have been any material changes to the ownership structure in the past three years. Inquire if there are any changes currently planned.

Results – Procedure performed without exception. RREEF provided the following information:

On March 23, 2018, Deutsche Bank listed a minority stake in the asset management business (then branded as Deutsche Asset Management) through an initial public offering on the Frankfurt Stock Exchange.

The new listed company, DWS GmbH & Co KGaA ("DWS"), is a partnership limited by shares with a Germany limited liability company as a general partner. Deutsche Bank holds roughly a 79% share of DWS, the remaining 21% is held by third-party public shareholders.

RREEF indicated there are no ownership changes currently planned for the year ended December 31, 2020.

See Exhibit 4 for the DWS Entity Organizational Chart.

8. **Procedure** – Obtain a list of the Real Estate Investment Manager's related parties and related party transactions impacting LACERA.

Results – Procedure performed without exception. RREEF indicated the affiliates of DWS relevant to the real estate investment management business are as follows:

- RREEF America LLC is the SEC registered investment advisor.
- RREEF Management LLC: is the employing entity for investment management employees who provide investment management services to RREEF America LLC. This service relationship is established via a service level agreement between RREEF America LLC and RREEF Management LLC.
- DDI is the distributor entity that distributes products manufactured or advised by RREEF America LLC.

9. **Procedure** – Obtain representation that there are no additional related party transactions other than those disclosed to KM.

Results – Procedure performed without exception. See Exhibit 1.

EXHIBIT II – PROCEDURES PERFORMED

D. Internal Control Policies and Procedures for Acquisitions, Asset Management, and Dispositions (and Other Relevant Requirements Specified in the Agreement)

1. **Procedure** – Obtain an understanding of the following internal control documentation, as applicable from the Real Estate Investment Manager:
 - a. Policy on conflicts of interest
 - b. Reporting process from the underlying investments to the Real Estate Investment Manager
 - c. Reporting process from the Real Estate Investment Manager to LACERA
 - d. Policy on moving cash from investor to investments, cash disbursed for property management, and cash received for investment income distributed to the investor. Describe processes and controls in place including different levels of authorization

Results – *Procedure performed without exception. See Exhibit 5.*

2. **Procedure** – Obtain an understanding of the following, as applicable, from the Real Estate Investment Manager:
 - a. Real estate acquisition policies and procedures, including allocation of investment opportunities among the Real Estate Investment Manager's clients
 - b. Real estate asset management policies and procedures
 - c. Real estate disposition policies and procedures

Results – *Procedure performed without exception. See Exhibit 6.*

3. **Procedure** – Inquire of the Real Estate Investment Manager how often it visits underlying properties and obtain supporting documentation from its last visit to the subject properties selected in D-5.

Results – *Procedure performed without exception. RREEF indicated all LACERA properties are visited a minimum of once per quarter.*

4. **Procedure** – Obtain from the Real Estate Investment Manager an understanding of the due diligence process typically performed in connection with real estate acquisitions and dispositions, including the following:
 - a. Sources of deal flows
 - b. Process of screening opportunities including acquisitions and dispositions, due diligence performed, and compliance with LACERA's investment mandates,
 - c. Investment committee and other secondary approvals required (e.g. 100% or just majority) for investment

Results – *Procedure performed without exception. See Exhibit 7.*

EXHIBIT II – PROCEDURES PERFORMED

5. **Procedure** – Select two real estate subject properties (including one takeover property) held by the Real Estate Investment Manager as of the quarter-end selected in Procedure A-3. For the selected subject properties, interview the Real Estate Investment Manager to obtain an understanding of the Real Estate Investment Managers' investment strategies, policies and objectives for the acquisition or takeover of the subject property. Walkthrough the selected investments to determine if controls are placed in operation.

Results – *The two real estate subject properties selected in Procedure D-5 were the Mason and Esprit. For the Mason, KM walked through the selected investment and obtained support from RREEF for compliance with the acquisition requirements in the Master Real Estate Investment Advisor Agreement. Refer to Finding 3 and Finding 4 identified as a result of our procedures in the "Findings and Recommendations" section of this report.*

For Esprit, as this was a takeover property, KM performed a walkthrough and obtained documentation regarding the takeover process. Documentation obtained included the Investment Committee Memorandum prepared by RREEF and presented to the Investment Committee for review in January 2019, summarizing the transition of the properties in the takeover portfolio to DWS.

Additional documentation obtained included an Intake Memorandum prepared by RREEF and provided to LACERA that highlighted differences between RREEF's internal valuations in early 2019 and the appraised values of the properties in the takeover portfolio as of December 31, 2018.

6. **Procedure** – For the two real estate subject properties selected in Procedure D-5 above, obtain supporting documentation from the Real Estate Investment Manager that it has complied with LACERA's required reporting elements, as described in the relevant agreement obtained in A-1 and A-2 above.

Results – *Procedure performed. The two real estate subject properties selected in Procedure D-5 were the Mason and Esprit.*

The quarter-end selected was September 30, 2019. KM obtained supporting documentation from RREEF for compliance with the quarterly reporting requirements in the Master Real Estate Investment Advisor Agreement. Refer to Finding 6 and Finding 7 identified as a result of our procedures in the "Findings and Recommendations" section of this report.

The most recent available fiscal year-end is June 30, 2019. KM obtained supporting documentation from RREEF for compliance with the annual reporting requirements in the Master Real Estate Investment Advisor Agreement. No exceptions were noted.

7. **Procedure** – For the two real estate subject properties selected in Procedure D-5 above, obtain supporting documentation that the Real Estate Investment Manager has complied with LACERA's requirements for closing of the acquisition of the selected investments, as described in the advisor agreement (as relevant).

EXHIBIT II – PROCEDURES PERFORMED

Results – Procedure performed.

The two real estate subject properties selected in Procedure D-5 were the Mason and Esprit. For the Mason, KM obtained supporting documentation from RREEF for compliance with the acquisition requirements in the Master Real Estate Investment Advisor Agreement. Refer to Finding 3 and Finding 4 identified as a result of our procedures in the "Findings and Recommendations" section of this report.

For Esprit, as this was a takeover property, the acquisition requirements in the Master Real Estate Investment Advisor Agreement are not relevant.

8. **Procedure** – For the two real estate subject properties selected in Procedure D-5 above, obtain supporting documentation that the Real Estate Investment Manager has complied with the property management and leasing sections, as applicable, of the relevant agreement obtained in A-1 and A-2 above.

Results – Procedure performed.

The two real estate subject properties selected in Procedure D-5 were the Mason and Esprit. KM walked through the selected investments and obtained supporting documentation from RREEF for compliance with the property management and leasing requirements in the Master Real Estate Investment Advisor Agreement. Refer to Finding 5 identified as a result of our procedures in the "Findings and Recommendations" section of this report.

9. **Procedure** – Select one real estate subject property that the Real Estate Investment Manager chose not to invest in for the 12 months ended December 31, 2019. Interview the Real Estate Investment Manager regarding why it did not invest in the subject property. Walkthrough the process to determine if controls are placed in operation.

Results – RREEF indicated that there were no situations specific to LACERA during the 12 months ended December 31, 2019 where a decision was made to not invest in a potential real estate investment. As such, KM obtained an understanding of a situation where a decision was made to not invest for a different investor. RREEF indicated they were considering the acquisition of an industrial property in Portland and provided the associated Transaction Allocation Memorandums (TAMs) to KM. An initial assessment was performed in March 2019, noting that the industrial property was in an "unknown environmental condition" and third party consultants would complete a review of environmental and geotechnical reports. An updated assessment was performed in May 2019 after additional testing. Findings included "residual contamination in soils and groundwater from neighboring properties found on site" and "offhaul costs for contaminated soil/groundwater will be required and engineering controls needed during construction for vapor intrusion mitigation". Based on the risks identified as a result environmental and geotechnical reports testing, the decision was made to not invest in the industrial property. RREEF indicated that the secondary review over the associated risks identified in the TAMs and resulting decision not to invest occurred in the underwriting stage of the acquisition process.

EXHIBIT II – PROCEDURES PERFORMED

10. **Procedure** – Select one real estate subject property that the Real Estate Investment Manager disposed of during the 12 months ended December 31, 2019. Obtain supporting documentation from the investment advisor that it has complied with the disposition of acquired assets section of advisor agreement with LACERA.

Results – Procedure performed.

Through review of the LACERA Quarterly Investor Report dated September 30, 2019, KM identified a disposed investment, Magnolia Vinings, sold in September 2019. KM walked through the selected investment and obtained supporting documentation from RREEF for compliance with the disposition of acquired assets requirements in the Master Real Estate Investment Advisor Agreement. Refer to Finding 8 identified as a result of our procedures in the "Findings and Recommendations" section of this report.

11. **Procedure** – For the two real estate subject properties selected in Procedure D-5 above, interview the Real Estate Investment Manager regarding its policies and procedures for monitoring these investments. Walkthrough the selected investments to determine if controls are placed in operation.

Results – Procedure performed.

The two real estate subject properties selected in Procedure D-5 were the Mason and Esprit. The monitoring requirements are summarized in the "Property Management and Leasing" Section of the Master Real Estate Investment Advisor Agreement.

KM traced these specific monitoring requirements to supporting documentation such as the operating budgets or summaries of on-site visits that occurred in 2019 for the investments, to ensure compliance with these monitoring requirements. Refer to Finding 5 identified as a result of our procedures in the "Findings and Recommendations" section of this report.

E. Internal Control Policies and Procedures for the Valuation (Measurement), Accounting, and Reporting of Asset Values and Liabilities

1. **Procedure** – Obtain the Real Estate Investment Manager's valuation policy.

Results – Procedure performed without exception. See Exhibit 8.

2. **Procedure** – Obtain an understanding of the following internal control documentation, as applicable, from the Real Estate Investment Manager:
- Policies and procedures related to the valuation (measurement), accounting, and reporting of investment asset values and liabilities, including the use of internal models or third party valuation specialists
 - For the real estate subject properties selected in Procedure D-5 above, obtain the December 31, 2019 valuation prepared by management and / or the third party valuation specialist. Note the date of the valuation and whether the investment is valued at fair value or another basis of accounting.

EXHIBIT II – PROCEDURES PERFORMED

Results – Procedure performed without exception. The two real estate subject properties selected in Procedure D-5 were the Mason and Esprit. KM obtained the valuations for the two selected subject properties. At December 31, 2019, the Mason is recorded at cost as it is a property undergoing development. At December 31, 2019, Esprit is recorded at fair value, through the Income Approach.

F. Internal Control Policies and Procedures for the Accounting and Collection of Investment Income and Receivables

1. **Procedure** – Obtain an understanding of the following internal control documentation, as applicable, from the Real Estate Investment Manager:
 - a. Policies and procedures related to the accounting and collection of investment income and receivables, including the segregation of duties, if applicable.
 - b. Walkthrough of one selected investment to determine if controls are placed in operation.

Results – Procedure 1.a performed without exception.

RREEF indicated that DWS is not involved in the rent collection process, though material discrepancies in accrued rent versus budget, or large reconciling items on the bank reconciliation would be questioned as part of the third party administrator's monthly review process. RREEF indicated that the Asset Management team also reviews detailed monthly reports provided by the property management team which include accounts receivable aging reports.

Procedure 1.b performed without exception. KM selected one investment, Esprit, and walked through the secondary review control. KM obtained the Financial Statement Review Form for the month of May 2019, and noted documentation of the secondary reviews over the rental income for Esprit. BNY Mellon individuals were listed as preparers and reviewers. The reviewers left commentary regarding fluctuations in rental income for the month of May 2019 against budgeted rental income. Based on supporting documentation provided, the secondary review appears to be occurring.

G. Internal Control Policies and Procedures for the Establishment and Use of Bank Accounts Associated with Real Estate Investments

1. **Procedure** – Obtain an understanding of the following internal control documentation, as applicable, from the Real Estate Investment Manager:
 - a. Policies and procedures related to the establishment and use of bank accounts associated with real estate investments, including authorized signor(s)
 - b. Obtain supporting documentation for an authorized signor and compare to organizational chart
 - c. Walkthrough one selected disbursement to LACERA, and one selected disbursement to a vendor for property expenses during the 12 months ended December 31, 2019 to determine if controls are placed in operation

EXHIBIT II – PROCEDURES PERFORMED

Results – Procedure 1.a performed. RREEF indicated that LACERA sets up and maintains services on all of its own bank accounts, and maintains the master authorized signer list for each bank account. RREEF provided KM with a LACERA banking database list that includes the authorized signors on each account. Refer to Finding 10 identified as a result of our procedures in the "Findings and Recommendations" section of this report. Regarding disbursements to vendors or developers, RREEF indicated that the outsourced property managers are responsible for identifying disbursements to vendors or developers that are necessary for the operations or buildout of the real estate properties. [REDACTED]

Procedure 1.b performed without exception. KM obtained supporting documentation for an authorized signor and compared to an organizational chart, noting inclusion of the authorized signor.

Procedure 1.c performed without exception. KM walked through a July 2019 disbursement to a developer of one real estate property, the Mason, noting that a secondary approval signature was obtained from RREEF.

Regarding disbursements to LACERA, RREEF does not initiate wires or disbursements to LACERA. Rather, when excess cash from operations of underlying real estate investments is available, RREEF sends a letter to LACERA for the specific withdrawal amount. LACERA then initiates and withdraws the specific withdrawal amount independently of RREEF. KM walked through an example of this process, obtaining a November 2019 letter sent to LACERA by RREEF, and the subsequent wire maintained by RREEF to verify the appropriate amount was withdrawn.

H. Internal Control Policies and Procedures for the Allocation and Calculation of Fees Charged to LACERA

1. **Procedure** – Obtain an understanding of the following internal control documentation, as applicable, from the Real Estate Investment Manager:
 - a. Policies and procedures related to the allocation and calculation of fees charged to LACERA

Results – Procedure performed without exception. See Exhibit 9.

2. **Procedure** – Select one period-end and obtain from the Real Estate Investment Manager the supporting documentation for the fees charged to LACERA.

Results – Procedure performed without exception. The period-end selected was September 30, 2019.

3. **Procedure** – Compare the fee terms listed in the governing agreements, e.g. advisor agreements or other agreements, to the selected fees being charged to LACERA.

Results – Procedure performed. Refer to Finding 1 identified as a result of our procedures in the "Findings and Recommendations" section of this report.

EXHIBIT II - PROCEDURES PERFORMED

I. Internal Control Policies and Procedures for Property Management Expenses

1. **Procedure** – Obtain an understanding of the following internal control documentation, as applicable, from the Real Estate Investment Manager:
 - a. Policies and procedures related to the approval and accounting for property management expenses associated with the Real Estate Investment Manager
 - b. Walkthrough a selection of expense transactions, trace to supporting documentation from the Real Estate Investment Manager, and determine whether controls are placed in operation

Results – *Procedure 1.a performed without exception. RREEF provided the following:*



Procedure 1.b performed without exception. KM selected two property management expense transactions in May 2019 and September 2019 for the walkthrough. KM obtained the review form utilized by BNY Mellon for the secondary review performed during the monthly property review process.

J. Internal Control Policies and Procedures for the Preparation of and Use of Budgets Associated with Real Estate Investments

1. **Procedure** – Obtain an understanding of the following internal control documentation, as applicable, from the Real Estate Investment Manager:
 - a. Policies and procedures related to the preparation of and use of budgets with real estate investments
 - b. Obtain the most recent budget for the quarter selected in A-3 to determine whether the controls were placed in operation.

EXHIBIT II – PROCEDURES PERFORMED

Results – Procedure 1.a performed without exception. RREEF provided the following:

[REDACTED]

Procedure 1.b performed without exception. KM obtained the most recent budget for all LACERA real estate properties for the quarter ended September 30, 2019. KM obtained LACERA's 2019 calendar year budget approval letter, dated November 21, 2018, the approval of which includes the budget period for the quarter ended September 30, 2019. This budget approval, signed by a LACERA representative, excludes the takeover portfolio, as the transfer of these takeover assets to RREEF did not occur yet.

K. Reporting of Performance Measurement and Review

1. **Procedure** – Obtain representation from the compliance officer that the Real Estate Investment Manager is GIPS compliant, if applicable.

Results – Procedure performed without exception. See Exhibit 1.

2. **Procedure** – Obtain the most recent copy of the firm's GIPS Verification, if one is available. Note the dates covered by the report.

Results – Procedure performed without exception. The GIPS Verification report covered the periods from January 1, 2016 through December 31, 2018.

3. **Procedure** – Obtain the most recent copies of the firm's GIPS Performance Examinations for the composite that include the LACERA account, if available. Note the dates covered by the reports.

Results – Procedure performed without exception. See Exhibit 10.

RREEF provided the most recent GIPS Performance Examinations for the two composites that include the LACERA separate account as of December 31, 2018.

[REDACTED]

The most GIPS Performance Examination for the U.S. Direct Opportunistic Composite covered the periods from January 1, 2016 through December 31, 2018.

The most GIPS Performance Examination for the U.S. Direct Core Composite covered the periods from January 1, 2016 through December 31, 2018.

EXHIBIT II – PROCEDURES PERFORMED

4. **Procedure** – If there is no GIPS Performance Examination for the composite that includes the LACERA account, obtain the most recent performance presentation for the composite that would include the LACERA account.

Results – *Not applicable. GIPS Performance Examinations are available.*

L. Procedures for Confidentiality of Transactions and Portfolio Details

1. **Procedure** – Obtain a copy of the Real Estate Investment Manager's internal compliance manual, Code of Ethics and confidentiality policy.

Results – *KM was provided with a summary of the compliance policies. KM was provided with the Code of Ethics and the confidential policy, the table of contents of which are included at Exhibit 11.*

2. **Procedure** – Obtain representation from the Real Estate Investment Manager's compliance officer that all employees have signed an acknowledgement accepting the compliance policies and procedures, including the confidentiality requirements.

Results – *Procedure performed without exception. See Exhibit 1.*

M. Effective and Independent Compliance Functions, Ensuring, in Particular, Compliance with Relevant Regulatory Requirements

1. **Procedure** – Obtain, from the Real Estate Investment Manager, a summary of the regulatory bodies that have oversight of the firm, and its affiliated entities, including any Investment Advisor registrations.

Results – *Procedure performed without exception. RREEF provided the following:*

As a registered investor advisor, RREEF America LLC is registered with and supervised by the SEC. DWS Distributors Inc. (DDI) is an affiliated entity that is a registered broker-dealer with FINRA.

2. **Procedure** – Investment managers and advisors are subject to regulatory oversight by the SEC. The SEC initiates compliance examinations. If applicable, read a copy of documentation for the last SEC compliance examination of the Real Estate Investment Manager, note the date this audit was performed, and summarize the findings of the SEC report.

Results – *Procedure performed without exception. RREEF provided the following summary:*

In 2019, the SEC concluded a routine examination of RREEF which commenced in April 2018.

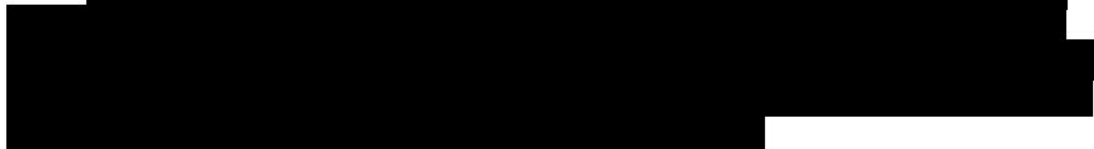


EXHIBIT II - PROCEDURES PERFORMED



KM read the SEC letter and the RREEF response letter summarized above through video-conference. The SEC letter was dated July 18, 2019 and the RREEF response letter was dated August 18, 2019.

3. **Procedure** – Obtain copies of documentation, from the Real Estate Investment Manager, for any audits performed by a state or other regulatory agency in the past three years.

Results – *Procedure performed without exception. RREEF provided the following: The SEC is the only regulator to have audited RREEF in the last three years.*

4. **Procedure** – Investment advisors that have custody of client funds or securities may be subject to an annual surprise examination performed by an independent accountant. Investment advisors subject to annual surprise examinations are required to file Form ADV-E. The independent accountant is required to file their related report. Also, investment advisors must note on Form ADV-E any changes in accounting firms and the reasons for such changes.
- a. Obtain from the SEC's website, if applicable, a copy of the Form ADV-E and the accompanying accountants' report. Note the date the accountants' report was filed, the accounting firm that performed the annual surprise examination, and the type of opinion rendered (e.g. unqualified, qualified)
- b. If Form ADV-E indicates that the Real Estate Investment Manager changed accounting firms, note the reason for the change

Results – *Procedure 4.a performed without exception. PwC issued an unqualified opinion on June 24, 2019. See Exhibit 12.*

Procedure 4.b performed without exception. Form ADV-E indicated a change of accounting firms occurred in October 2019 due to the resignation of PwC. RREEF indicated that PwC resigned to avoid any future independence issues, in the event that PwC provides consulting services to RREEF.

5. **Procedure** – Obtain a summary of any pending litigation or any litigation that has been settled during the period January 1, 2019 through the date of the site visit, involving the Real Estate Investment Manager or its managed subject properties.

Results – *Procedure performed without exception. See Exhibit 13.*

6. **Procedure** – Obtain the most recent ADV (Parts I and II) and note the date of the last updates.

Results – *Procedure performed without exception. KM obtained Form ADV Parts 1A and 2A dated March 30, 2020.*

EXHIBIT II – PROCEDURES PERFORMED

7. **Procedure** – Note any disclosures in the Form ADV Part I, Item 11 (disciplinary actions).
- Results** – Procedure performed without exception. Disclosures were noted in the Criminal Disclosure Reporting pages in Form ADV Part I, Item 11. These disclosures are at <https://crd.firms.finra.org>, and appear to primarily relate to Deutsche Bank operations.
8. **Procedure** – Obtain representation from the Real Estate Investment Manager that it has a compliance officer.
- Results** – Procedure performed without exception. See Exhibit 1.
9. **Procedure** – Obtain representation from the Real Estate Investment Manager's compliance officer that:
- No material compliance violations exist as of the date of KM's field visit
 - Independent reviews have been performed by the compliance function
 - The Real Estate Investment Manager's operational procedures are consistent with the relevant requirements in the Real Estate Investment Manager's procedures manual
 - The Real Estate Investment Manager has not placed any transactions with any related broker/dealers
 - The Real Estate Investment Manager is properly registered in all jurisdictions in which registration is required
 - The Real Estate Investment Manager has a disaster recovery plan
 - The Real Estate Investment Manager has responded fully to all inquiries made by KM during the site visit
- Results** – Procedure performed without exception. See Exhibit 1.

N. Appropriately Skilled Personnel with Relevant Training and Development Programs

1. **Procedure** – Inquire of the Real Estate Investment Manager what its total head count is as of December 31, 2019.
- Results** – Procedure performed without exception. RREEF indicated that as of December 31, 2019, there were approximately 123 employees within the DWS Americas Private Real Estate business.
2. **Procedure** – Inquire of the Real Estate Investment Manager how much personnel turnover occurred during the 12 months ended December 31, 2019.
- Results** – Procedure performed without exception. [REDACTED]
3. **Procedure** – Inquire of the Real Estate Investment Manager regarding the backgrounds of senior management (CEO, CCO, CFO, etc.)
- Results** – Procedure performed without exception. See Exhibit 14.

EXHIBIT II - PROCEDURES PERFORMED

4. **Procedure** – Inquire of the Real Estate Investment Manager regarding its compensation structure for investment and operations personnel.

Results – *Procedure performed without exception. RREEF provided the following:*

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

EXHIBIT II – PROCEDURES PERFORMED

O. Adequate Financial Strength and Insurance Requirements

1. **Procedure** – Obtain, from the Real Estate Investment Manager, the most recent Real Estate Investment Manager's financial statements. Note the following:
 - a. Type of report (audited, reviewed, compiled, none)
 - b. Name of accounting firm identified on report
 - c. Date auditor's or accountants' report was signed
 - d. Type of opinion (unmodified, modified, disclaimer or adverse), if applicable
 - e. The nature of any exceptions to the auditors' or accountants' reports, if any
 - f. That current assets are greater than current liabilities and the Real Estate Investment Manager has positive equity

Results – Procedure performed without exception. RREEF America LLC (RREEF) is the registered investment advisor for the LACERA account. RREEF is a subsidiary of DWS Group GmbH & Co. KGaA. The most recent audited financial statements available for DWS Group GmbH & Co. KGaA were December 31, 2019. The auditor, KPMG, issued an unmodified opinion on March 13, 2020.

As noted in the auditors' report and further described in Footnote 1, the basis of accounting is IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB (Handelsgesetzbuch German Commercial Code).

The financial statements indicate that current assets are greater than current liabilities and RREEF has positive equity.

2. **Procedure** – The advisor agreement contains provisions regarding the insurance that must be maintained by the Real Estate Investment Manager. Obtain supporting documentation from the advisor that these insurance requirements are satisfied as of the date of our site visit.

Results – No exceptions were noted as a result of the procedures performed. RREEF provided insurance certificates demonstrating required coverage.

P. Legal Searches

1. **Procedure** – Perform a search of SEC Enforcement on the Real Estate Investment Manager for the past three years.

Results – Procedure performed without exception. No SEC enforcement items were noted as a result of the search performed.

Q. Disaster Recovery, Business Continuity, and Cybersecurity Procedures

1. **Procedure** – Obtain a copy of the Real Estate Investment Manager's disaster recovery, business continuity, and cybersecurity plan.

Results – RREEF indicated that disaster recovery, business continuity, and cybersecurity plans are confidential. RREEF provided the following summary of its disaster recovery, business continuity, and cybersecurity plan.

EXHIBIT II - PROCEDURES PERFORMED

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

2. **Procedure** – Obtain, from the Real Estate Investment Manager, the date and results of its last Disaster Recovery/Business Continuity testing.

Results – Procedure performed without exception. RREEF provided the following:

[REDACTED]

Specific to COVID-19, DWS is actively managing the possible impact for the company and its operations. DWS is committed to protecting our employees while ensuring the continuity of critical group businesses and functions. All areas of our business remain fully operational and we are fully prepared and equipped to address any adverse impact that COVID-19 may have on the delivery of services.

EXHIBIT II - PROCEDURES PERFORMED

3. **Procedure** – Inquire if the Real Estate Investment Manager has outsourced aspects of its disaster recovery and business continuity plans to a third party vendor.

Results – *Procedure performed without exception. RREEF indicated that all disaster recovery and business continuity functions are handled internally.*

4. **Procedure** – Inquire of the Real Estate Investment Manager, as it relates to Cybersecurity, regarding the following:

- a. Employee training and testing
- b. Use of any third party firms to conduct monitoring and testing for attacks
- c. Any history of attacks or data breaches

Results – *Procedure Q-4a performed without exception. RREEF provided the following:*

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Procedure Q-4b performed without exception. RREEF provided the following:

[REDACTED]

[REDACTED]

EXHIBIT II – PROCEDURES PERFORMED

Procedure Q-4c performed without exception. RREEF provided the following:

[REDACTED]

[REDACTED]

In the last 12 months, no cybersecurity incidents have been recorded which impact the services or business conducted with LACERA's organization.

R. Environmental, Social and Governance (ESG)

1. **Procedure** – Inquire of the Real Estate Investment Manager how the following are incorporated at the vehicle and organizational level and how they are incorporated into strategic decisions.

- a. Environmental issues
- b. Social issues
- c. Governance issues including code of ethics

Results – *Procedure performed without exception. See Exhibit 15.*

2. **Procedure** – Inquire of the Real Estate Investment Manager, who is responsible for coordinating the monitoring of ESG issues at the vehicle and organization level.

Results – *Procedure performed without exception. See Exhibit 15.*

3. **Procedure** – Inquire of the Real Estate Investment Manager, the process and frequency used to report ESG issues to senior management and investors.

Results – *Procedure performed without exception. See Exhibit 15.*

S. Investment Manager Response to COVID-19

1. **Procedure** – Obtain from the Investment Manager a summary of the impact and response to the Investment Manager's operations.

Results – *Procedure performed without exception. See Exhibit 16.*

2. **Procedure** – Obtain from the Investment Manager a summary of the impact to the front office, including how a reduction in travel has affected the execution of investment strategies and deal timelines, if applicable.

Results – *Procedure performed without exception. See Exhibit 16.*

EXHIBIT II – PROCEDURES PERFORMED

3. **Procedure** – Obtain from the Investment Manager a summary of any impact to operational procedures, due to COVID-19, since March 15, 2020.

Results – Procedure performed without exception. See Exhibit 16 for a summary of impact to specific areas. In addition, RREEF provided the following:

"The impact of the COVID-19 crisis on operational procedures has been the implementation of additional controls over key parts of the firm's real estate operations, including more ad hoc leadership committee meetings with a focus on portfolio and property operations, as well as the development of several task forces to address various issues with specific property types.

As noted above, we are also actively allocating broader platform resources as necessary to continue to operate the properties as efficiently and effectively as we can.

[REDACTED]

4. **Procedure** – Obtain from the Investment Manager a summary of any impact due to service provider exposure.

Results – Procedure performed without exception. RREEF indicated there had been no interruption in service from any of its banking partners or its fund administrator, BNY Mellon.

5. **Procedure** – Inquire of the Investment Manager if there will be any delay in the issuance of its March 31, 2020 or April 30, 2020 NAV(s).

Results – Procedure performed without exception. RREEF indicated there were no delays expected in the issuance of its NAV(s).

6. **Procedure** – Inquire of the Investment Manager if there have been any cyber-security incidents since March 15, 2020.

Results – Procedure performed without exception. RREEF indicated, "There have been no cybersecurity incidents since March 15, 2020 that impact the services or business conducted with LACERA."

EXHIBIT II - PROCEDURES PERFORMED

7. **Procedure** – Obtain from the Investment Manager any investor communications related to COVID-19 issued to date.

Results: *Procedure performed without exception. See Exhibit 16 for a broad DWS investor communication as provided by RREEF. In addition, RREEF provided the following:*

"DWS has provided several investor webinars since the COVID-19 crisis broke to keep our investors informed. This has included two webinars to date (April 16 and April 22) with a specific focus on the impact to private real estate. Replay links are available upon request.

With respect to direct communication to LACERA regarding COVID-19 and the LACERA accounts, there has been frequent email and voice communication with LACERA on this topic.

[REDACTED]

Exhibit 1
Various Procedures
RREEF Representation Letter


May 29, 2020

Kreischer Miller
100 Witmer Road, Suite 350
Horsham, PA 19044

We are providing this letter in connection with your site visit performed over our compliance with certain policies, procedures and internal controls.

We confirm, to the best of our knowledge and belief, as of May 29, 2020 the following representations made to you during your engagement.

1. The analysis of capital accounts is complete and accurate.
2. There are no known contingent liabilities for the real estate portfolio investments that are not reflected on their respective financial statements that were made available. (If there are contingent liabilities that are not recorded on the books and records of the portfolio real estate investments, include a list of these contingent liabilities in the representation.)
3. There are no additional related party transactions other than those disclosed to KM.
4. RREEF America LLC (the Investment Manager) claims compliance with the Global Investment Performance Standards (GIPS®).
5. All employees have signed an acknowledgment accepting the compliance policies and procedures, including the confidentiality requirements.
6. We confirm that we have a compliance officer.
7. RREEF America LLC's compliance officer represents that:
 - a. No material compliance violations exist as of May 29, 2020;
 - b. Independent reviews have been performed by the compliance function;
 - c. The Investment Manager's operational procedures are consistent with the relevant requirements in the procedures manuals;
 - d. The Investment Manager has not placed any transactions with any related broker/dealers.
 - e. The Investment Manager is properly registered in all jurisdictions in which registration is required;
 - f. The Investment Manager has a disaster recovery plan; and
 - g. The Investment Manager has responded fully to all inquiries made by KM during the site



June 5, 2020
Date

Exhibit 2
Procedure C-1
Real Estate Performance

Performance Highlights

[Redacted Performance Highlights]

Portfolio Returns

Consolidated Fund Return Highlight	Quarter Ended		12 Months Ended		Annualized Return Since Inception ¹
	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	
Los Angeles County Employees Retirement Association (LACERA)					
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

Exhibit 3
Procedure C-3
Systems

**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Systems

Portfolio accounting software or systems

[REDACTED]
[REDACTED]

Real estate valuation software or systems

[REDACTED]
[REDACTED]
[REDACTED]

Performance reporting software or systems

- [REDACTED]
[REDACTED]

Third-party database services available

- RREEF does not host any third-party databases but does utilize data rooms that are hosted by third-party investment sales brokers to access due diligence documents for acquisitions or to provide due diligence documents for dispositions.

Other relevant software or systems used in accounting, reconciling, and reporting

- [REDACTED]
[REDACTED]

Other relevant systems

[REDACTED]

Exhibit 4
Procedure C-7
DWS Entity Organizational Chart

GOVERNANCE BODIES OVERVIEW

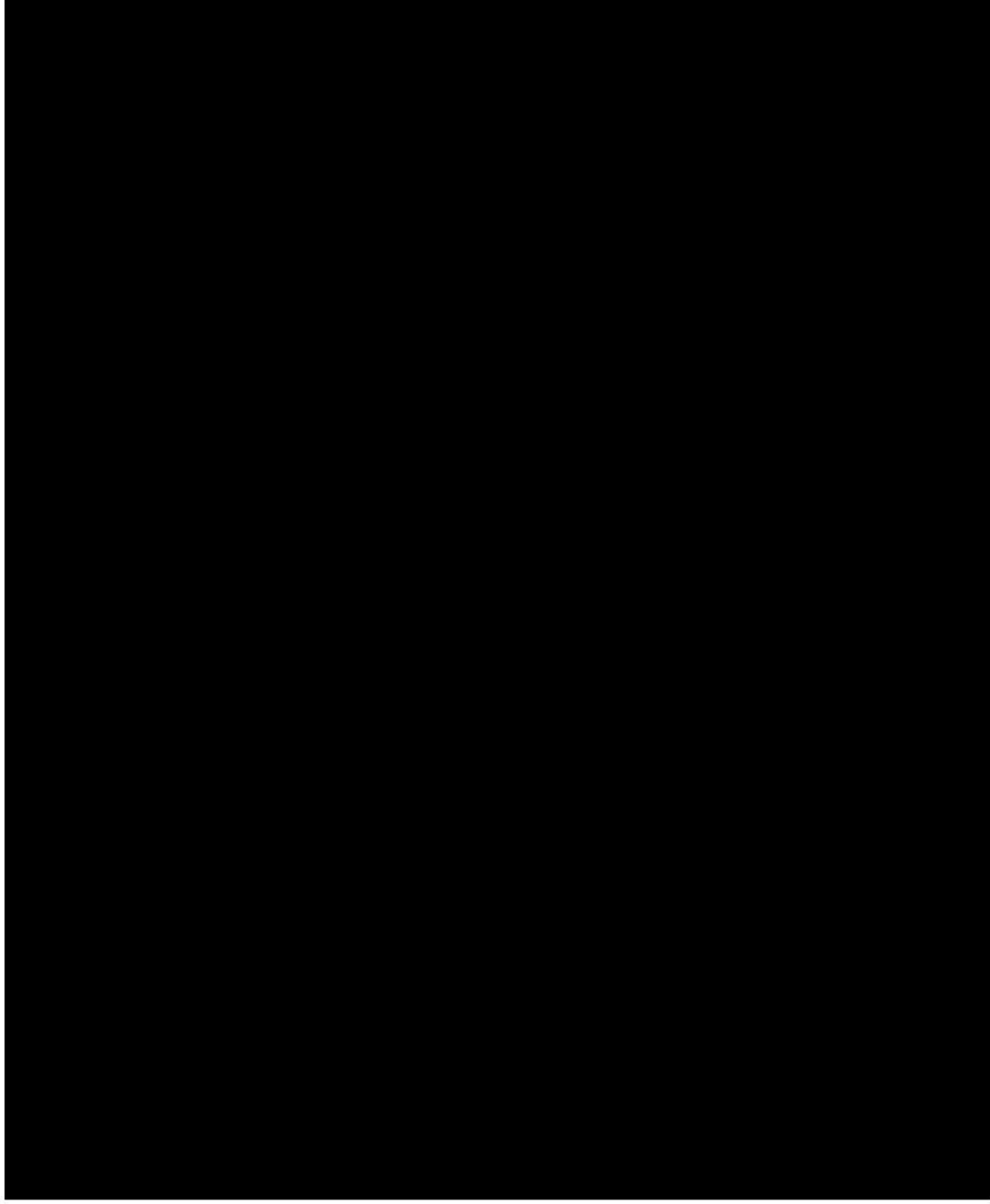


Exhibit 5
Procedure D-1
Internal Control Documentation

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

[REDACTED]

[REDACTED]

[REDACTED]

Exhibit 7
Procedure D-4
Due Diligence Process for Real Estate Investments

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

- 1. [Redacted]
- 2. [Redacted]
- 3. [Redacted]
- 4. [Redacted]
- 5. [Redacted]
- 6. [Redacted]
- 7. [Redacted]
- 8. [Redacted]
- 9. [Redacted]
- 10. [Redacted]
- 11. [Redacted]
- 12. [Redacted]

Exhibit 8
Procedure E-1
Valuation Policy



[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]



[Redacted]

- [Redacted]

- [Redacted]

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

- [Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]



[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

May 12, 2020 12:26

- [Redacted]
- [Redacted]
- [Redacted]

[Redacted]

- | [Redacted]

[Redacted]

- | [Redacted]
 - | [Redacted]
- [Redacted]



[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]





[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]





[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[REDACTED]

Exhibit 9
Procedure H-1
Allocation and Calculation of Fees Policies and Procedures

**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

**Procedure H-1
Allocation and Calculation of Fees Policies and Procedures**

RREEF America LLC provided the following information:

[REDACTED]

[REDACTED]

[REDACTED]

**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

**Procedure H-1
Allocation and Calculation of Fees Policies and Procedures**



Exhibit 10
Procedure K-3
GIPS Performance Examinations

**DWS - Americas Real Estate
Verification and Americas Real Estate – U.S. Direct Opportunistic Composite Performance
Examination Report**

December 31, 2018

Verification and Performance Examination Report

[Redacted]

[Redacted]

[Redacted]

- [Redacted]
- [Redacted]

[Redacted]



confidential
Meghan DiDonato
Kreischer Miller
May 12, 2020 12:28

[Redacted]

- [Redacted]
- [Redacted]

[Redacted]

[Redacted]

Adviser Compliance Associates, LLC

[Redacted]

**DWS - Americas Real Estate
Verification and Americas Real Estate – U.S. Direct Core Composite Performance
Examination Report**

December 31, 2018

Verification and Performance Examination Report

[Redacted]

[Redacted]

[Redacted]

- [Redacted]
- [Redacted]

[Redacted]



[REDACTED]

- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

Adviser Compliance Associates, LLC

[REDACTED]



Fourth Quarter 2018

[Redacted content]



Exhibit 11
Procedure L-1
Code of Ethics Table of Contents

TABLE OF CONTENTS

0. Key Data	3
1. Scope.....	4
2. General Rule.....	5
3. Standards of Business Conduct.....	6
4. Restrictions	7
5. Compliance Procedures.....	11
6. Other Procedures/Restrictions.....	15
A. Service on Boards of Directors	15
B. Outside Business Affiliations.....	15
C. Executorships.....	15
D. Trusteeships.....	15
E. Custodianships and Powers of Attorney	15
F. Gifts, Entertainment and Business Events.....	16
G. Rules for Dealing with Governmental Officials and Political Candidates	16
H. Confidentiality.....	17
I. Prohibition of Market Abuse under the European Market Abuse Regulation.....	17
7. Supervision	18
8. Sanctions and Red Flags.....	19
9. Interpretations and Exceptions	19
10. Business-Line and Infrastructure Controls.....	19
11. Associated Policies	20
12. Authoritative Guidance.....	20
13. Glossary.....	21
SCHEDULE A	23

Exhibit 12
Procedure M-4
Form ADV-E Accountants' Report



Report of Independent Accountants

To the Management Committee of RREEF America L.L.C.

We have examined management's assertion, included in the accompanying Management Statement Regarding Compliance with Certain Provisions of the Investment Advisers Act of 1940, that RREEF America L.L.C. (the "Company") complied with paragraph (a)(1) of Rule 206(4)-2 of the Investment Advisers Act of 1940 (the "Act") as of March 31, 2019 and complied with Rule 204-2(b) of the Act during the period from June 30, 2018 to March 31, 2019. The Company's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion about the Company's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated in all material respects. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Included among our procedures were the following tests, which were performed for a sample of client accounts as of March 31, 2019, which is a date we selected without prior notice to management.

- Confirmation of cash held by qualified custodians either under the client's name or in the name of the Company as agent or trustee for clients
- Reconciliation of cash to books and records of client accounts maintained by the Company
- Confirmation with clients of the detail of cash held as of the date of examination by the Company on behalf of such clients and contributions and withdrawals of cash and securities to and from the account or for those confirmations not received, alternative procedures and reconciliation of confirmations received to the Company's books and records
- For confirmations not received, we performed alternative procedures, which included reviewing supporting documentation, including client correspondence, contribution and withdrawal notices and fee support

Our examination does not provide a legal determination on the Company's compliance with specified requirements, including the Company's identification of "securities" as defined by Section 202(a)(18) of the Act and its determination of "custody" as defined by Rule 206(4)-2(d)(2) under the Act. It is the responsibility of RREEF America L.L.C. to determine its investment advisory clients under the Act.

In our opinion, management's assertion that RREEF America L.L.C. complied with the requirements of paragraph (a)(1) of Rule 206(4)-2 of the Investment Advisers Act of 1940 as of March 31, 2019, and has complied with Rule 204-2(b) of the Act during the period from June 30, 2018 to March 31, 2019, is fairly stated, in all material respects.

This report is intended solely for the information and use of management and the Management Committee of RREEF America L.L.C. and the Securities and Exchange Commission and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

June 24, 2019

Exhibit 13
Procedure M-5
Litigation

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

Litigation

[REDACTED]

[REDACTED]

[REDACTED]

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

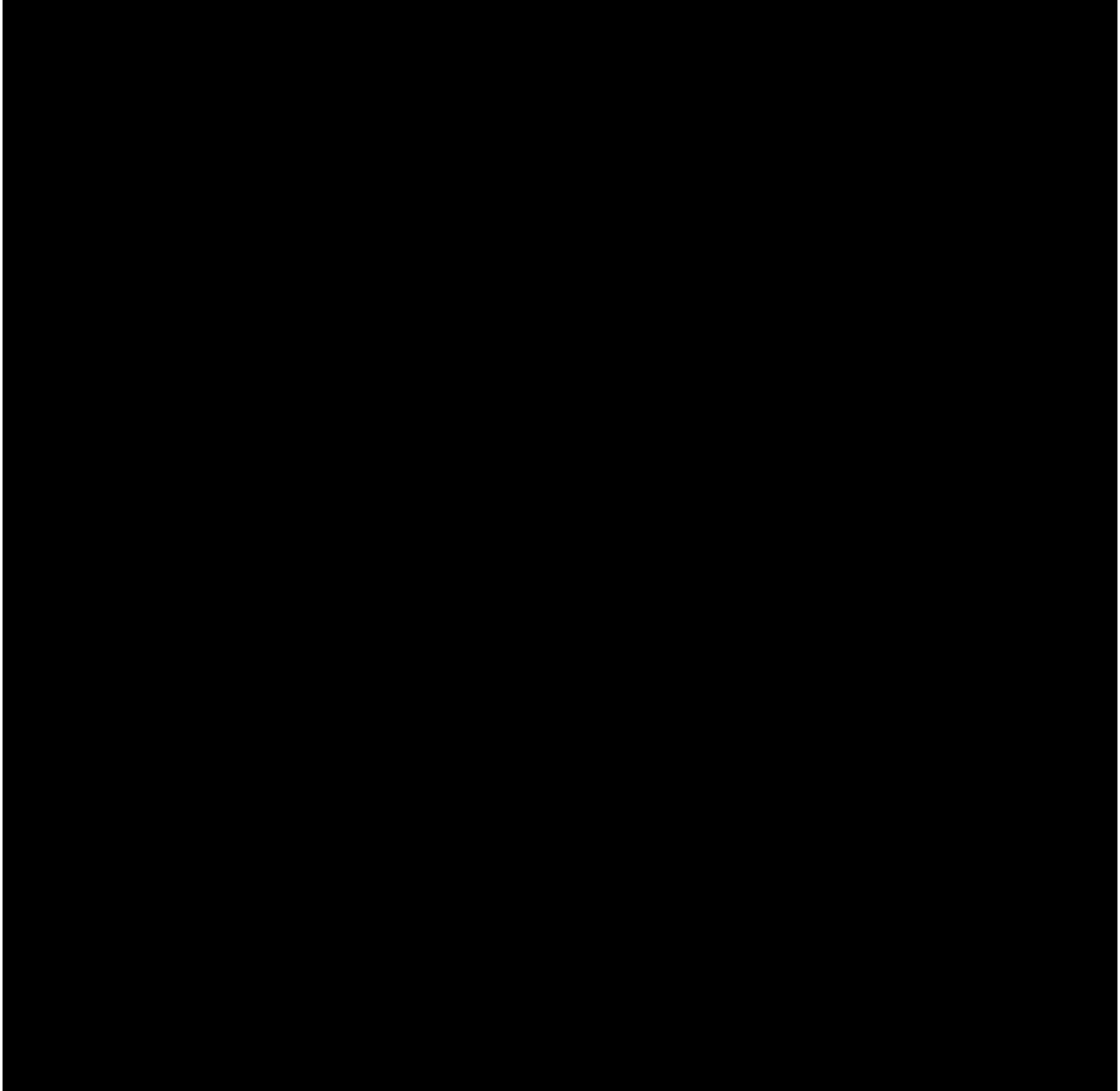
Litigation

[REDACTED]

[REDACTED]

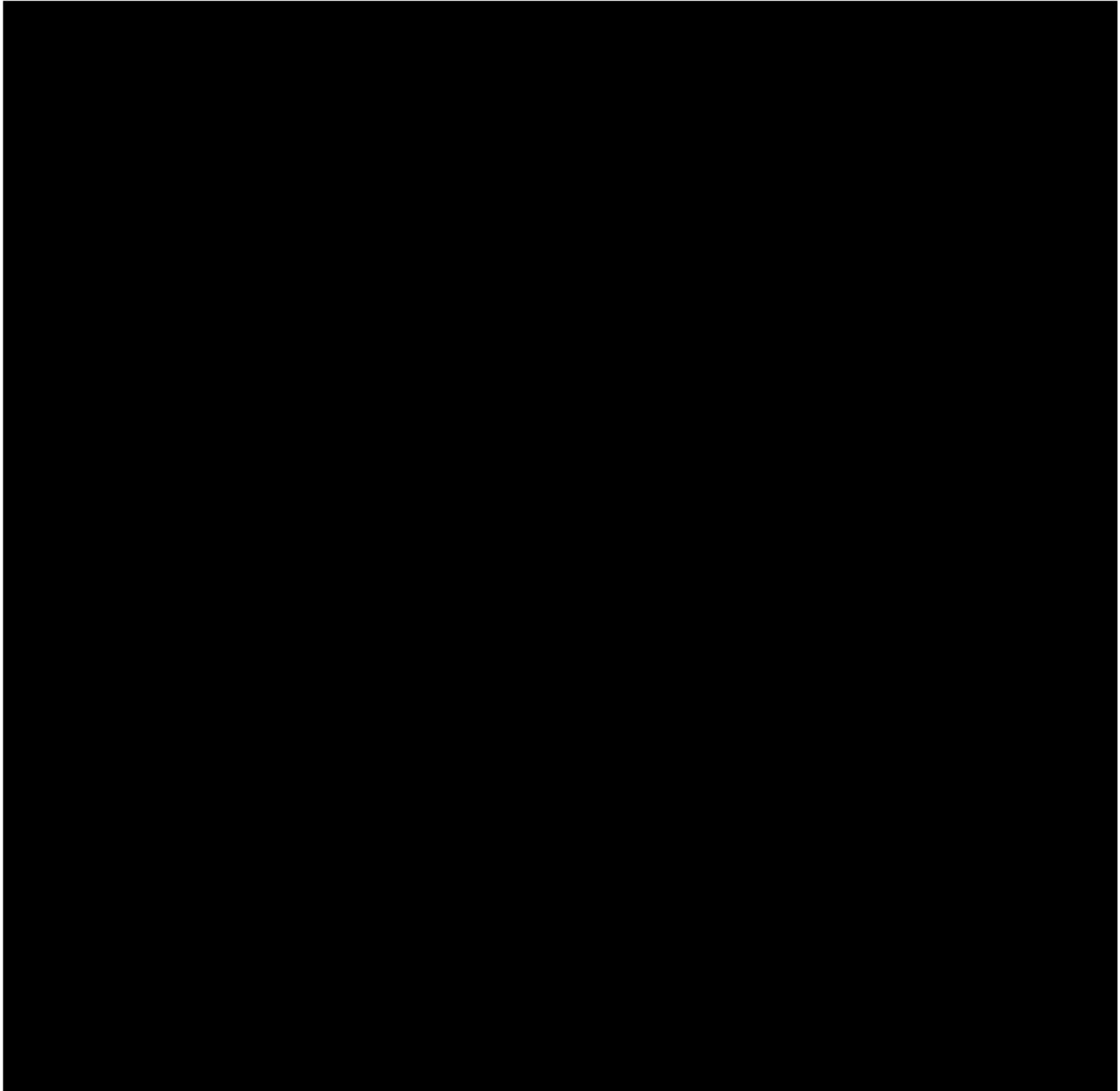
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



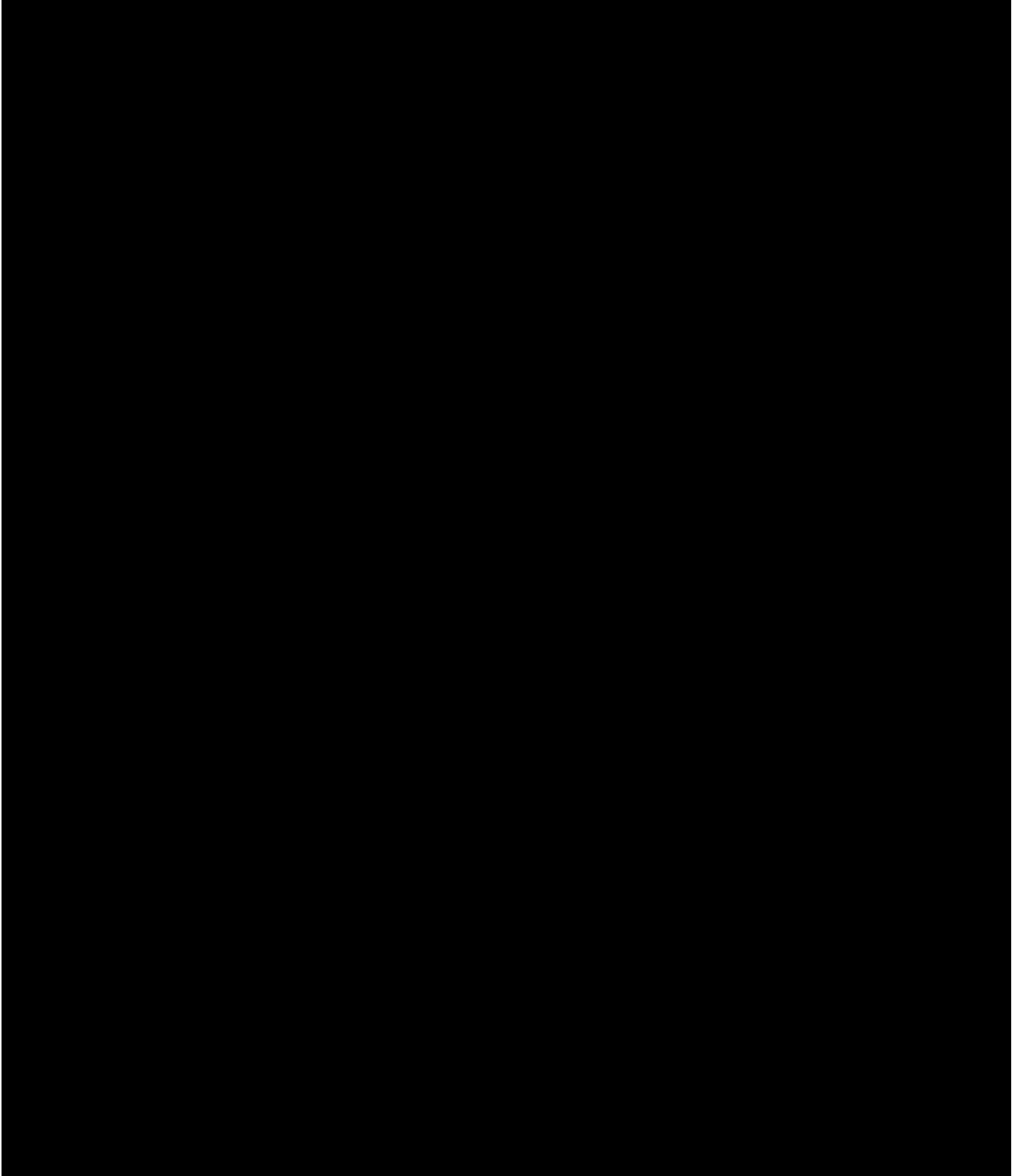
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



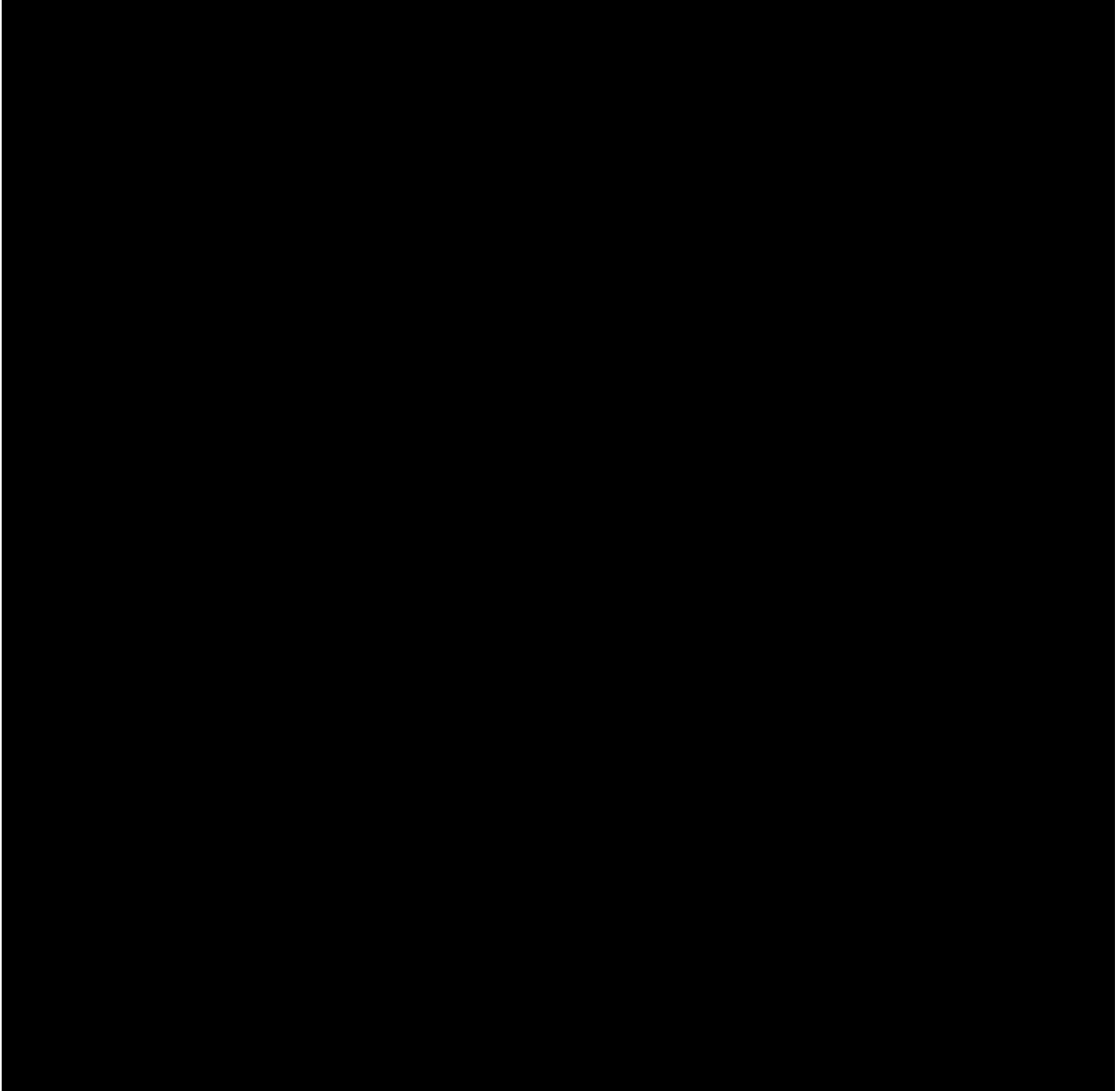
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



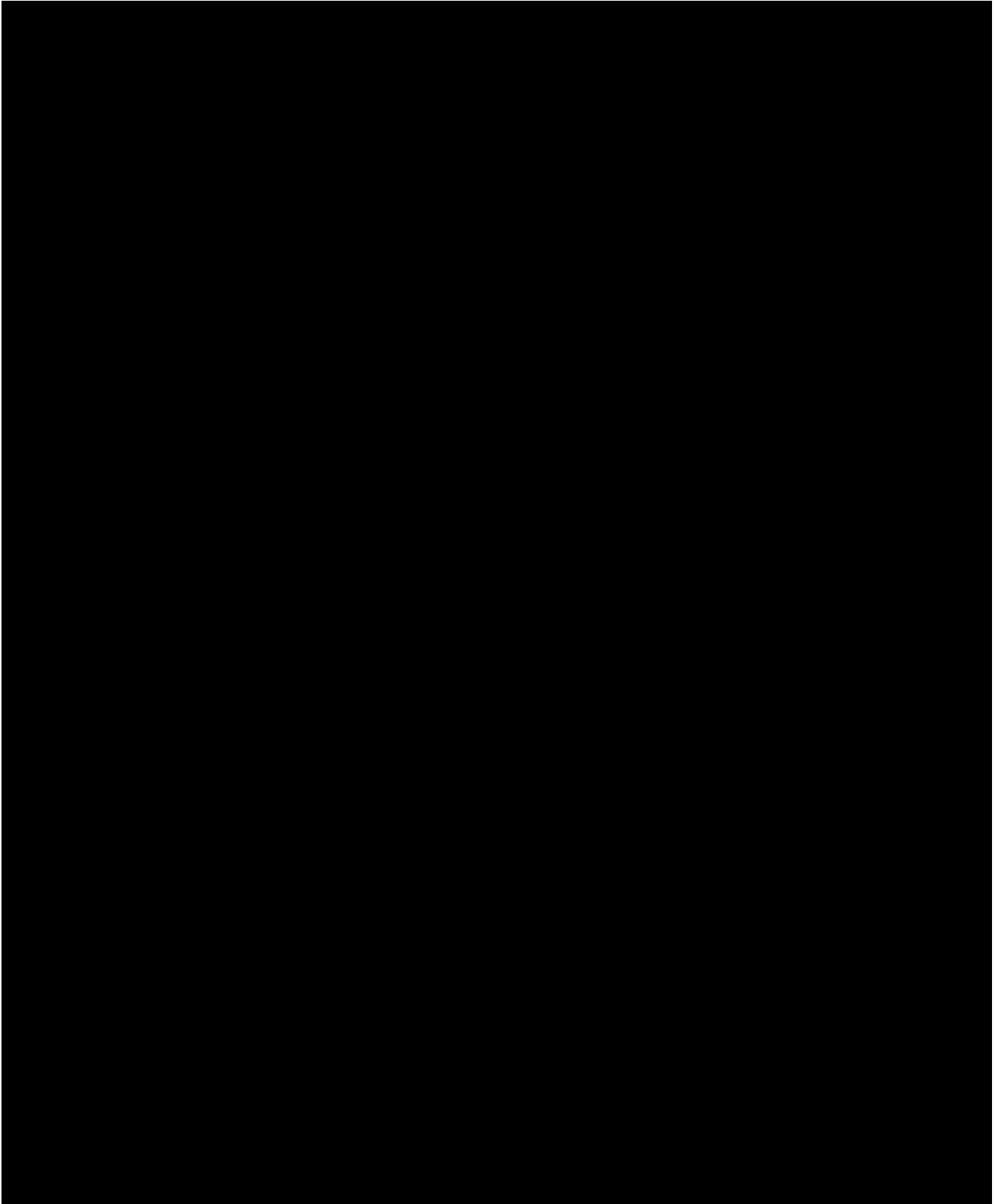
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



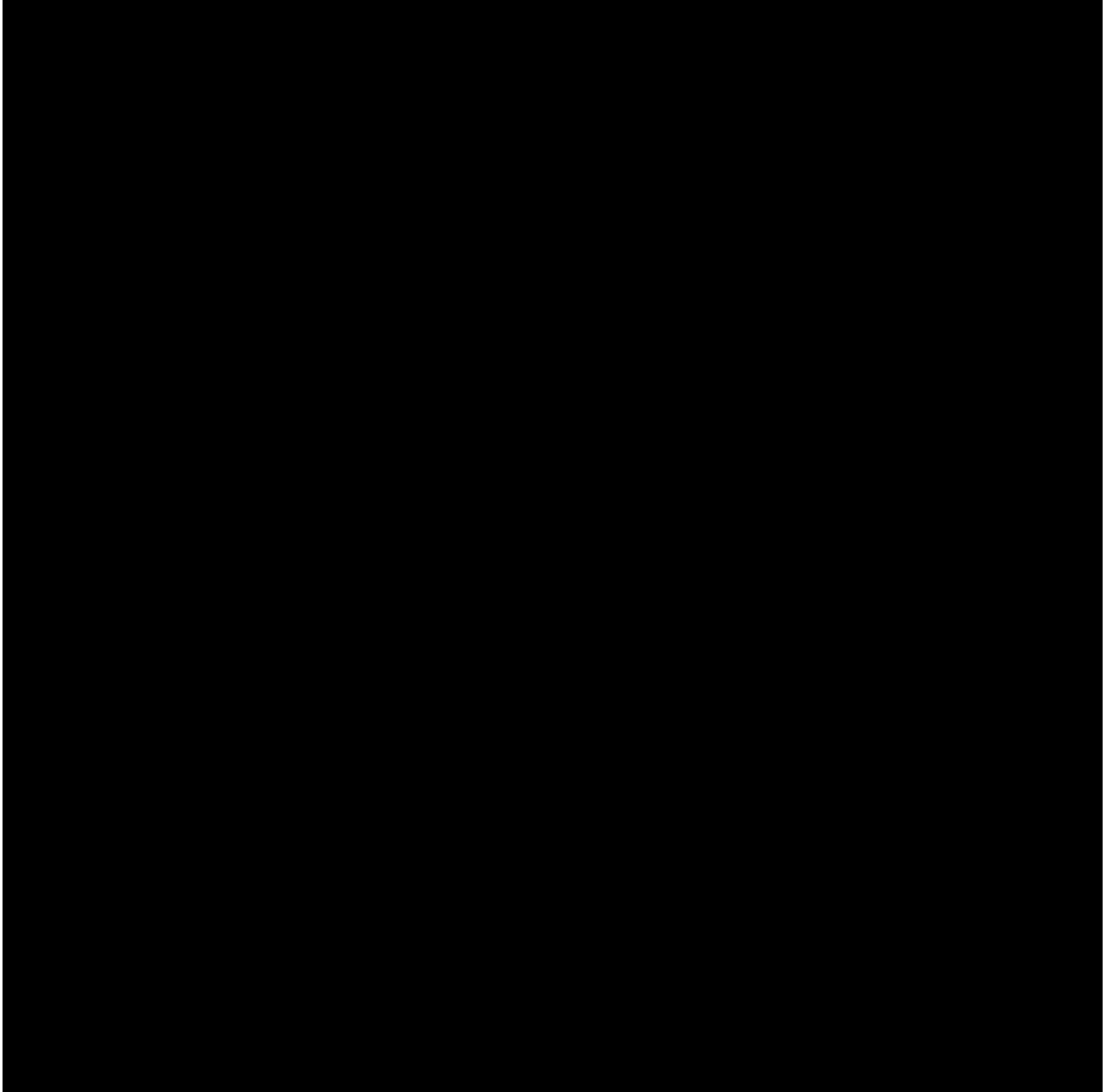
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



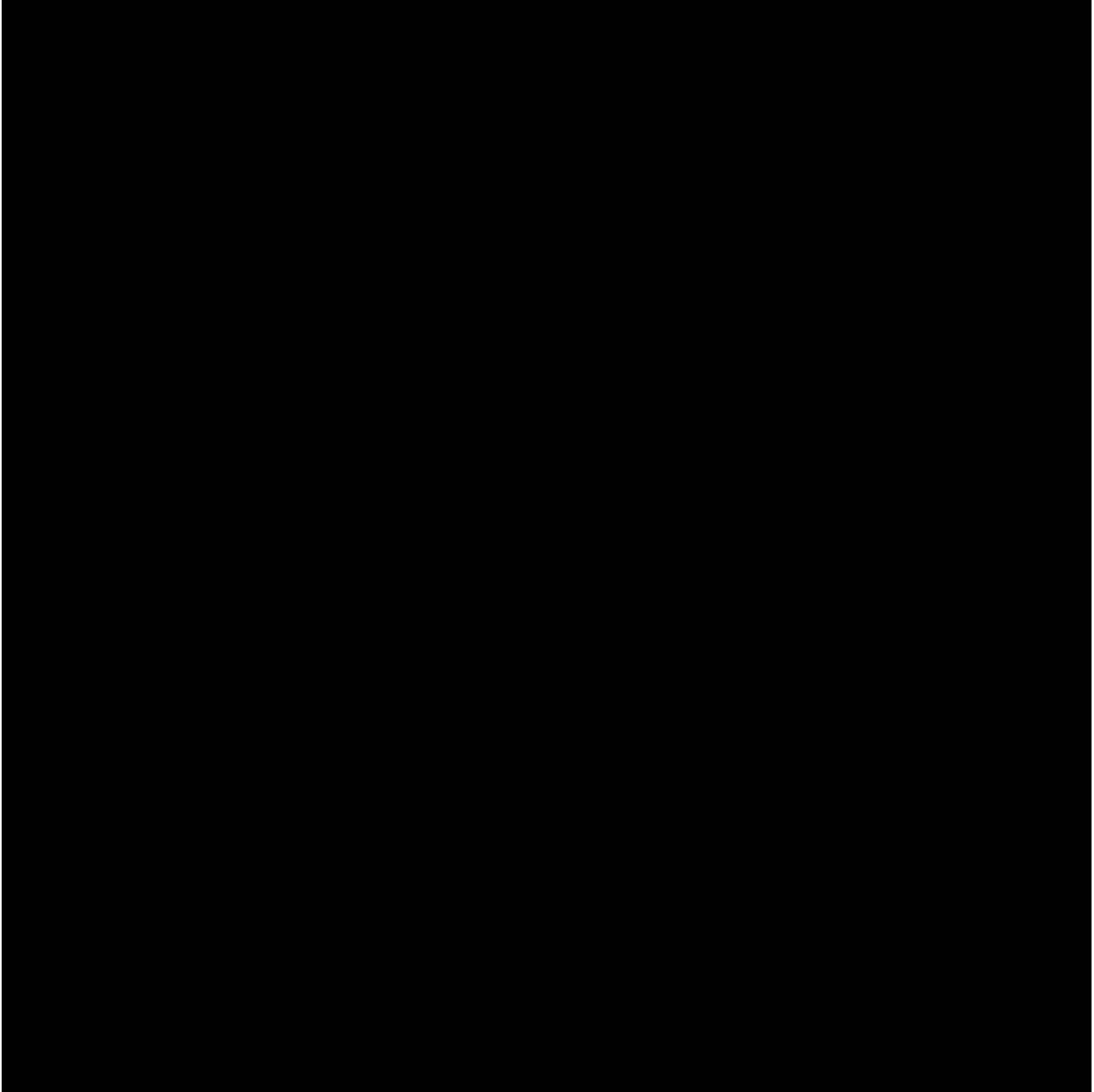
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



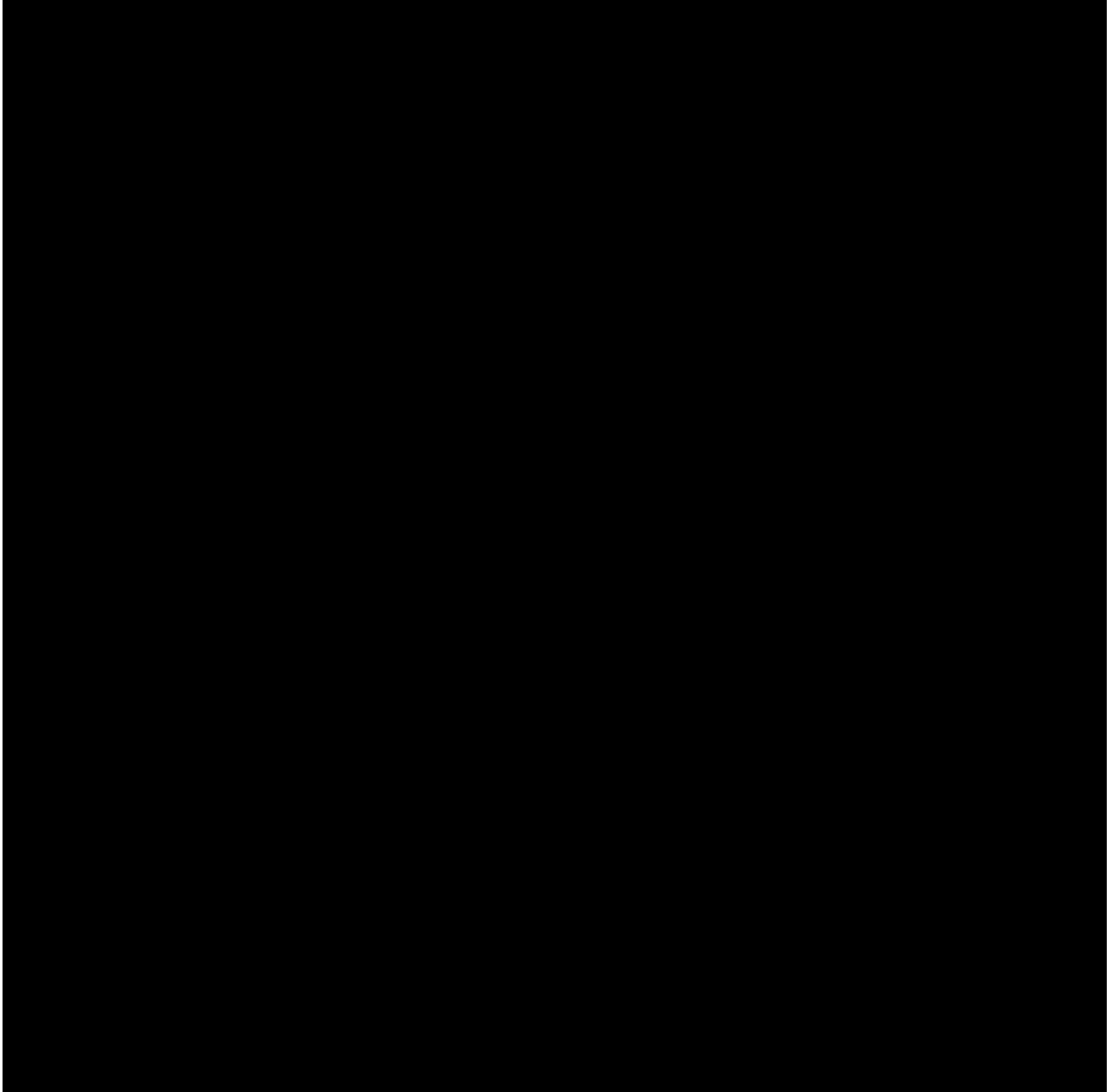
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



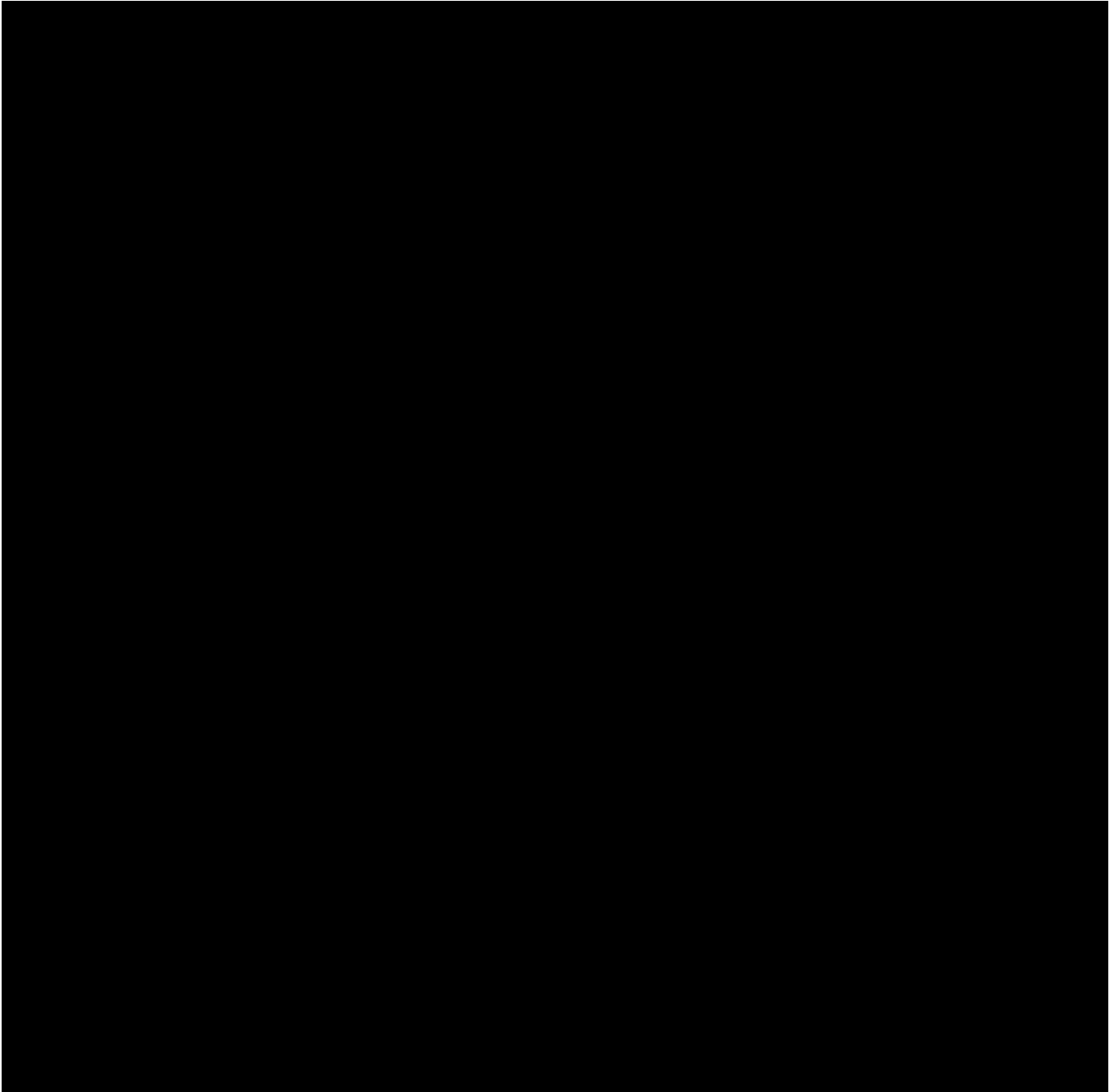
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



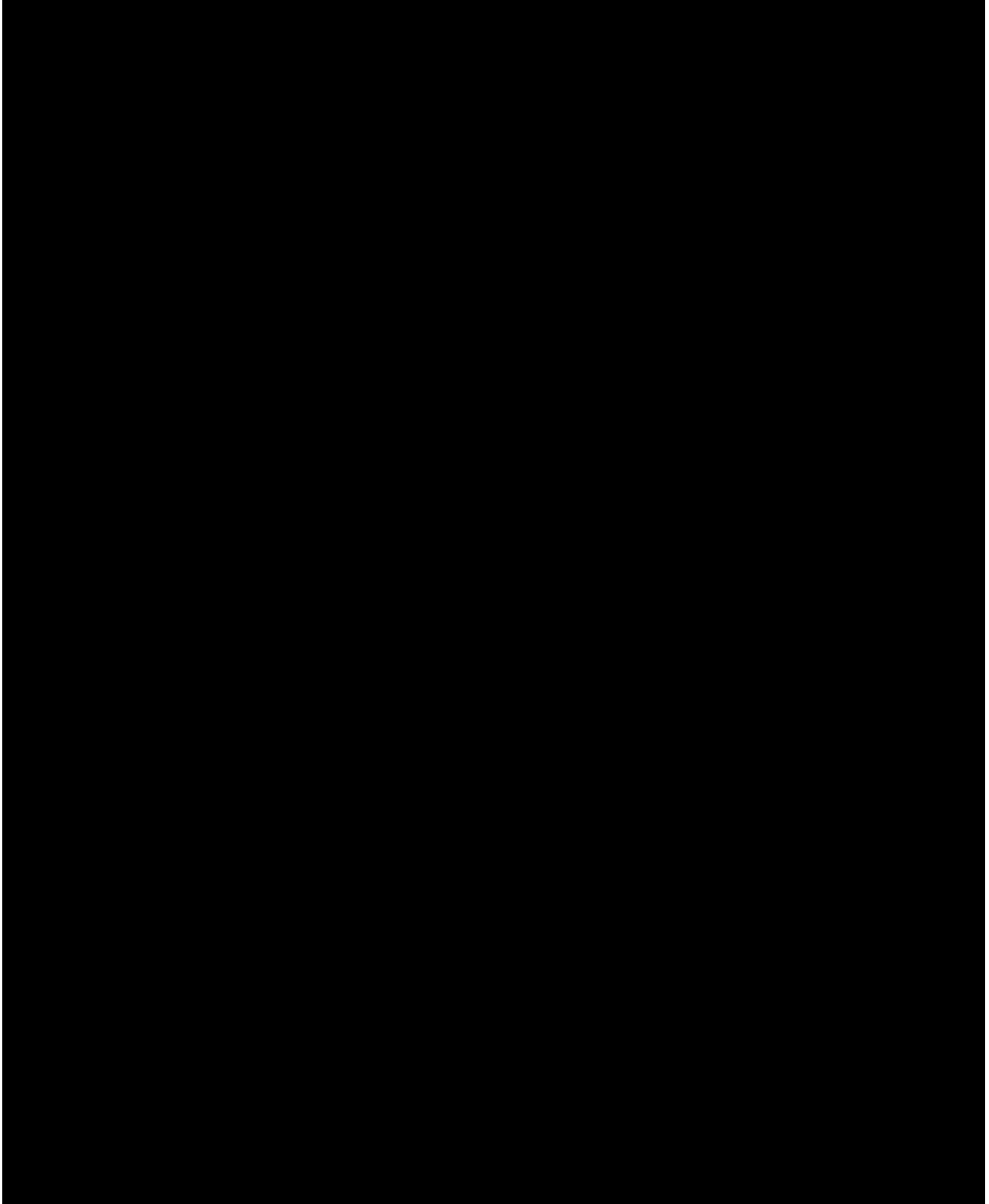
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



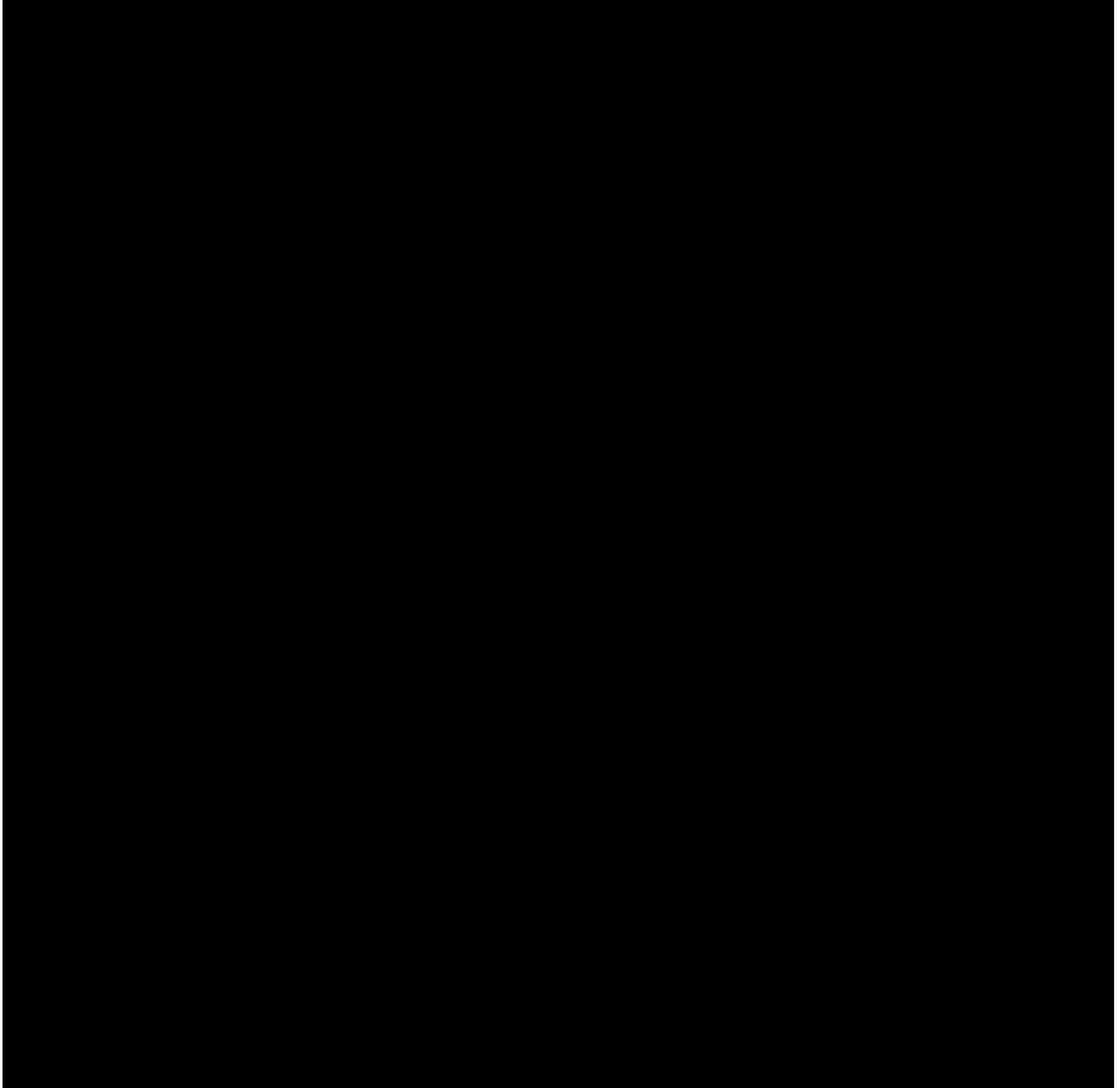
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



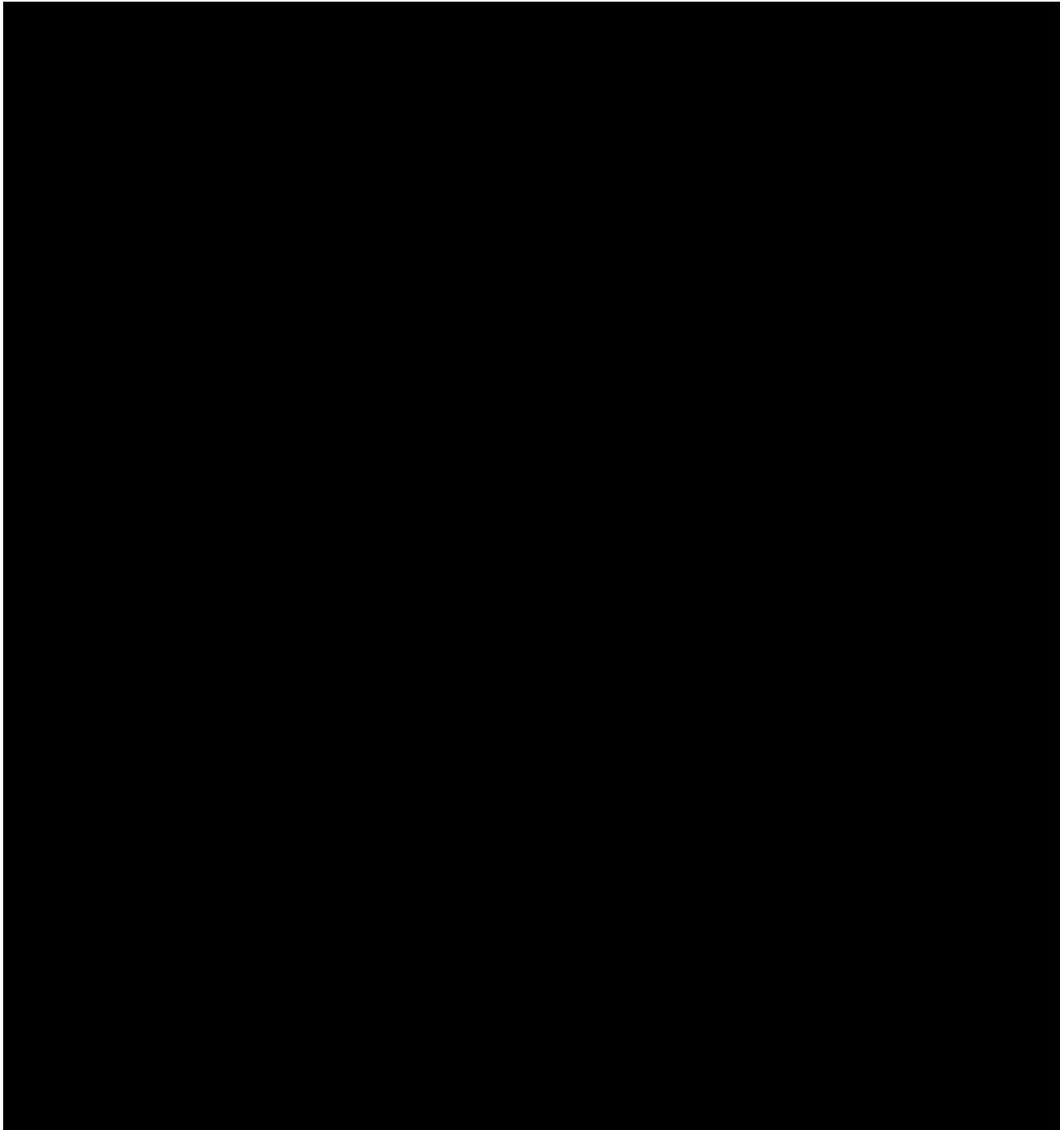
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



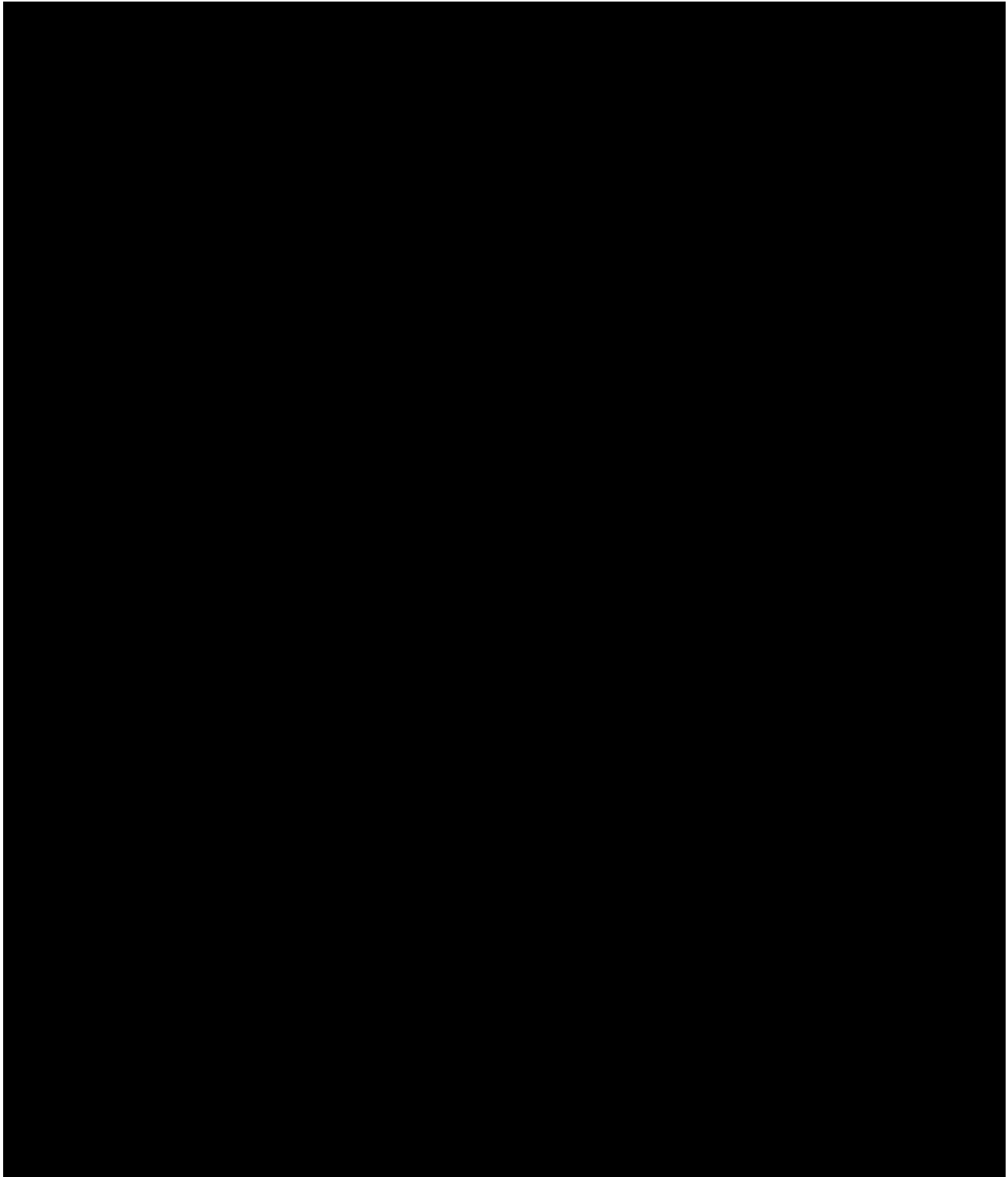
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



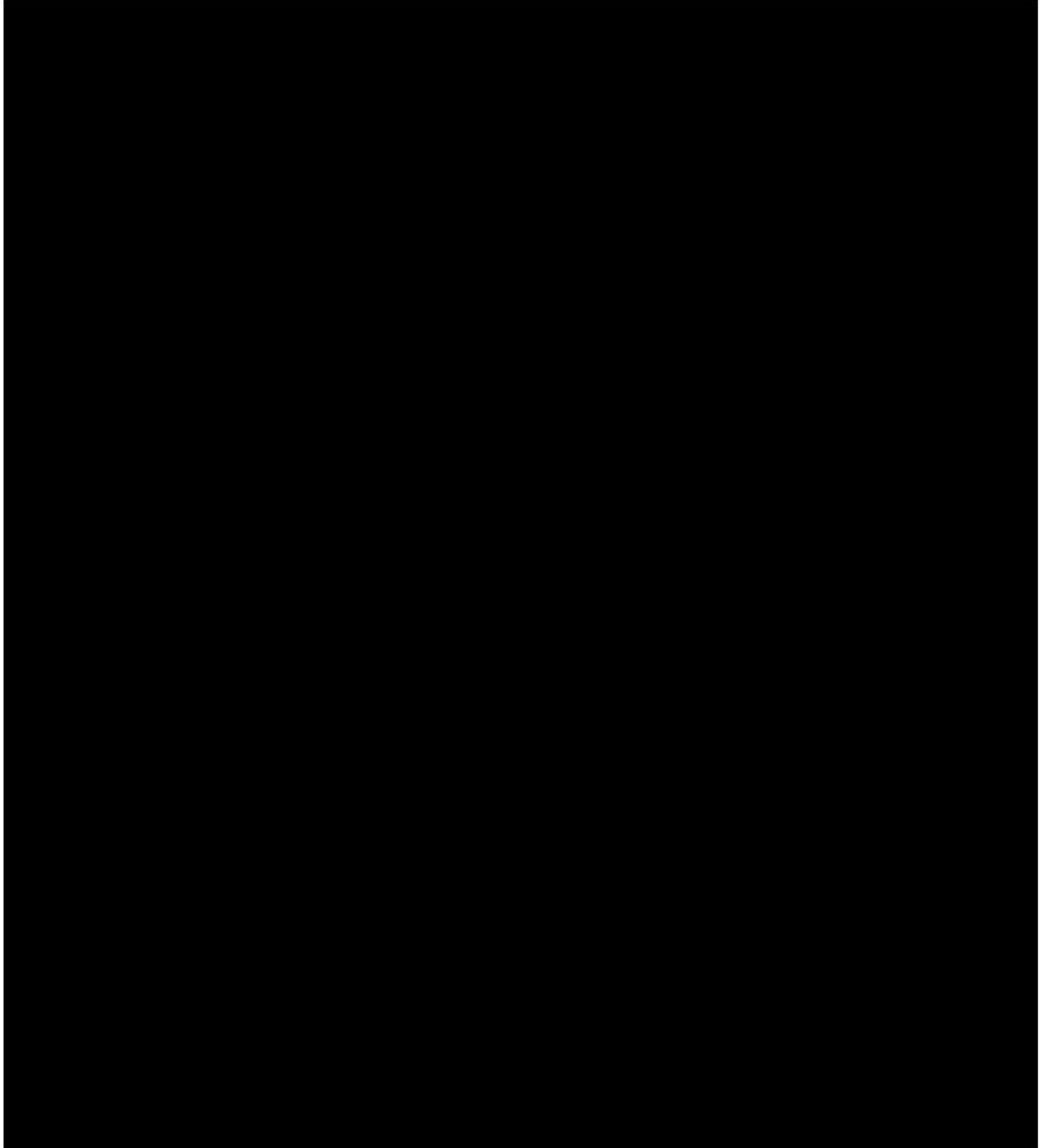
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



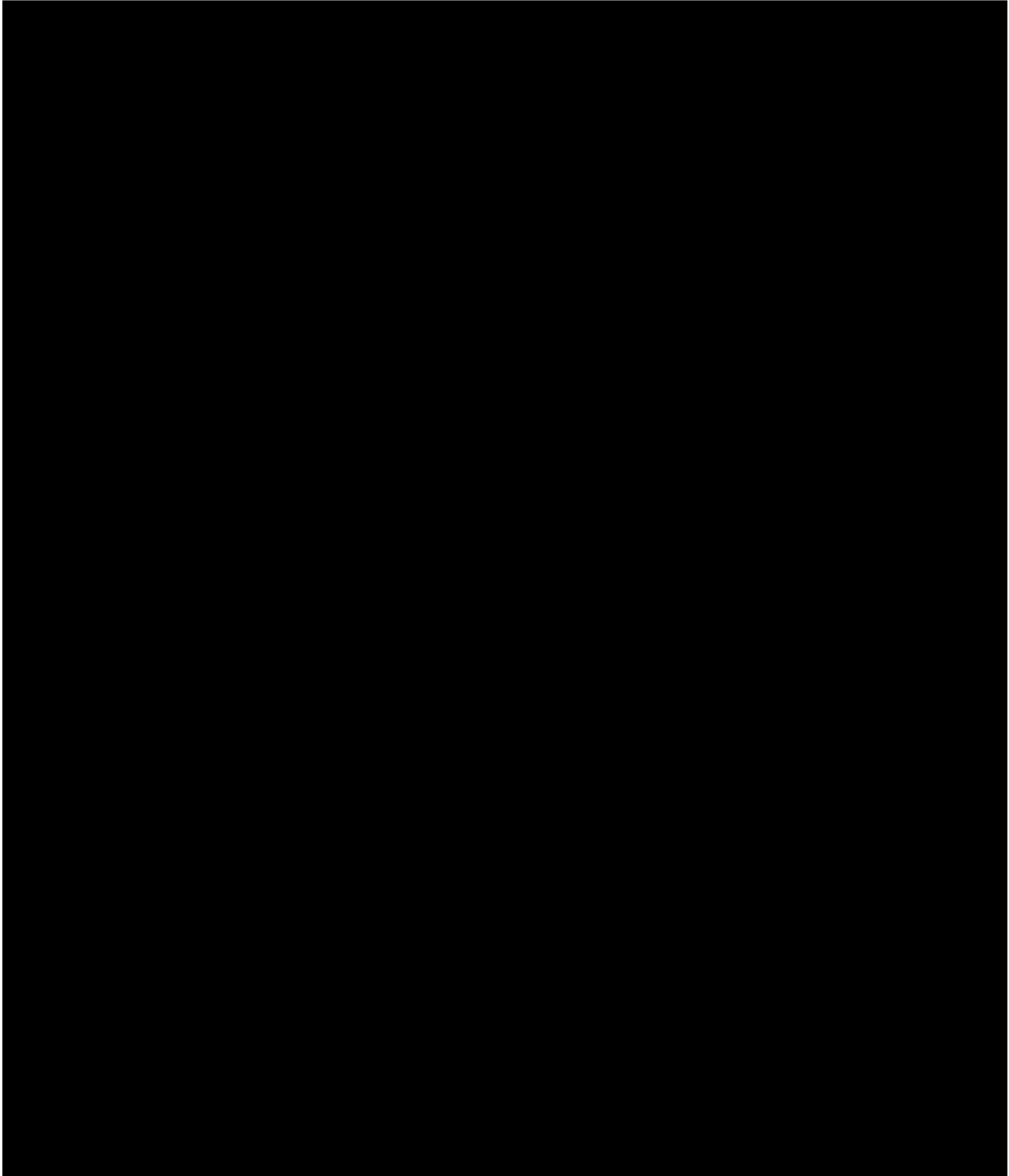
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



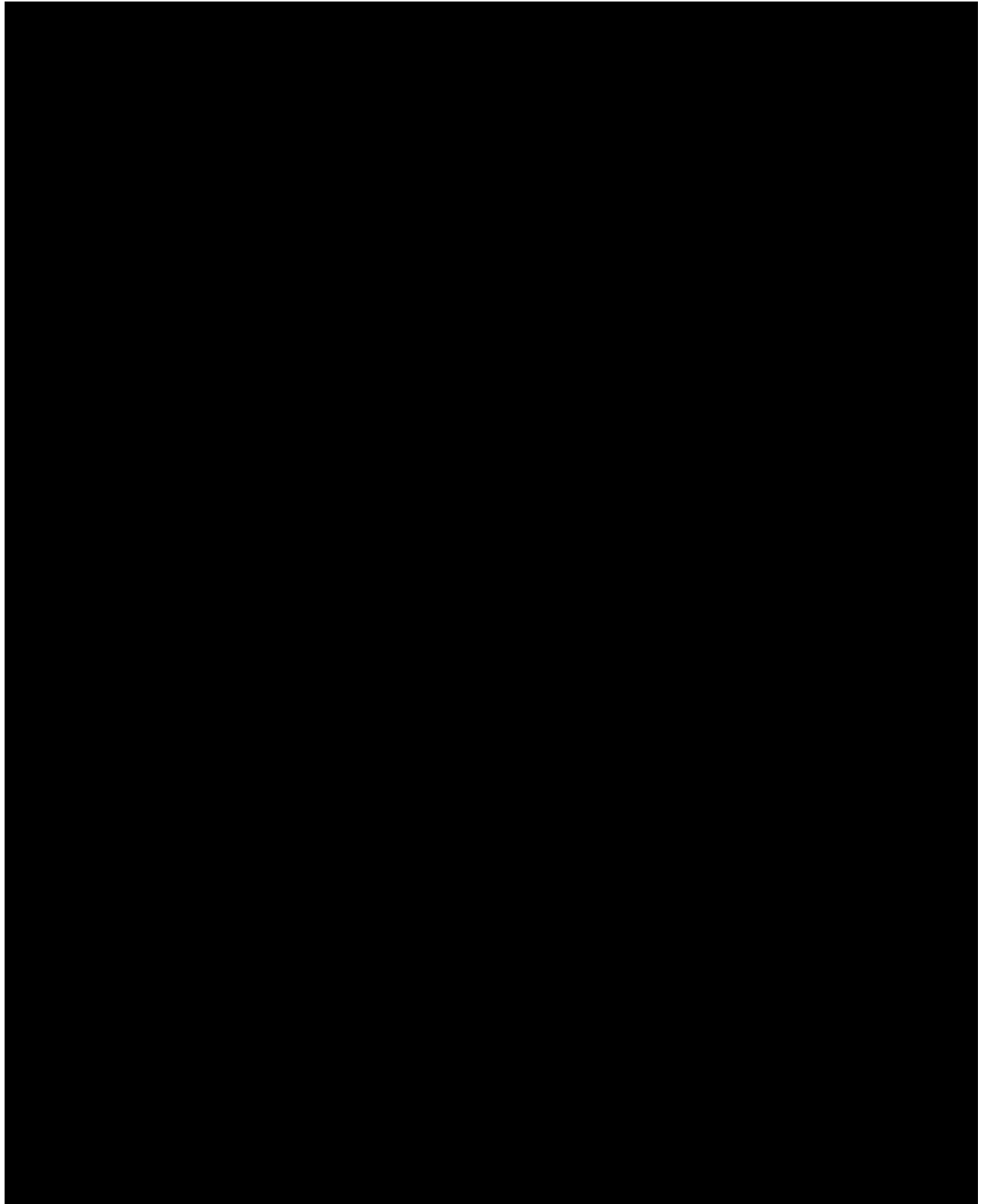
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



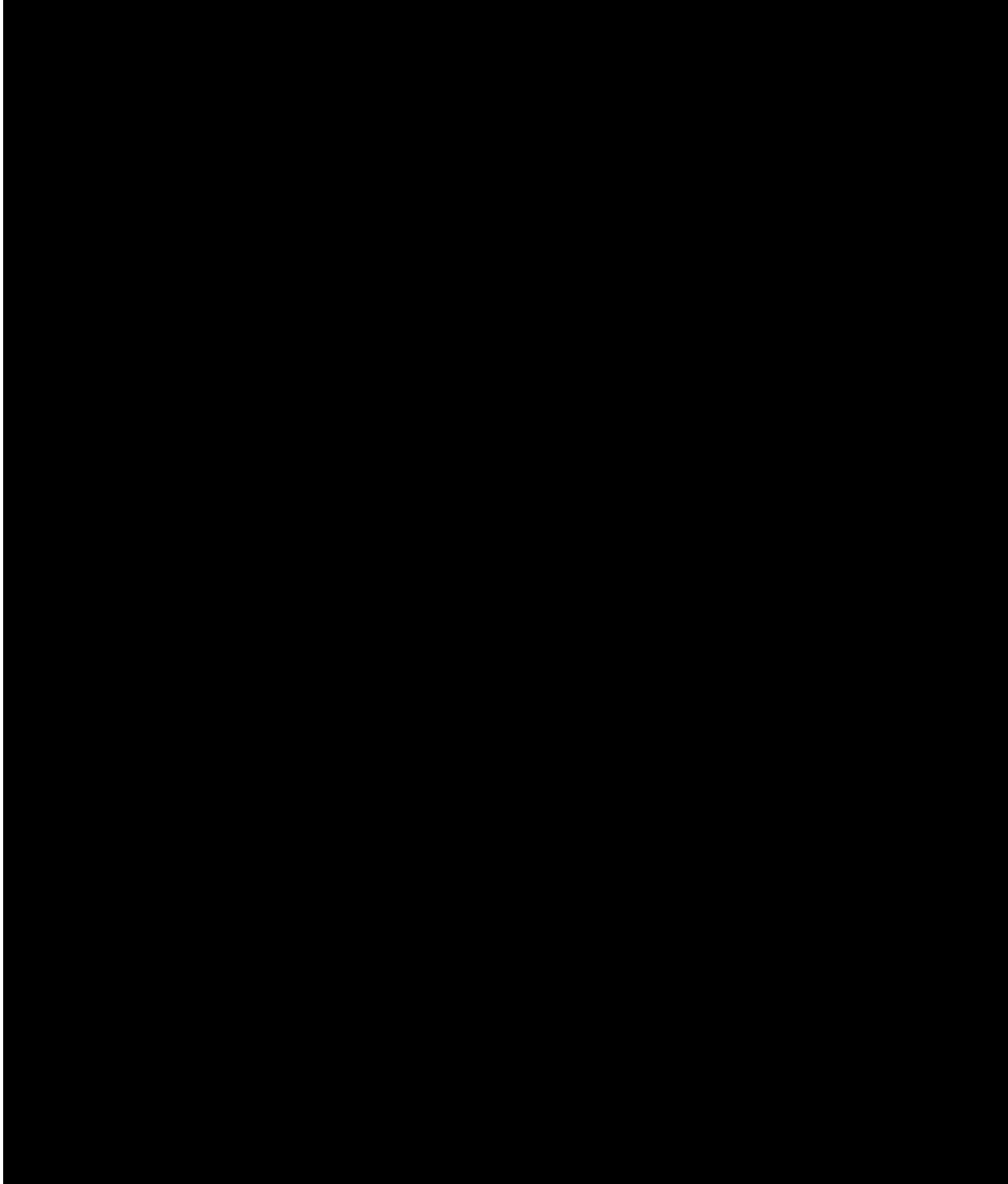
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



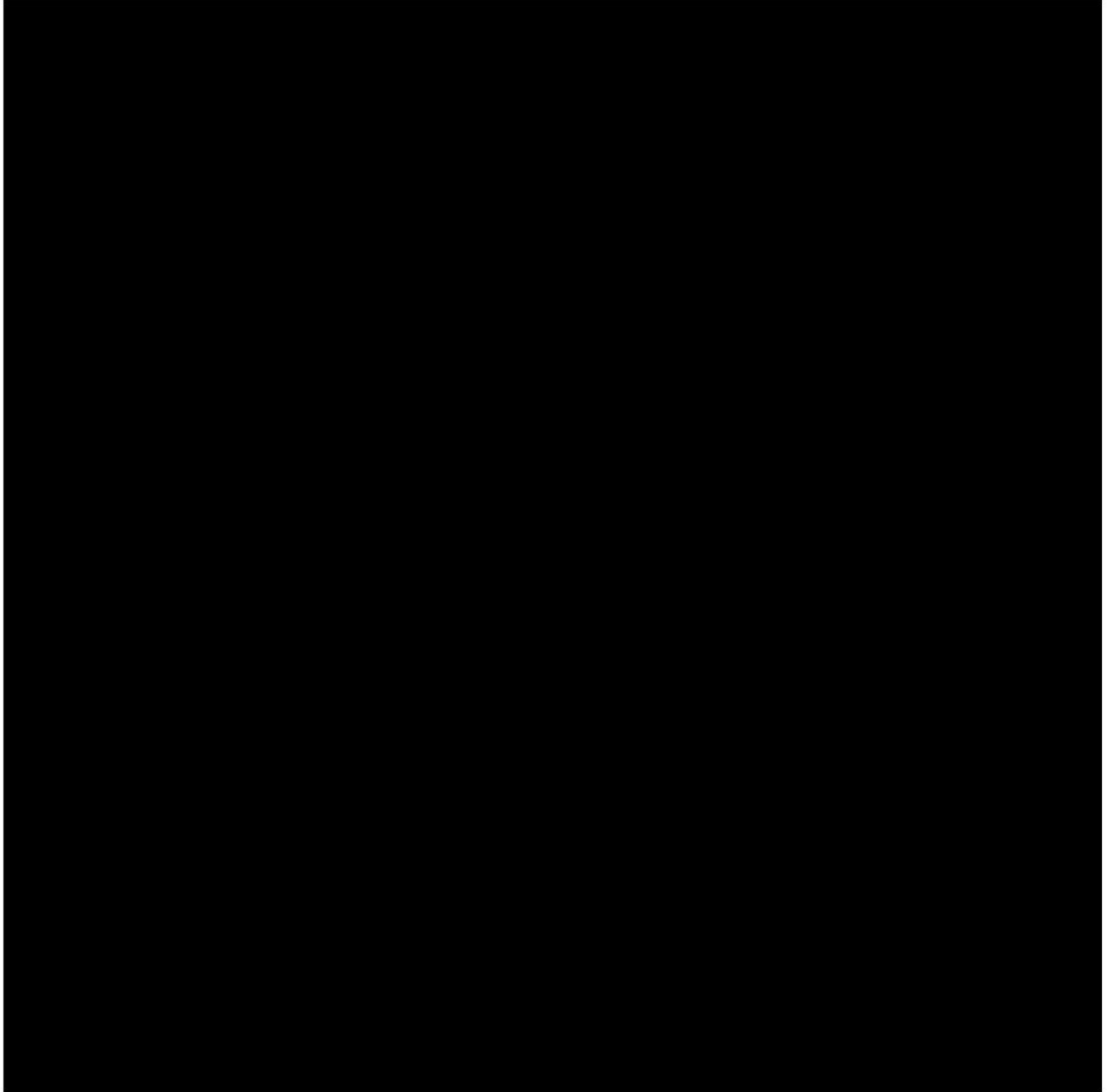
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



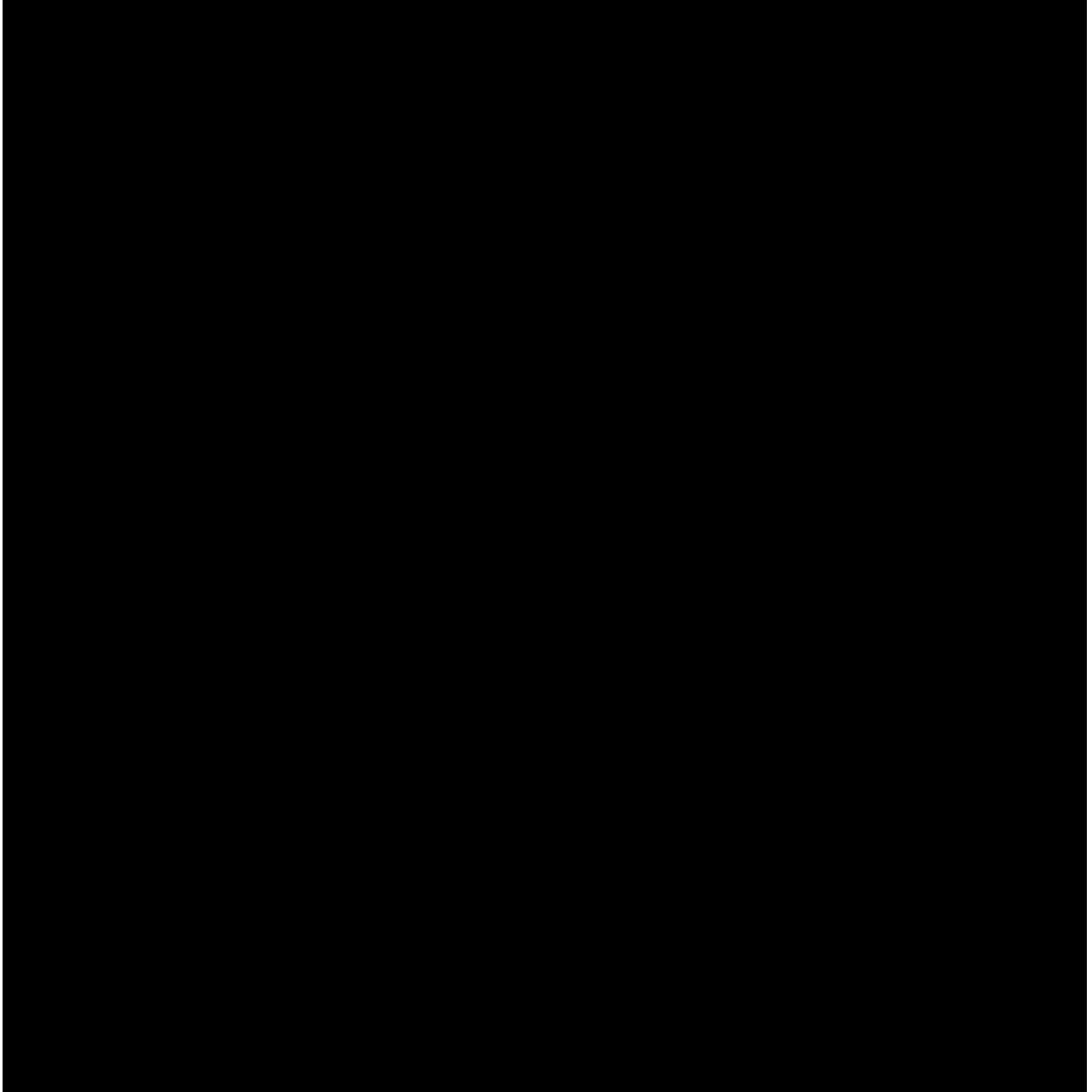
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



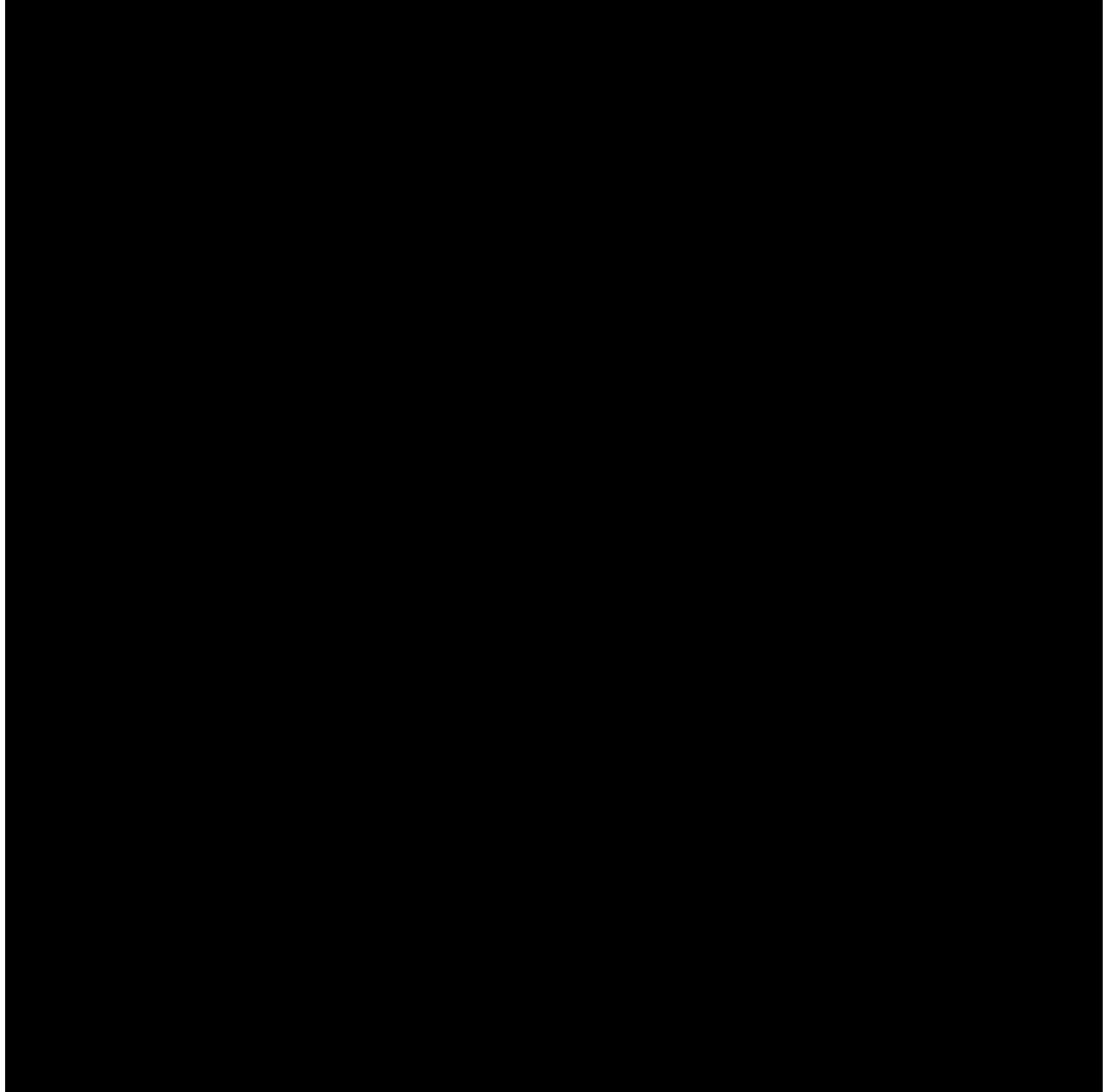
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



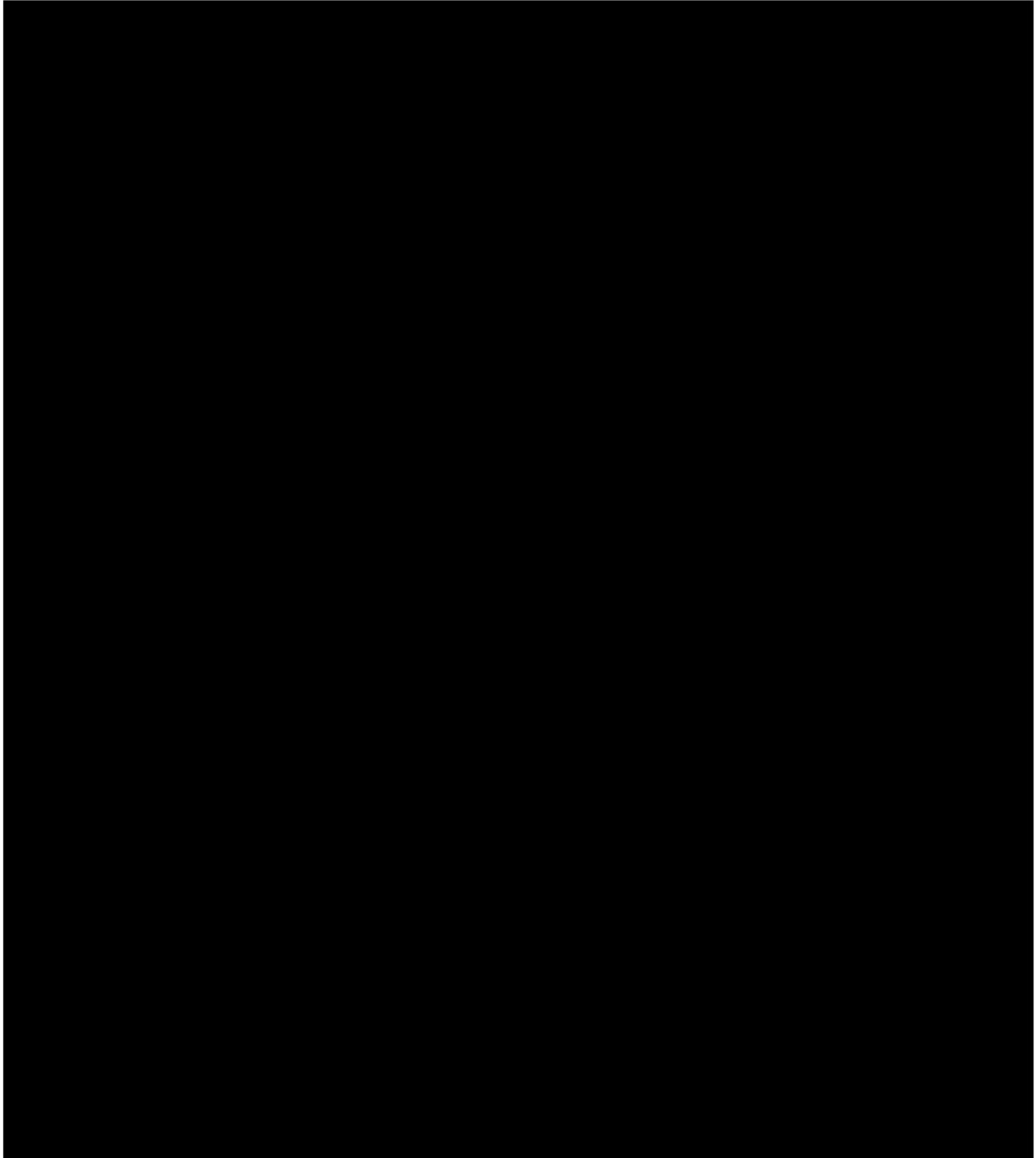
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



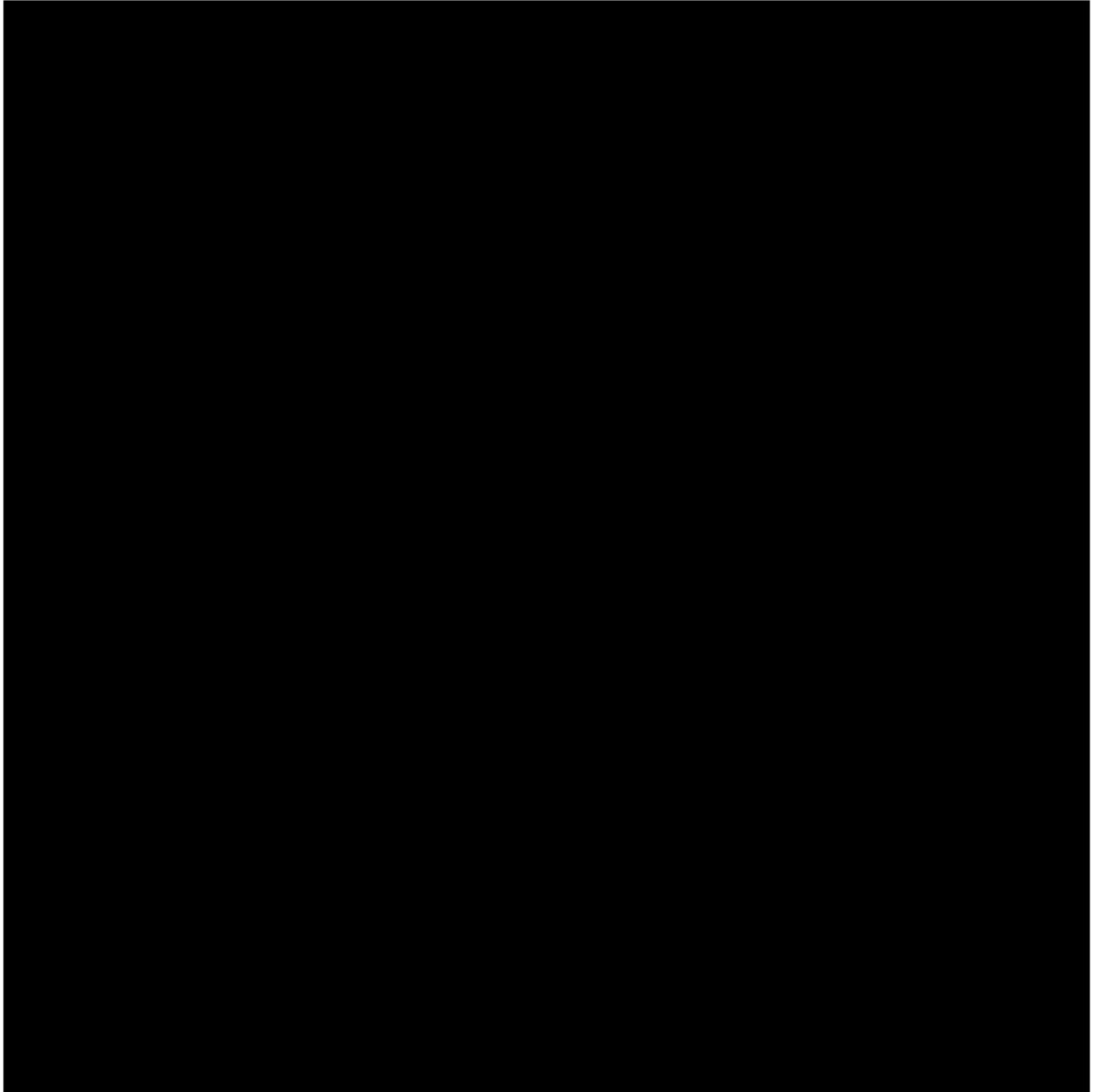
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



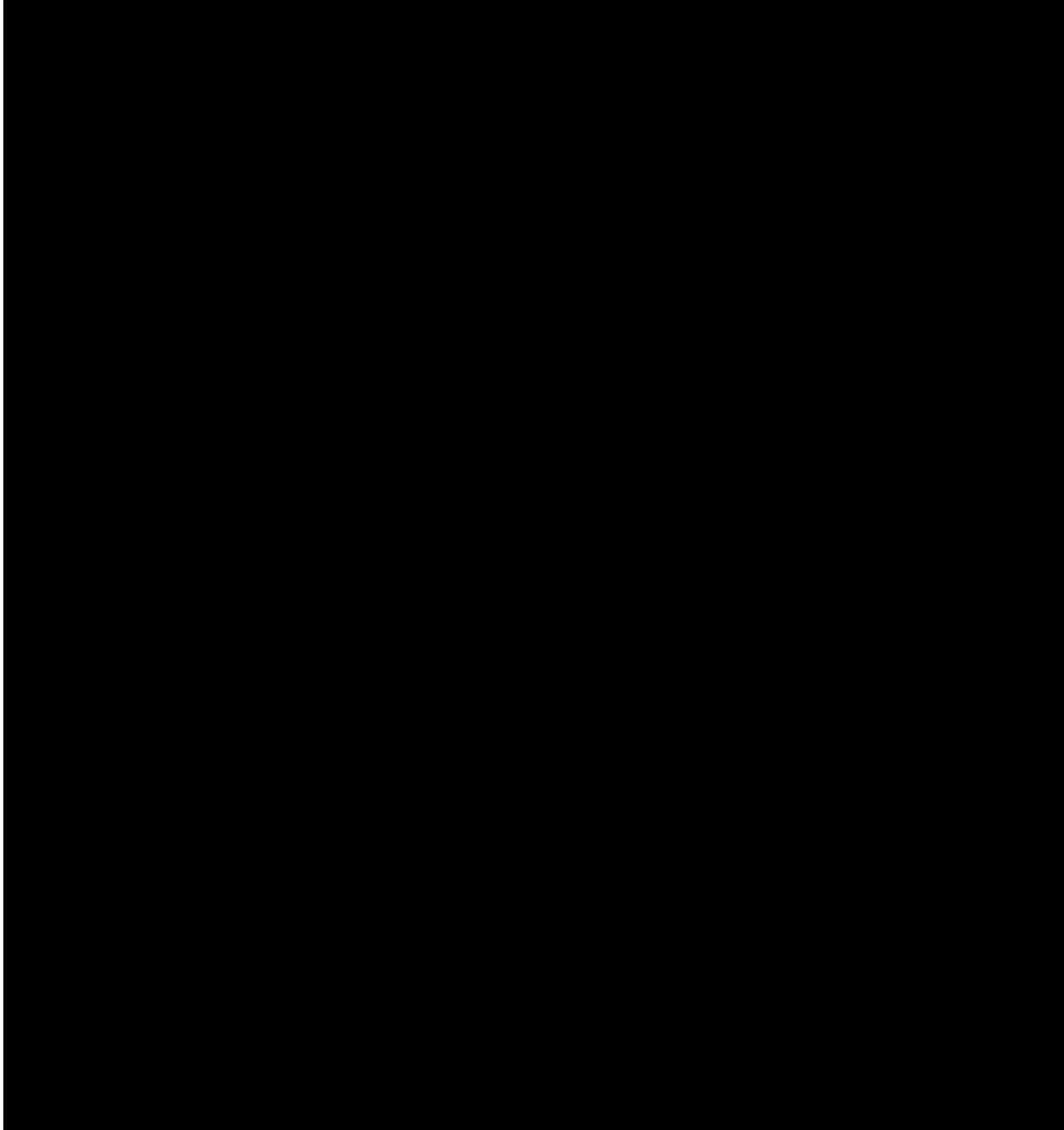
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



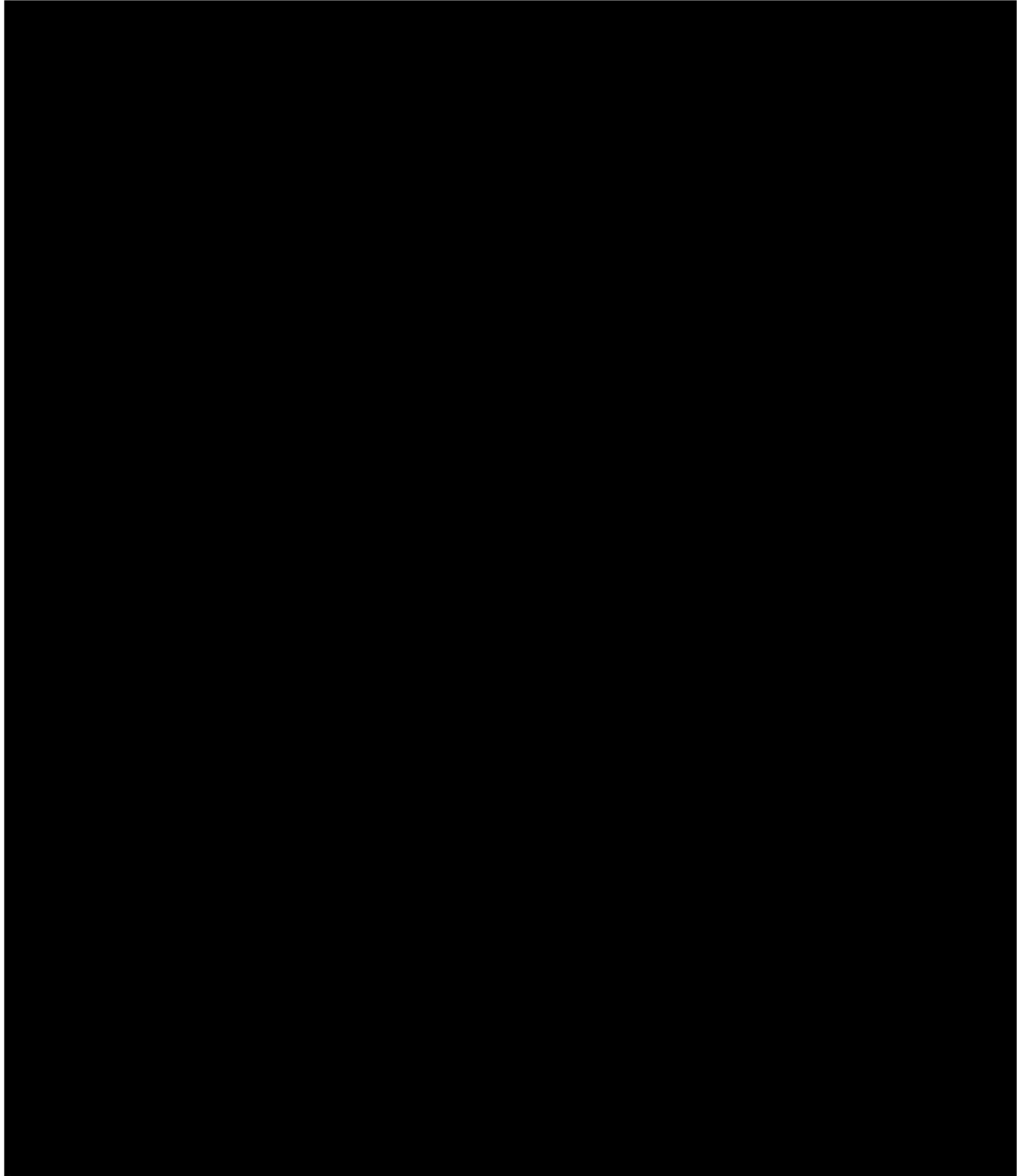
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



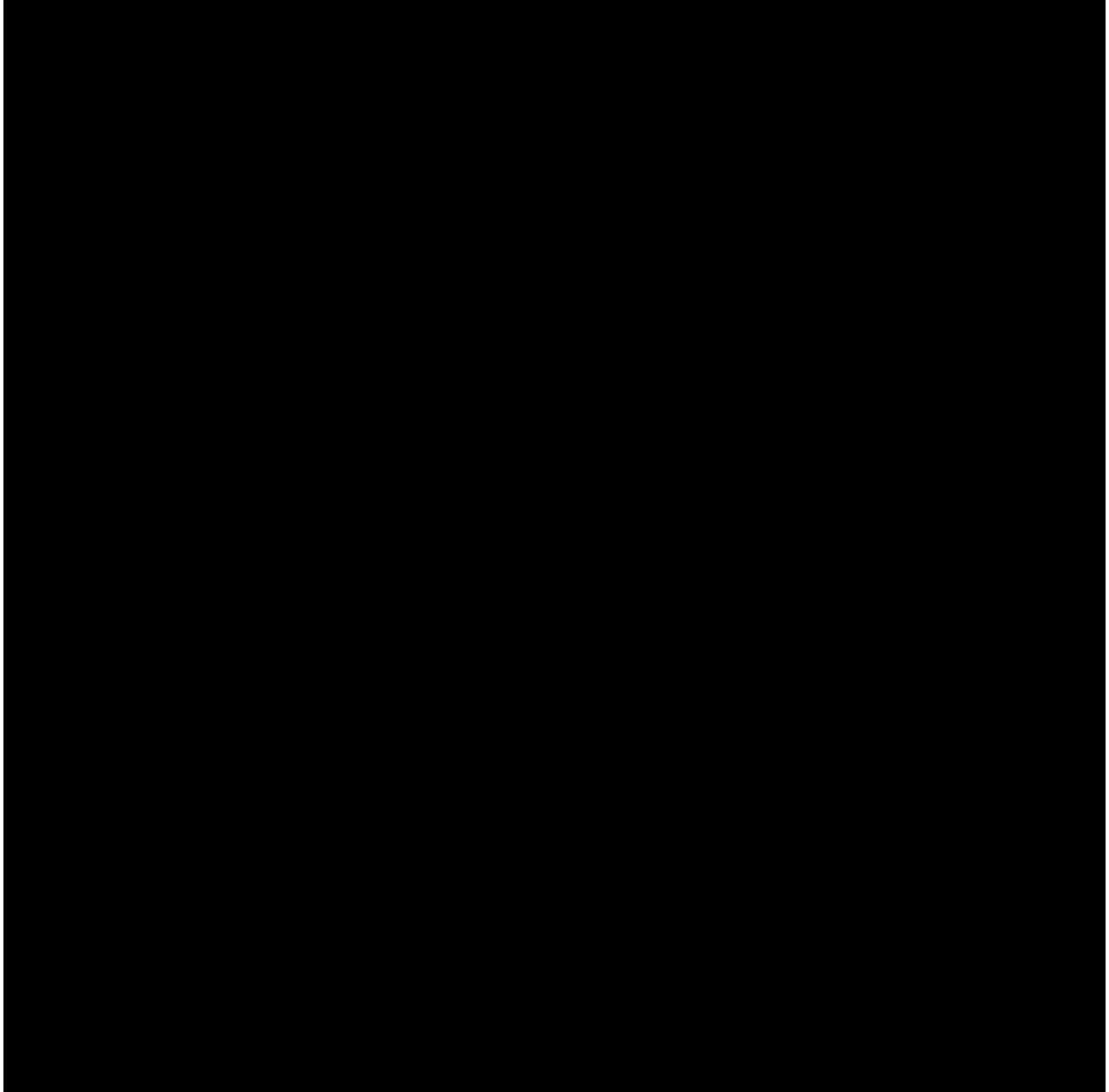
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



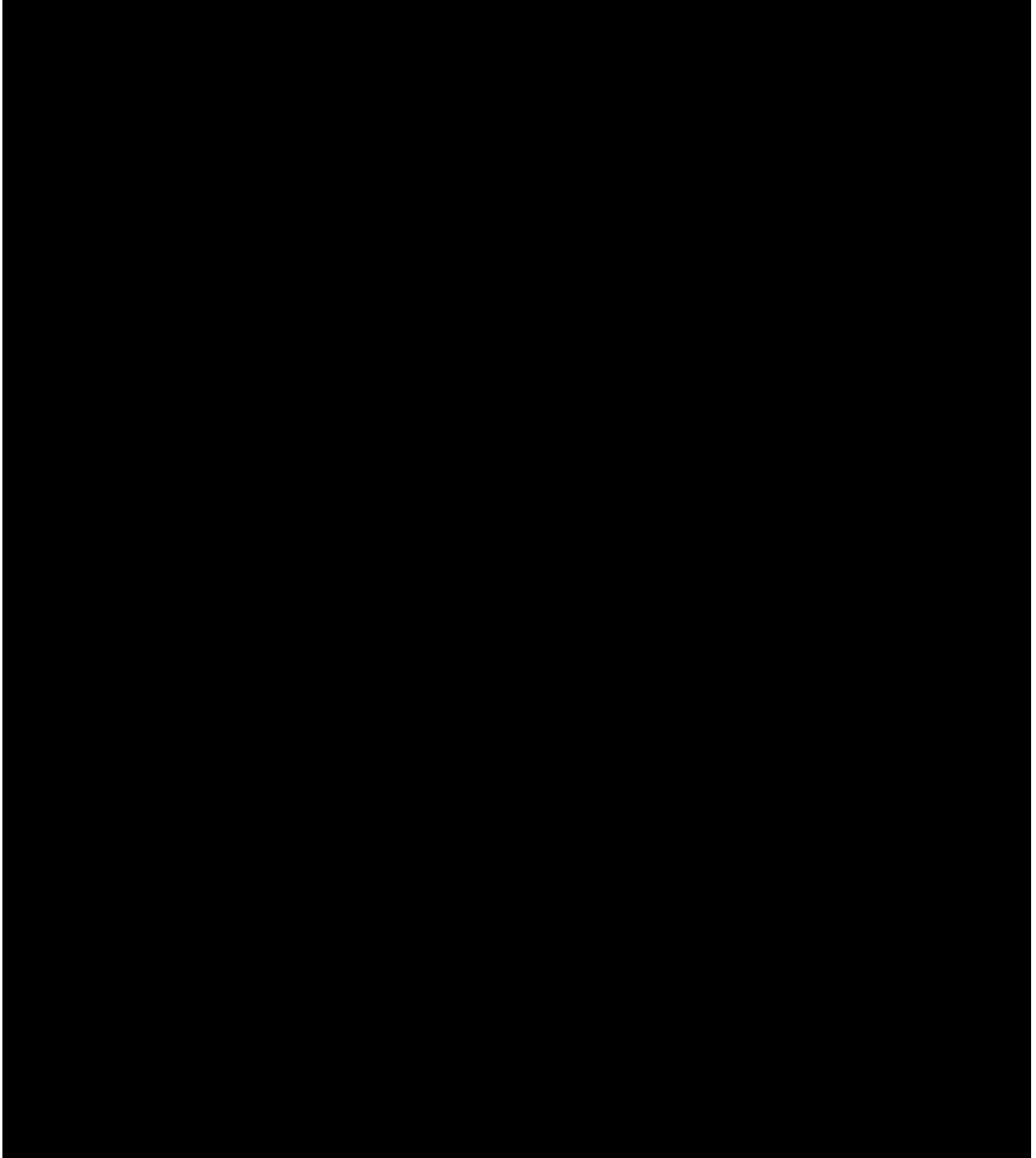
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



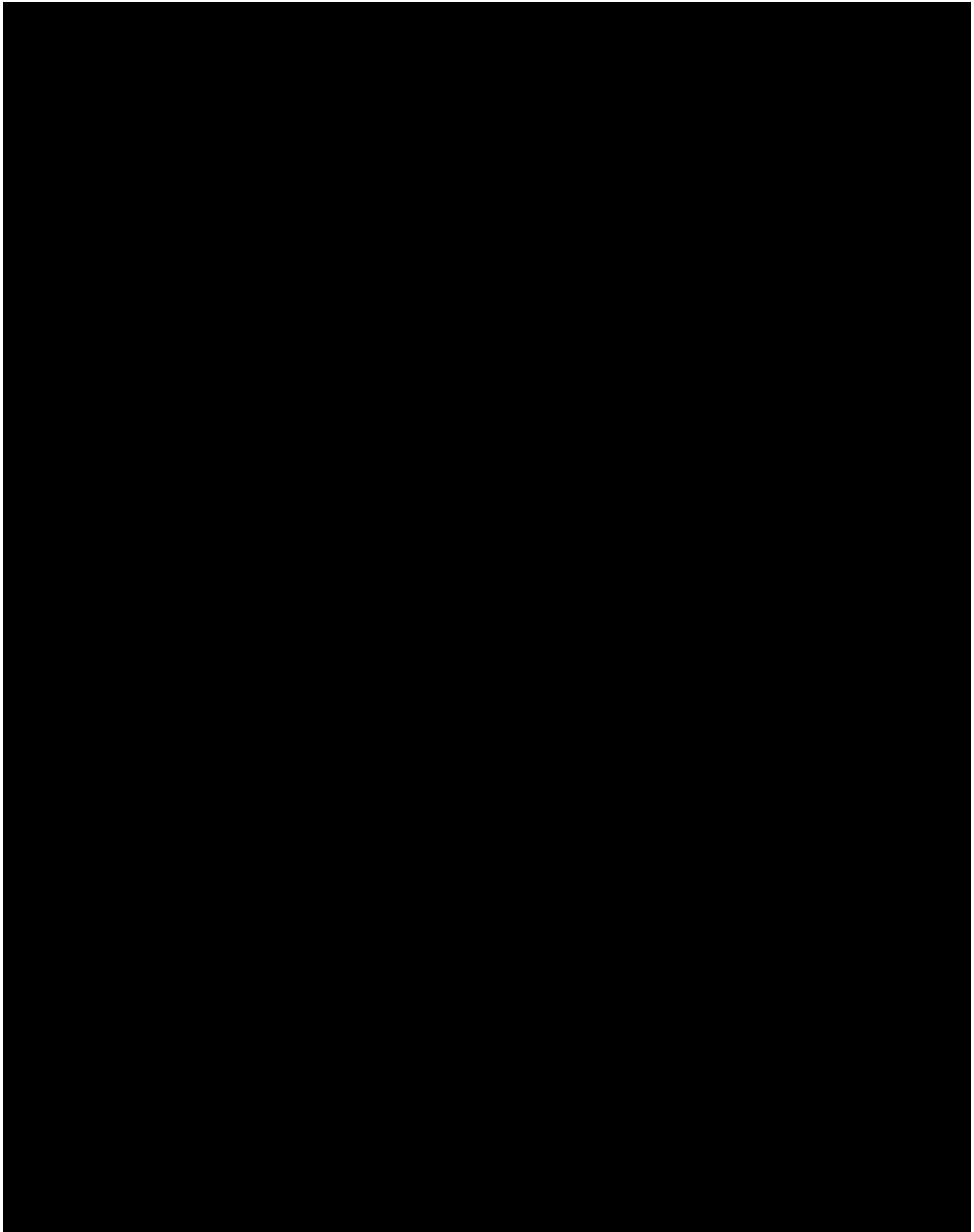
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



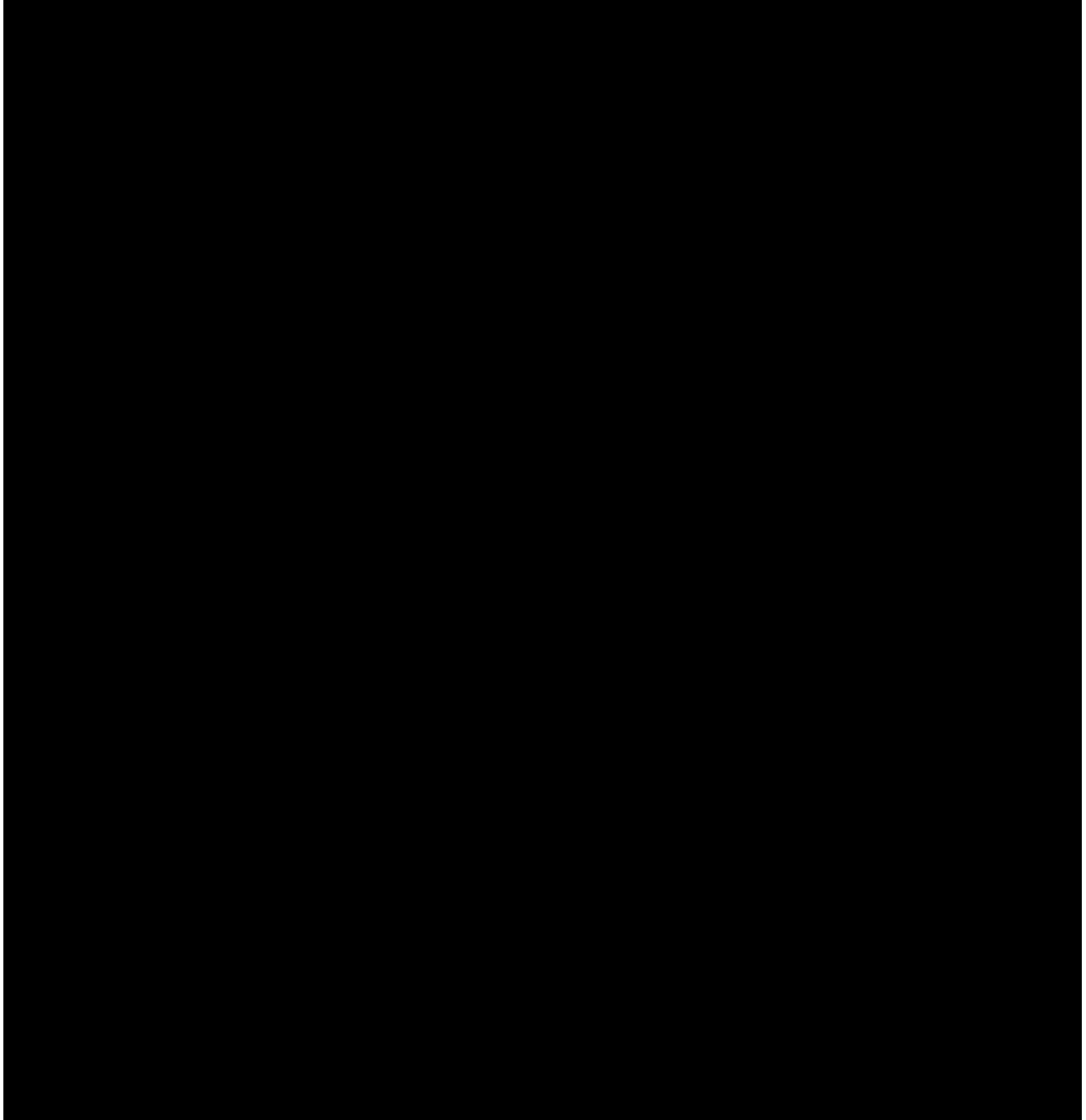
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



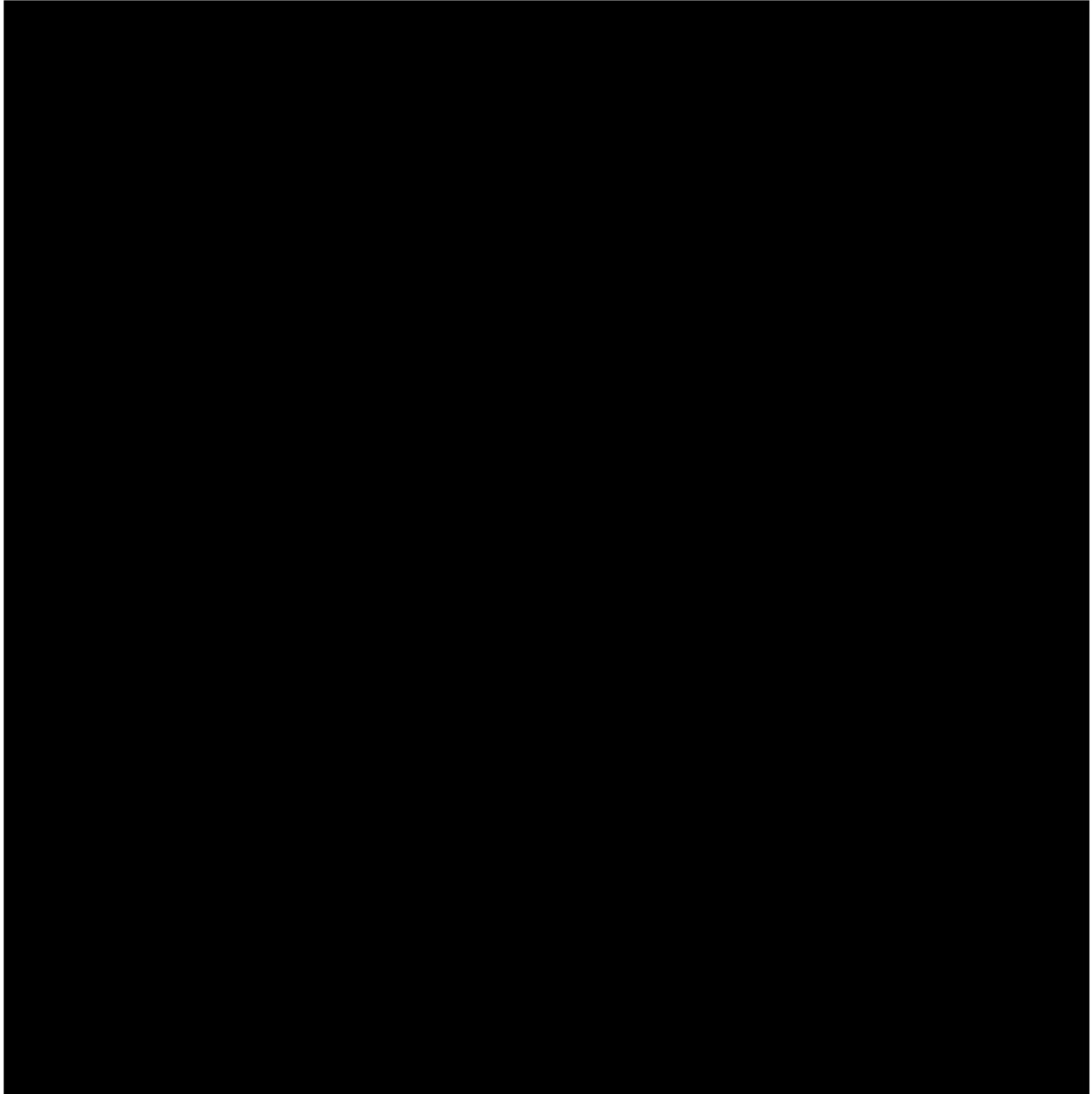
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



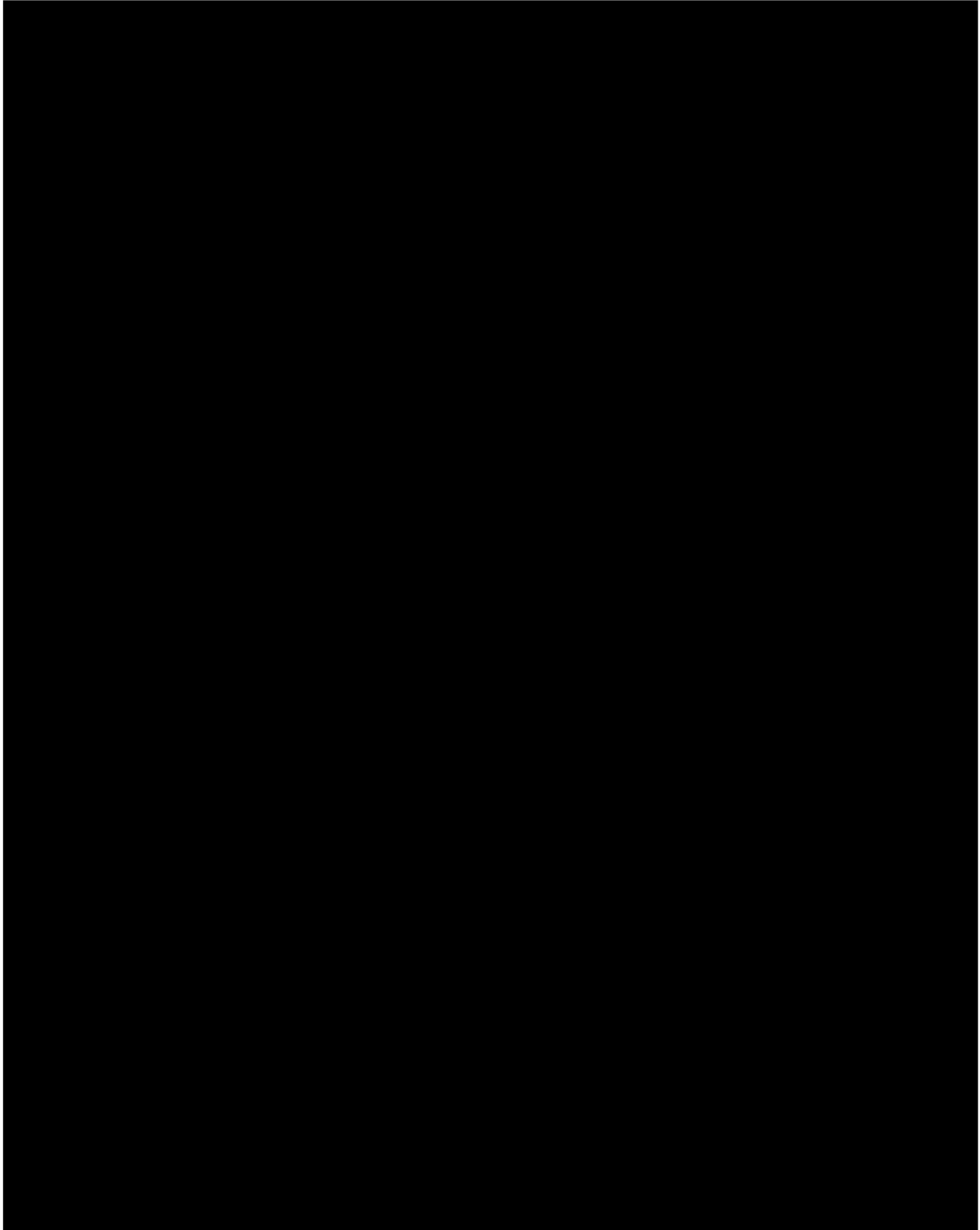
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



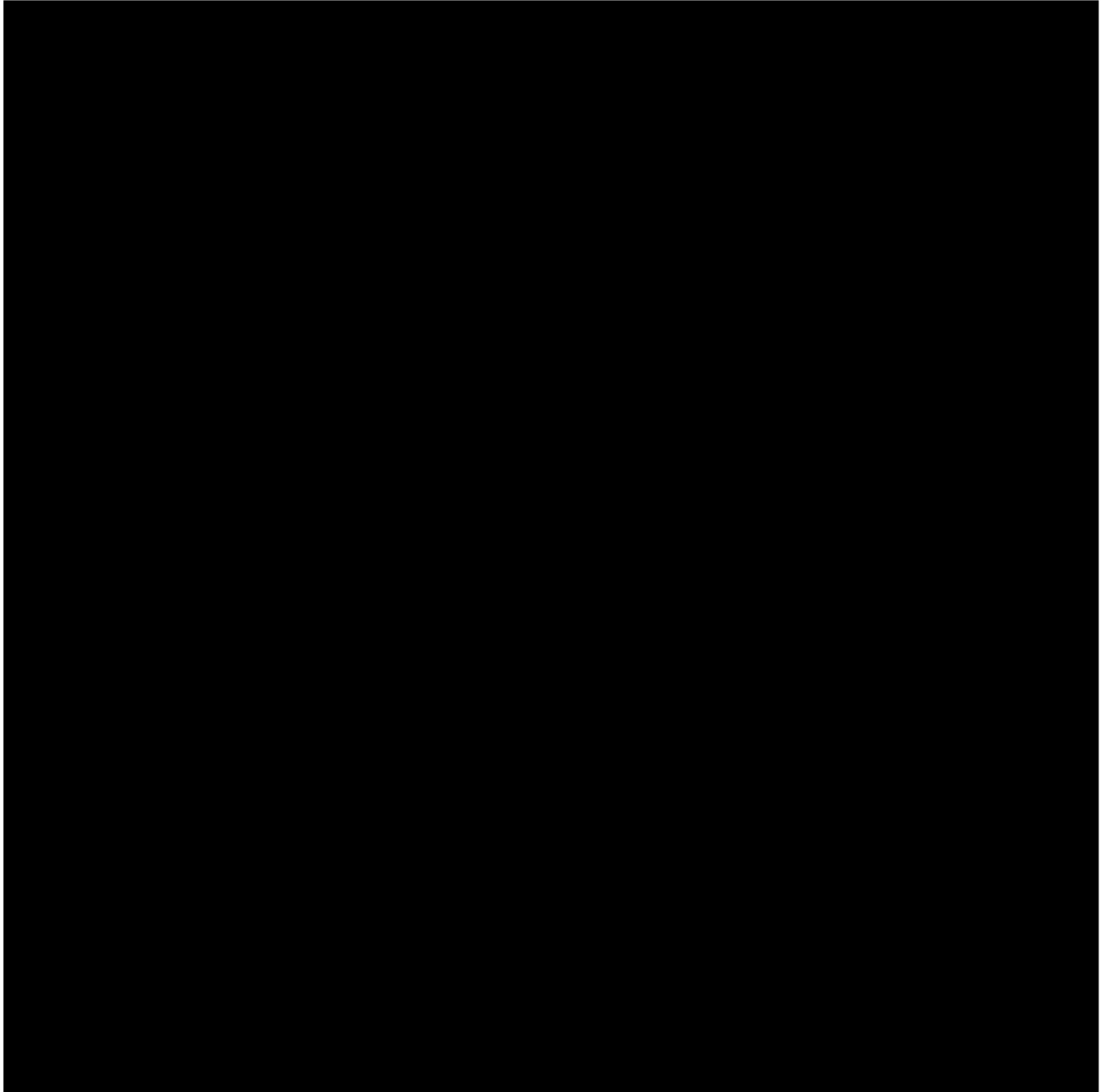
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



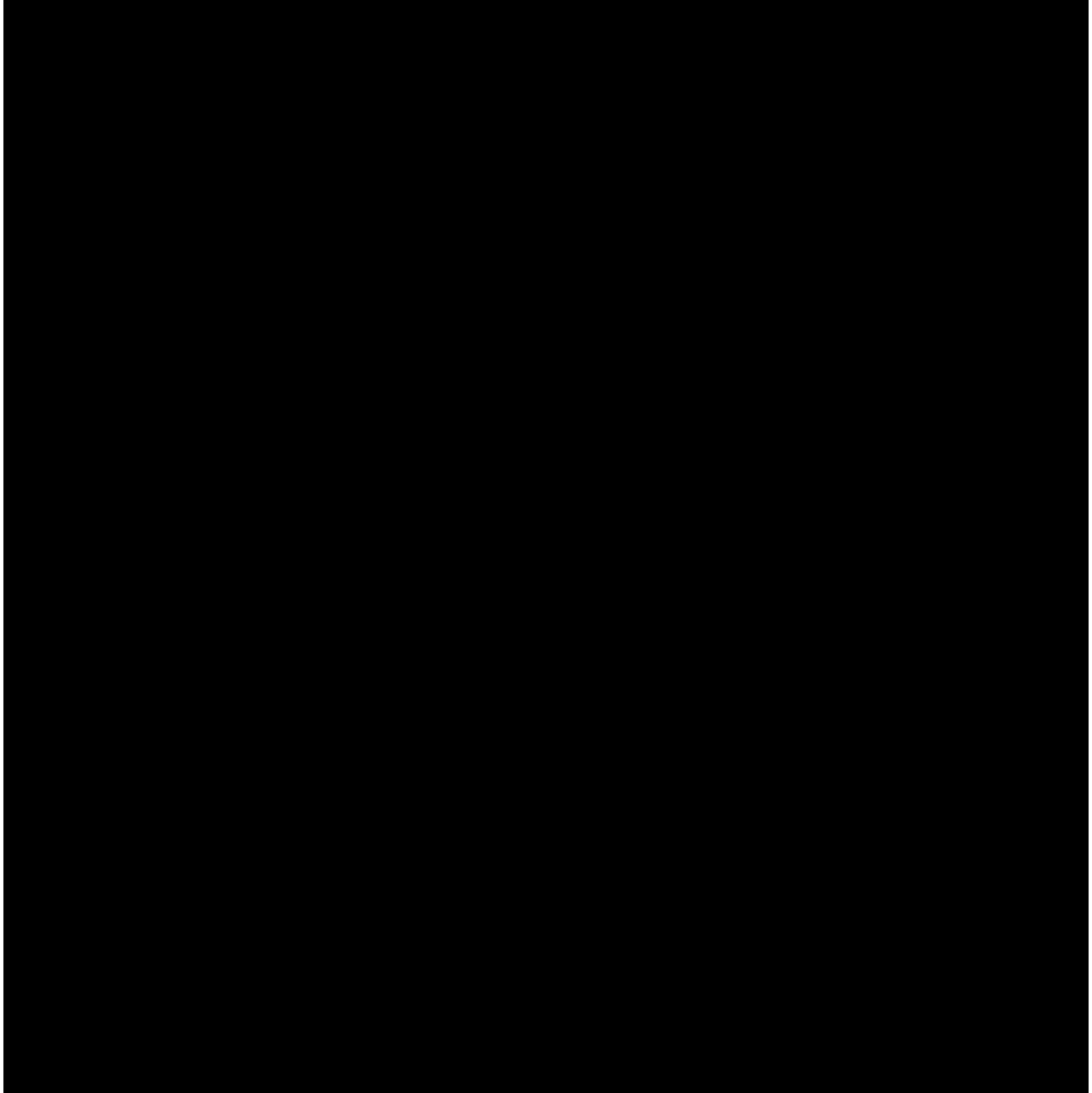
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



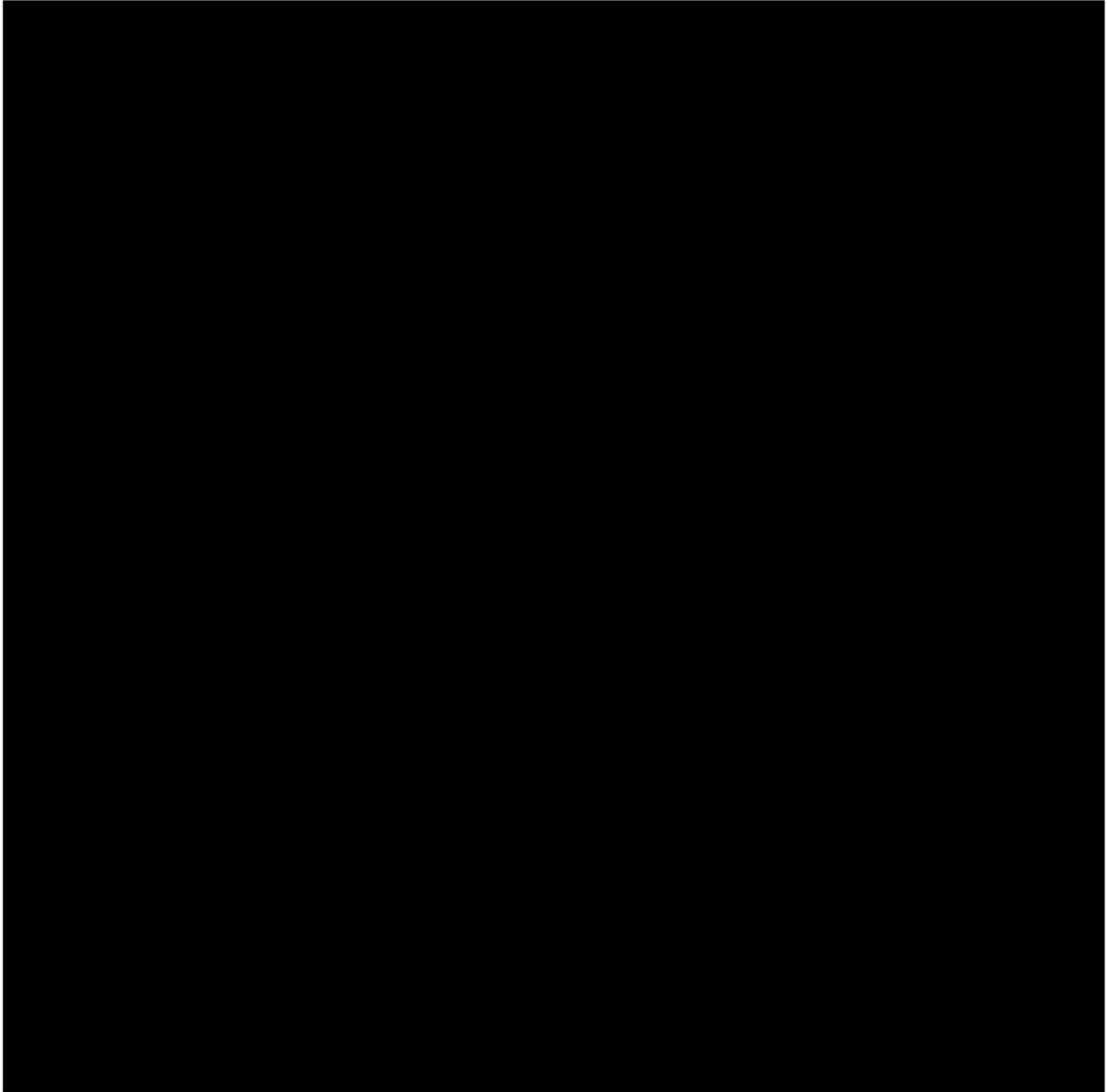
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



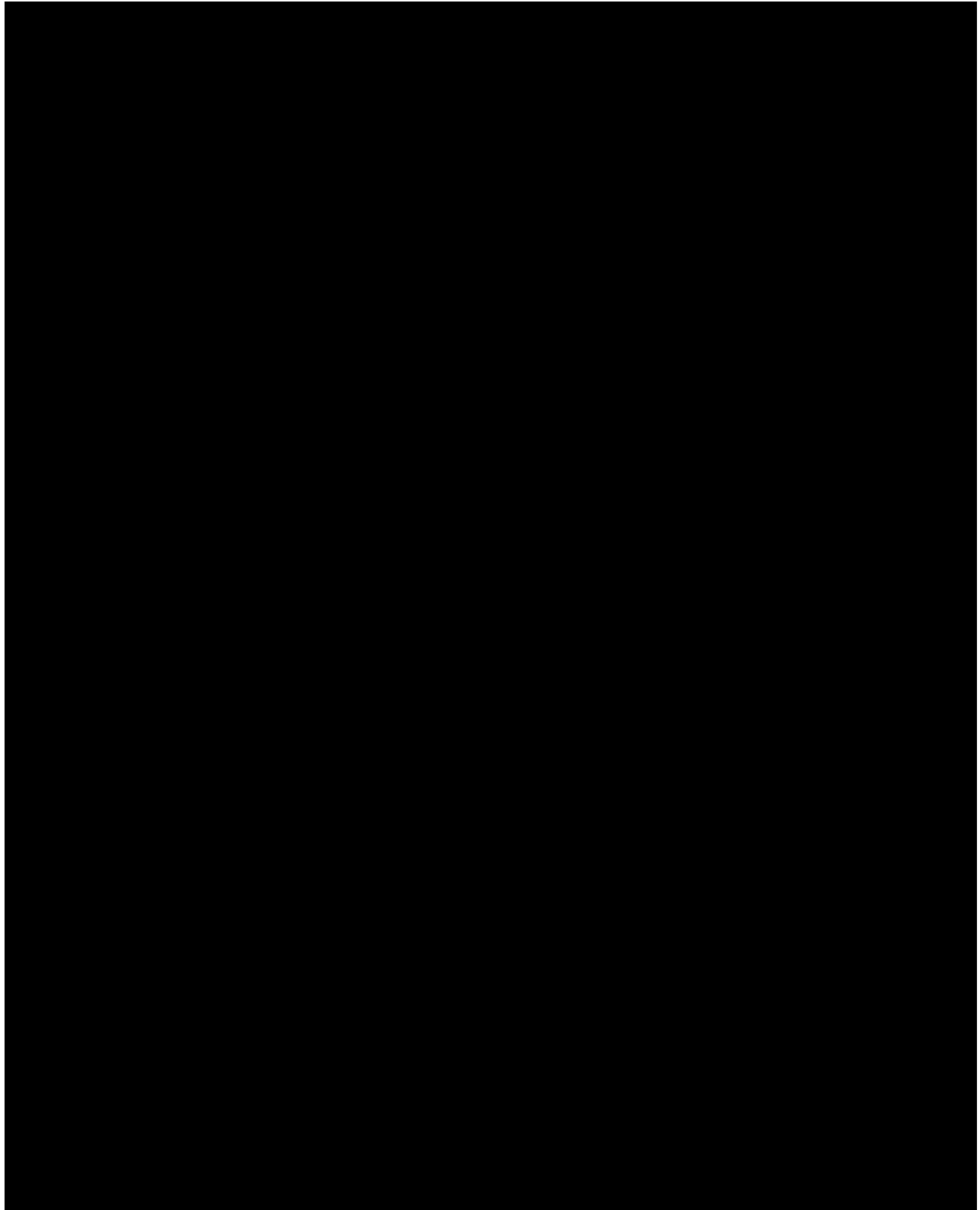
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



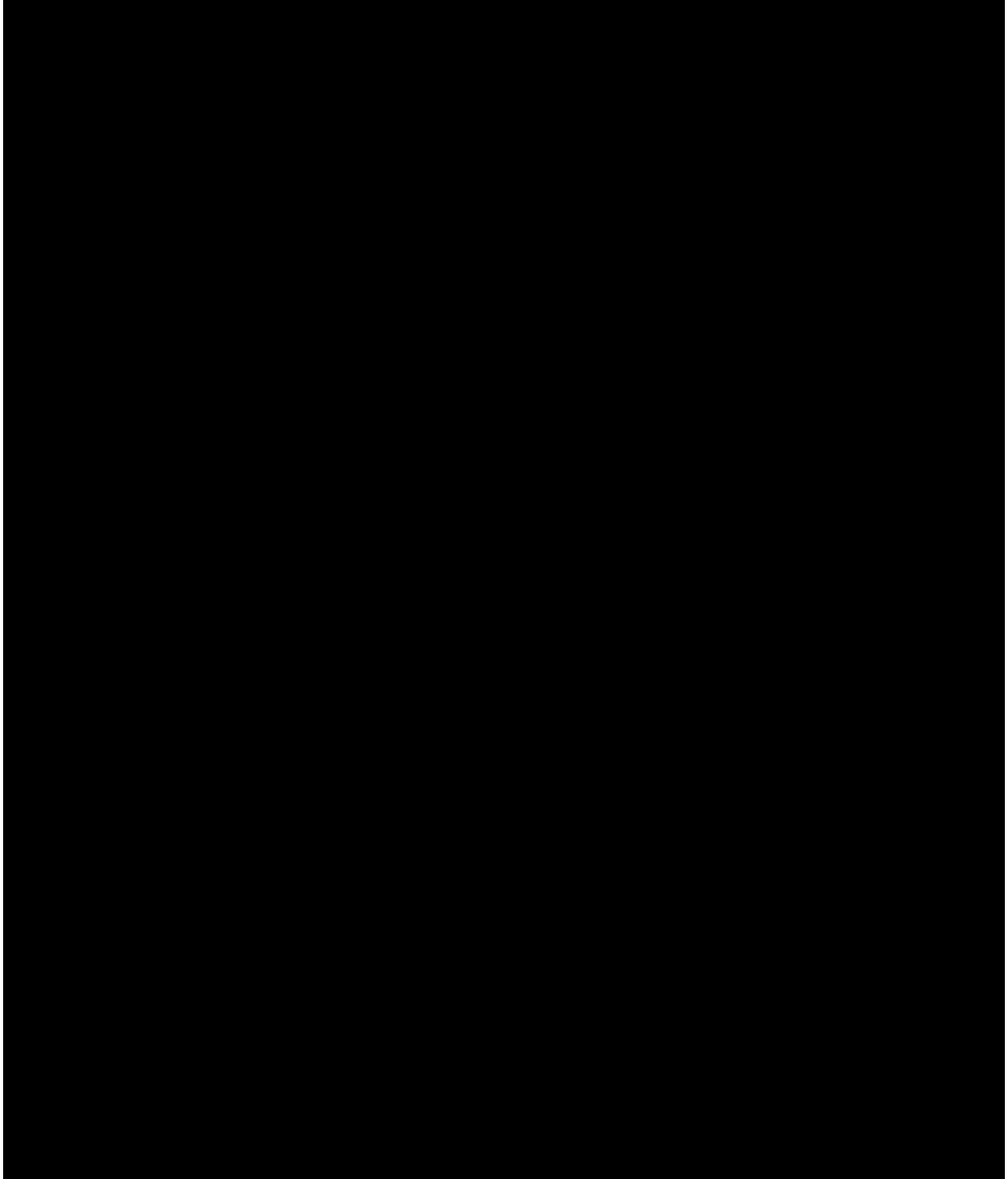
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



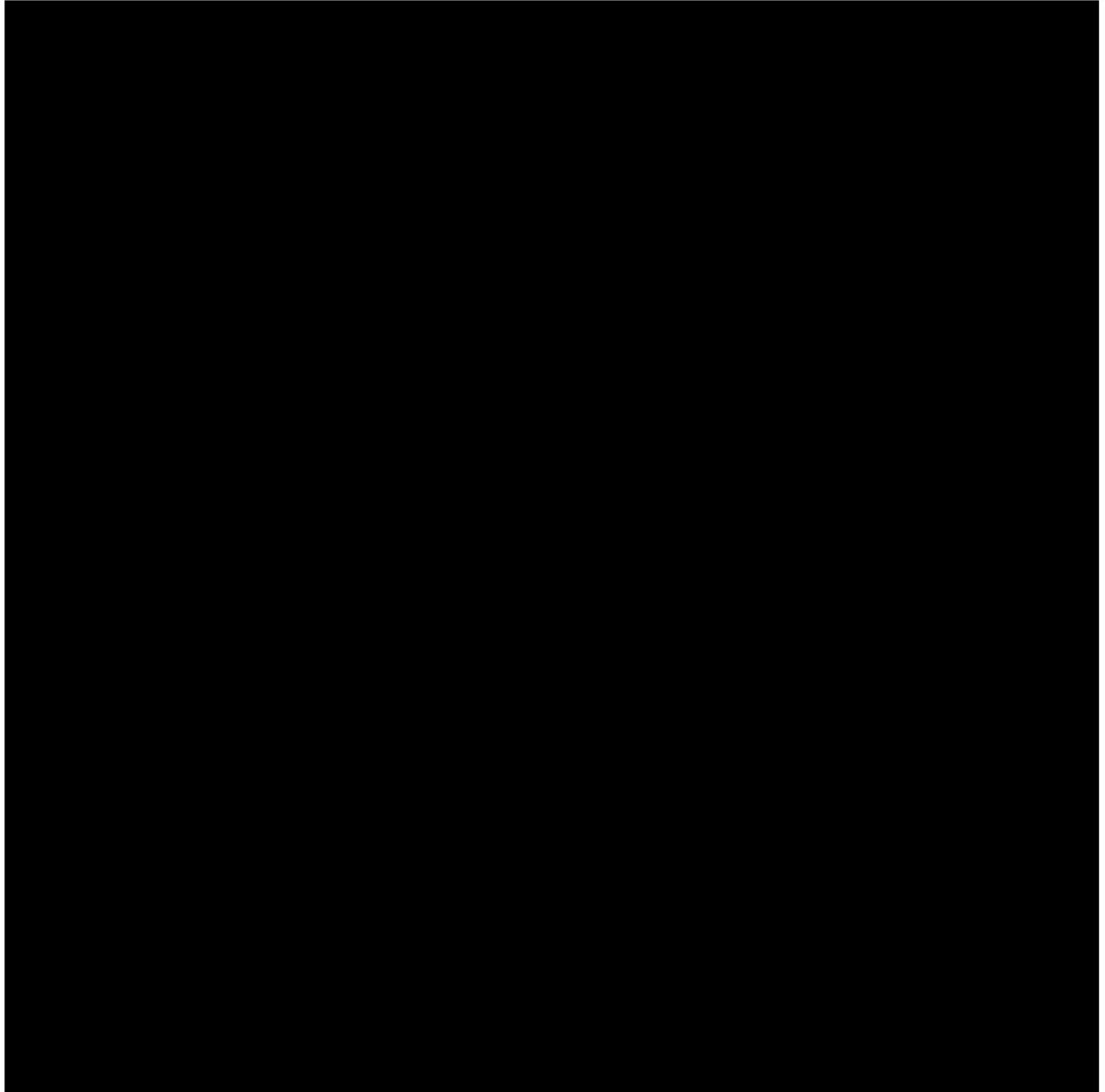
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



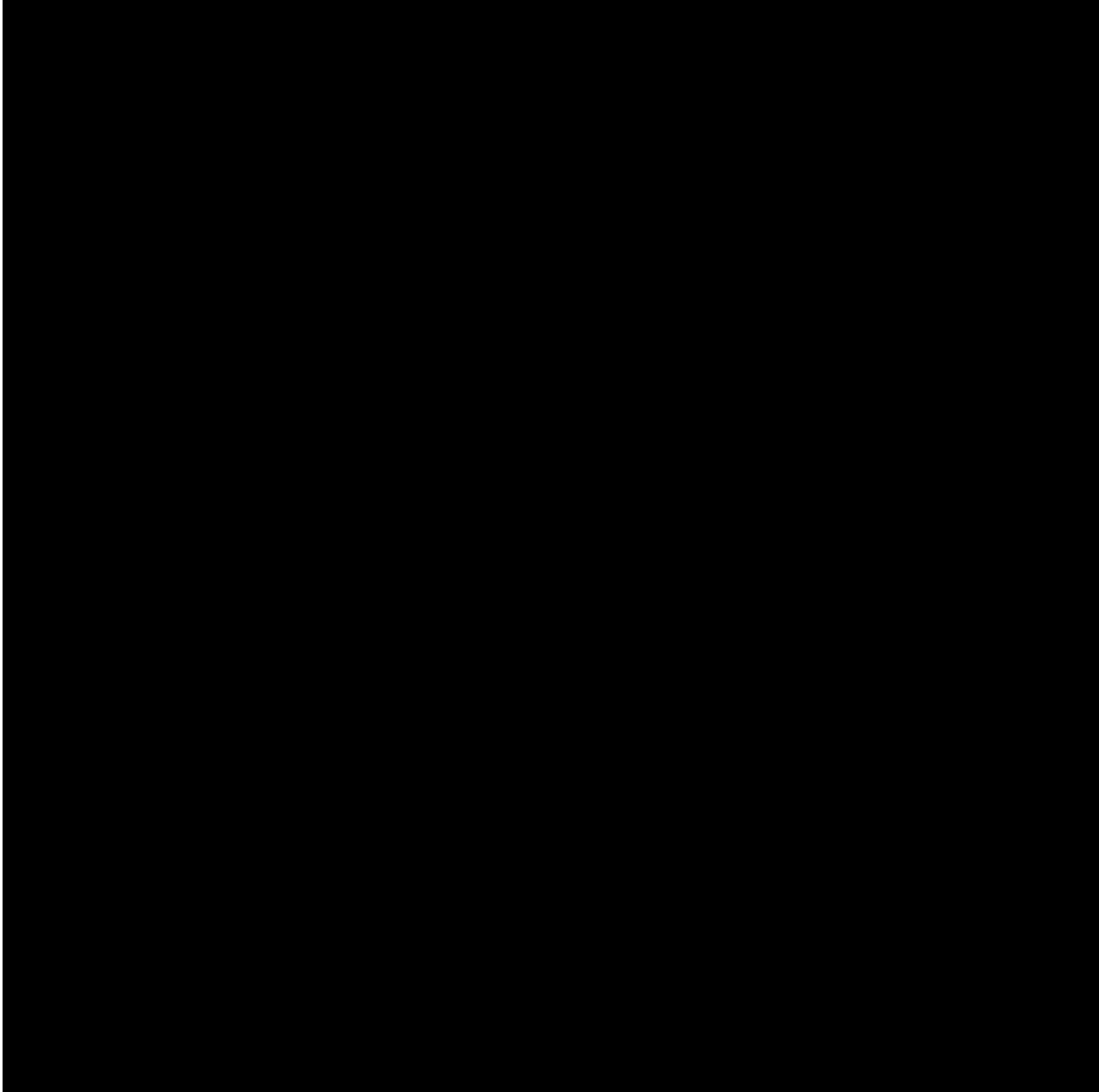
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



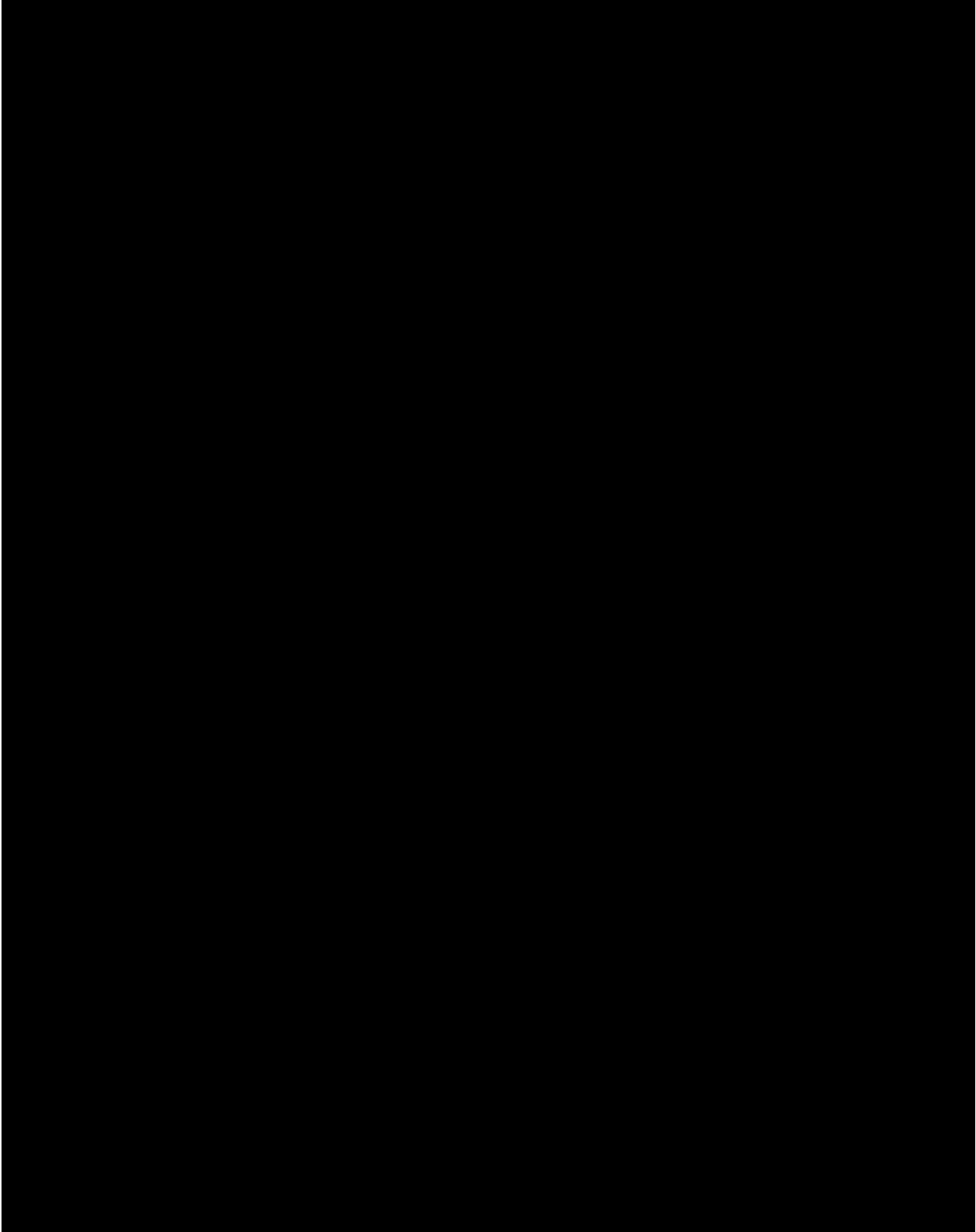
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



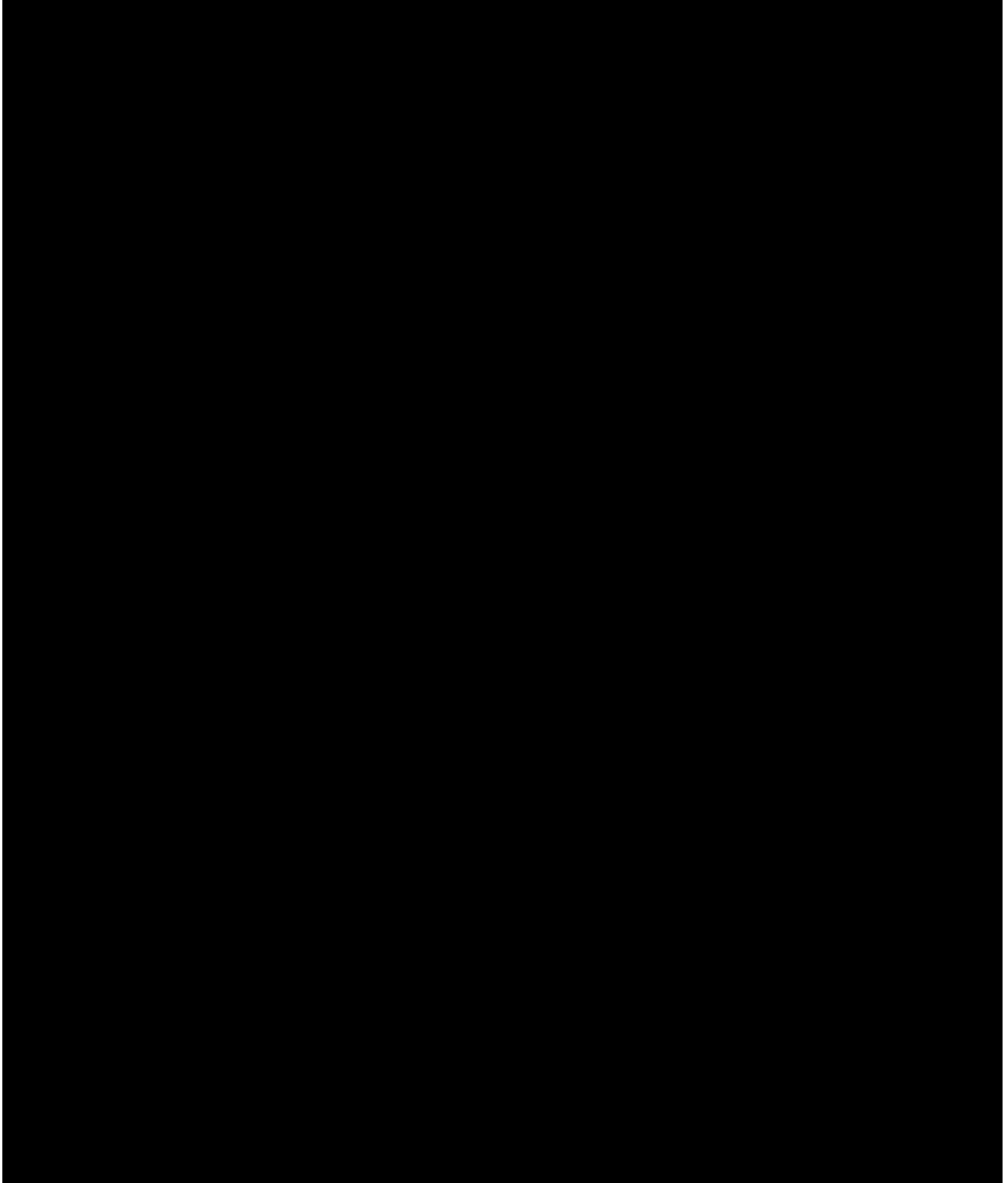
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



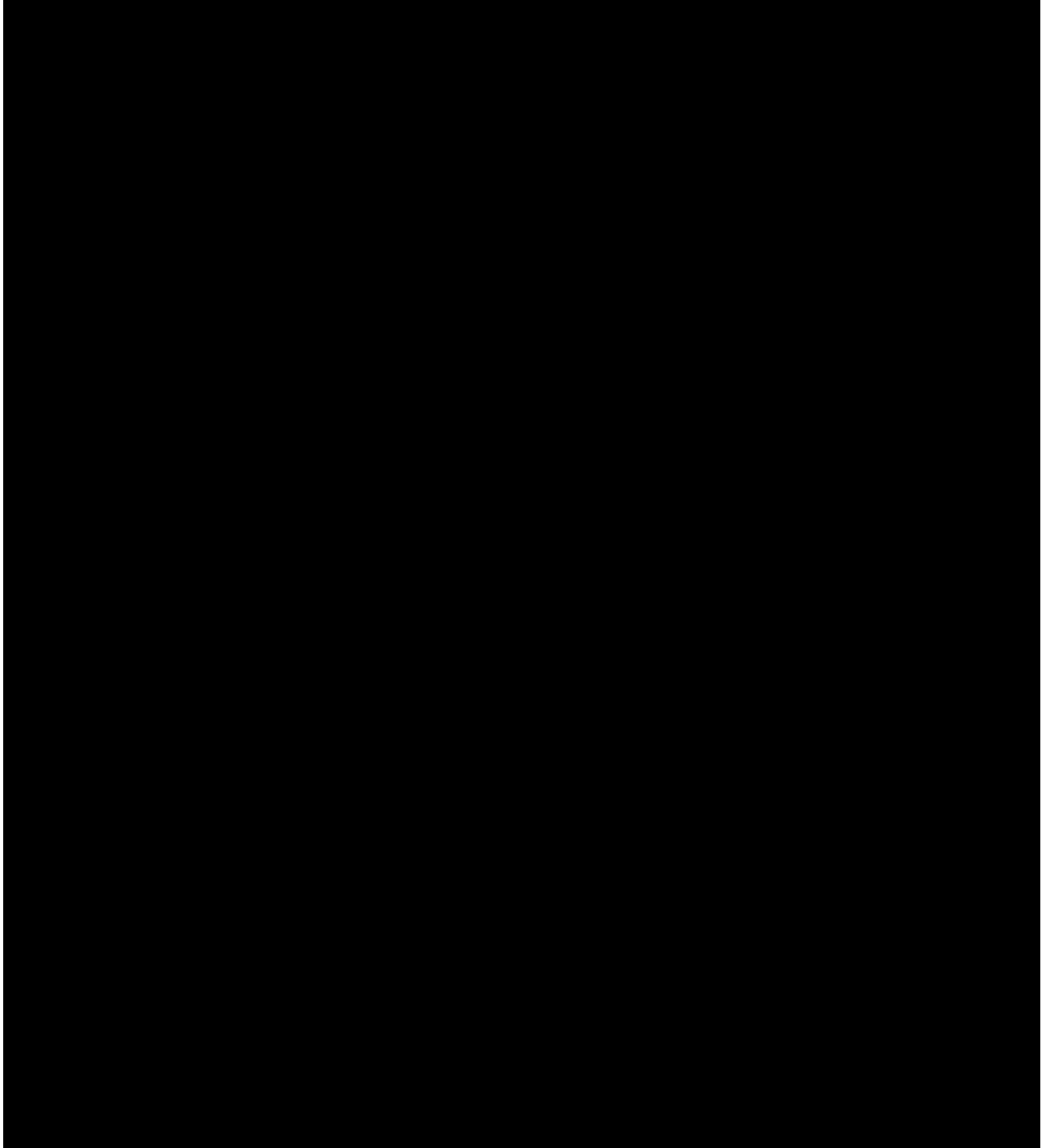
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



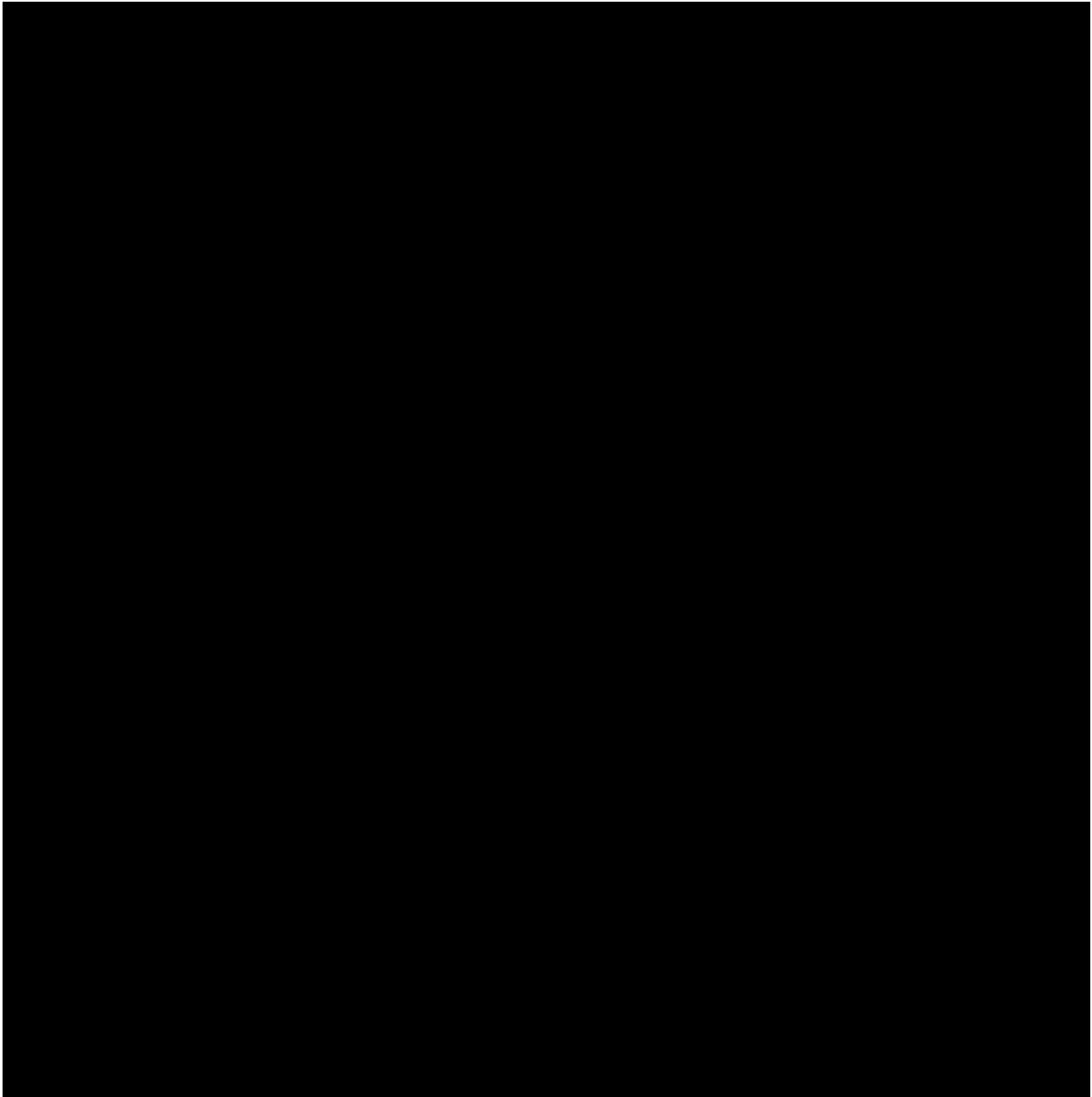
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



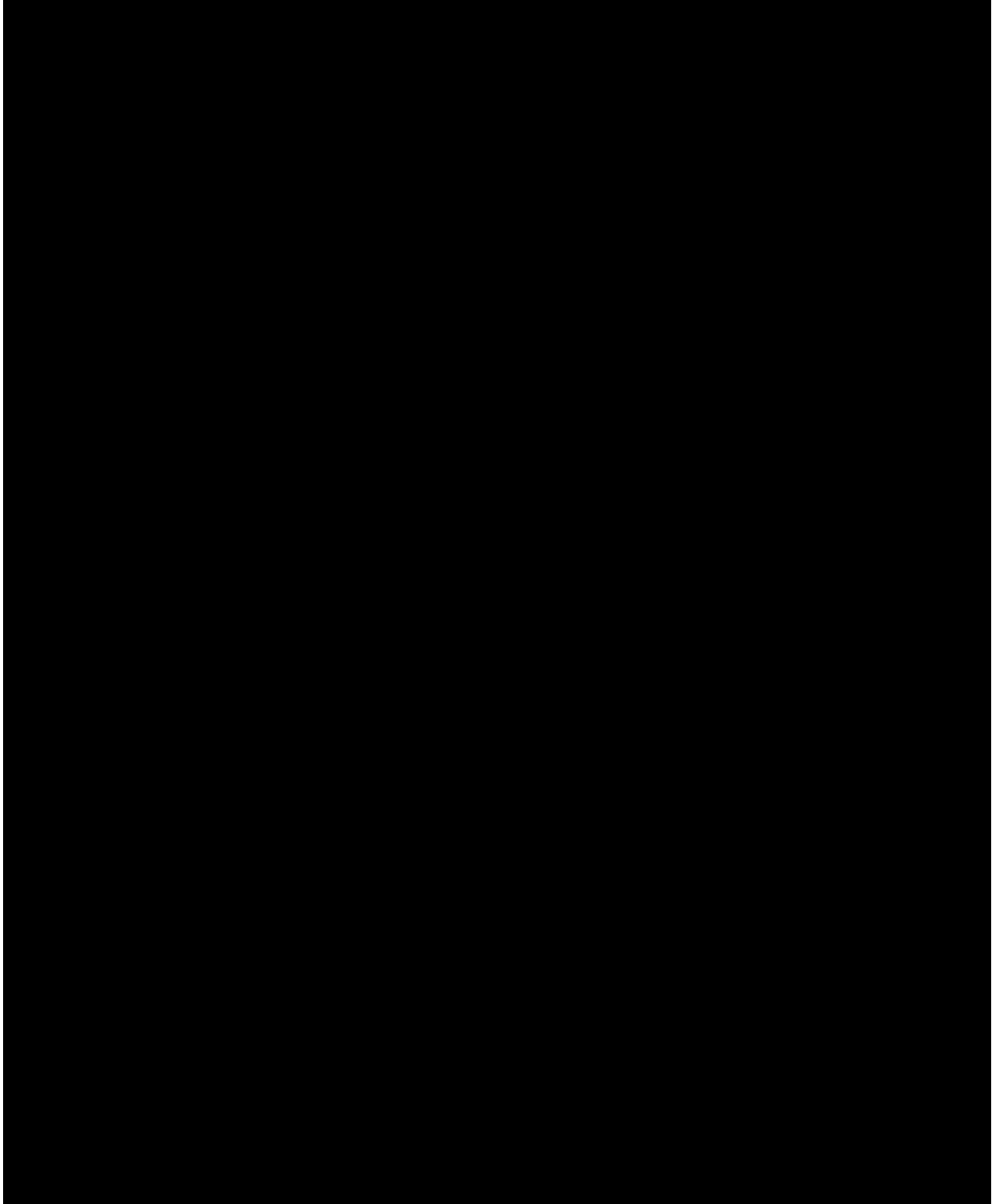
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



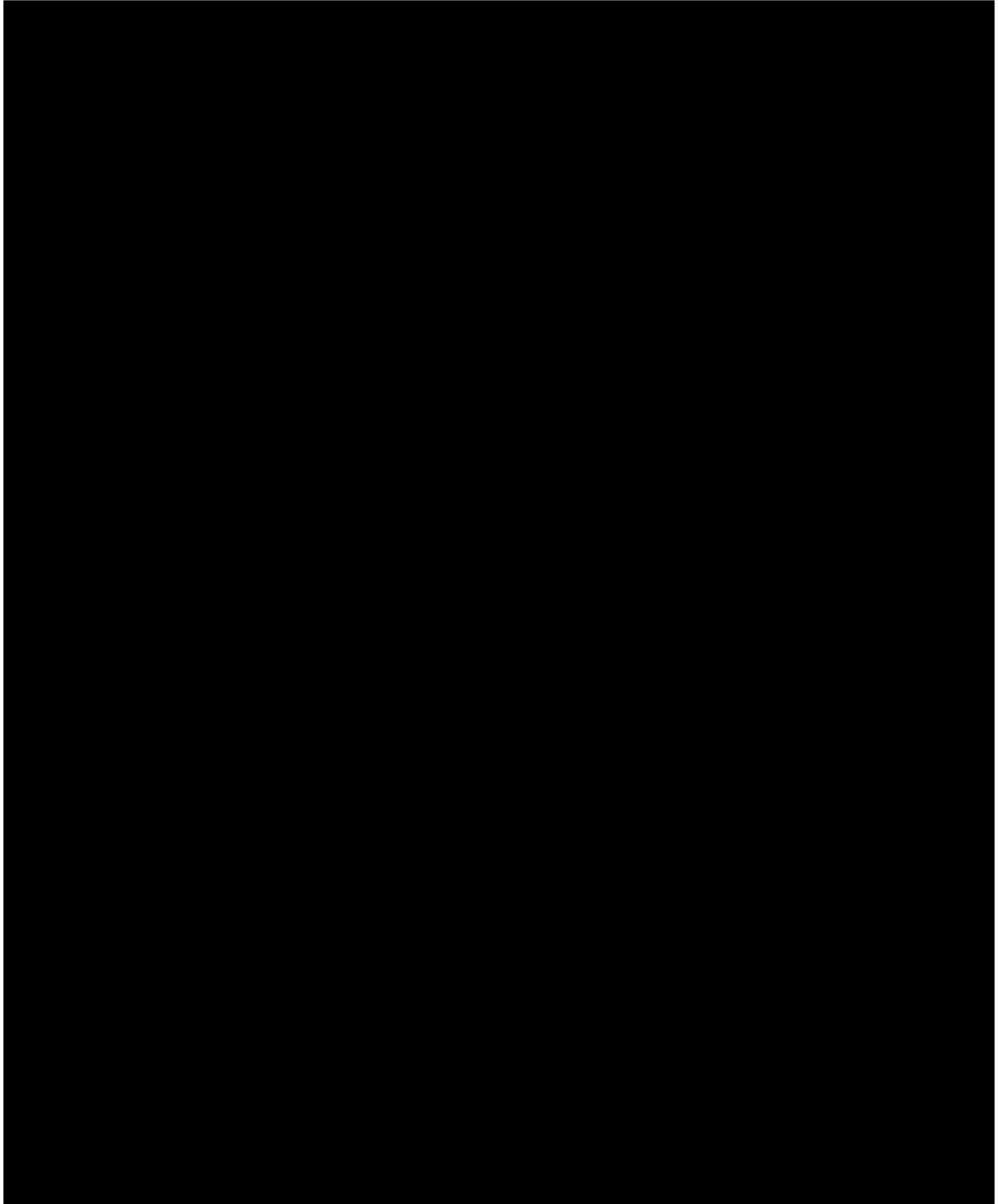
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



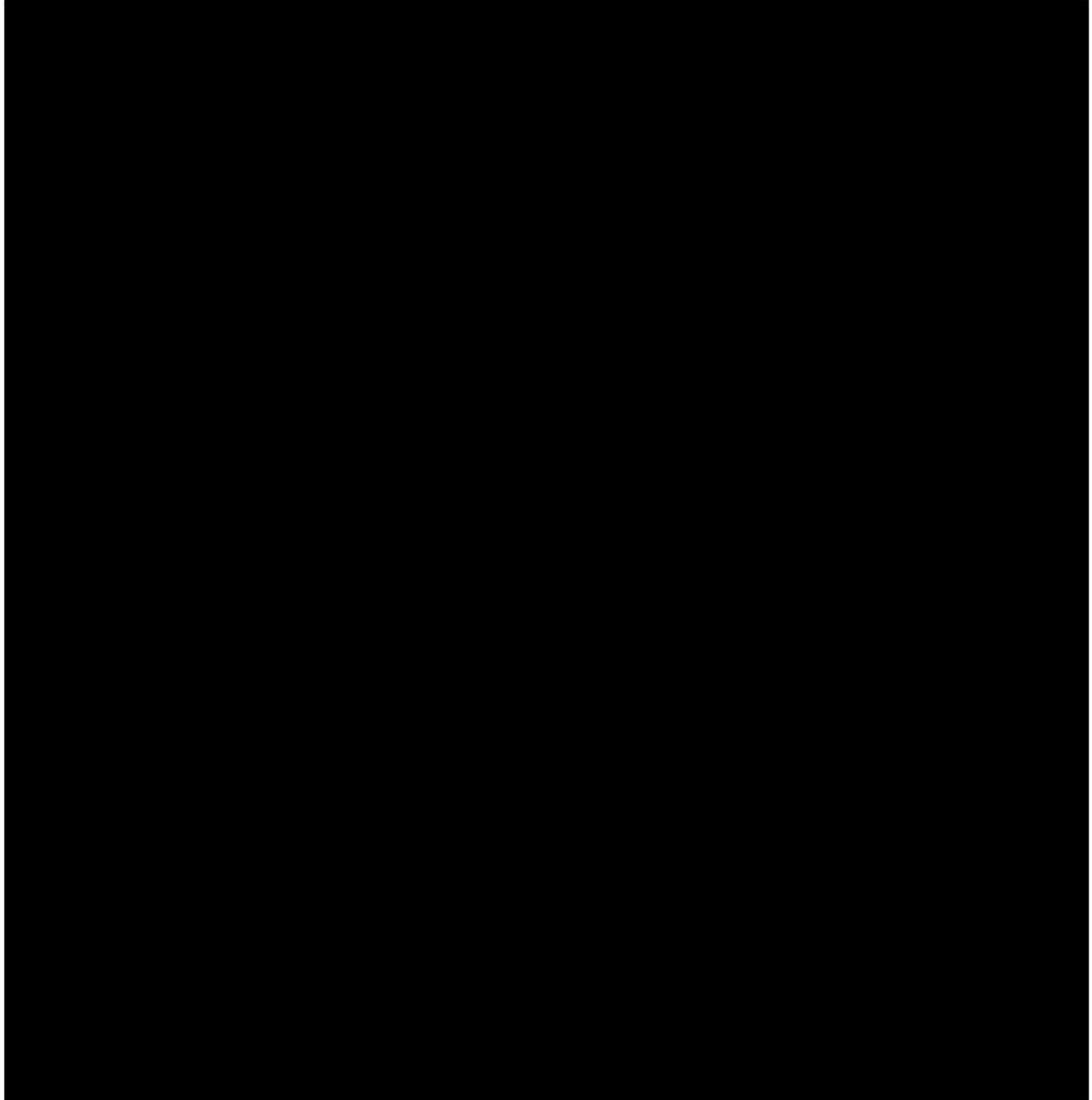
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



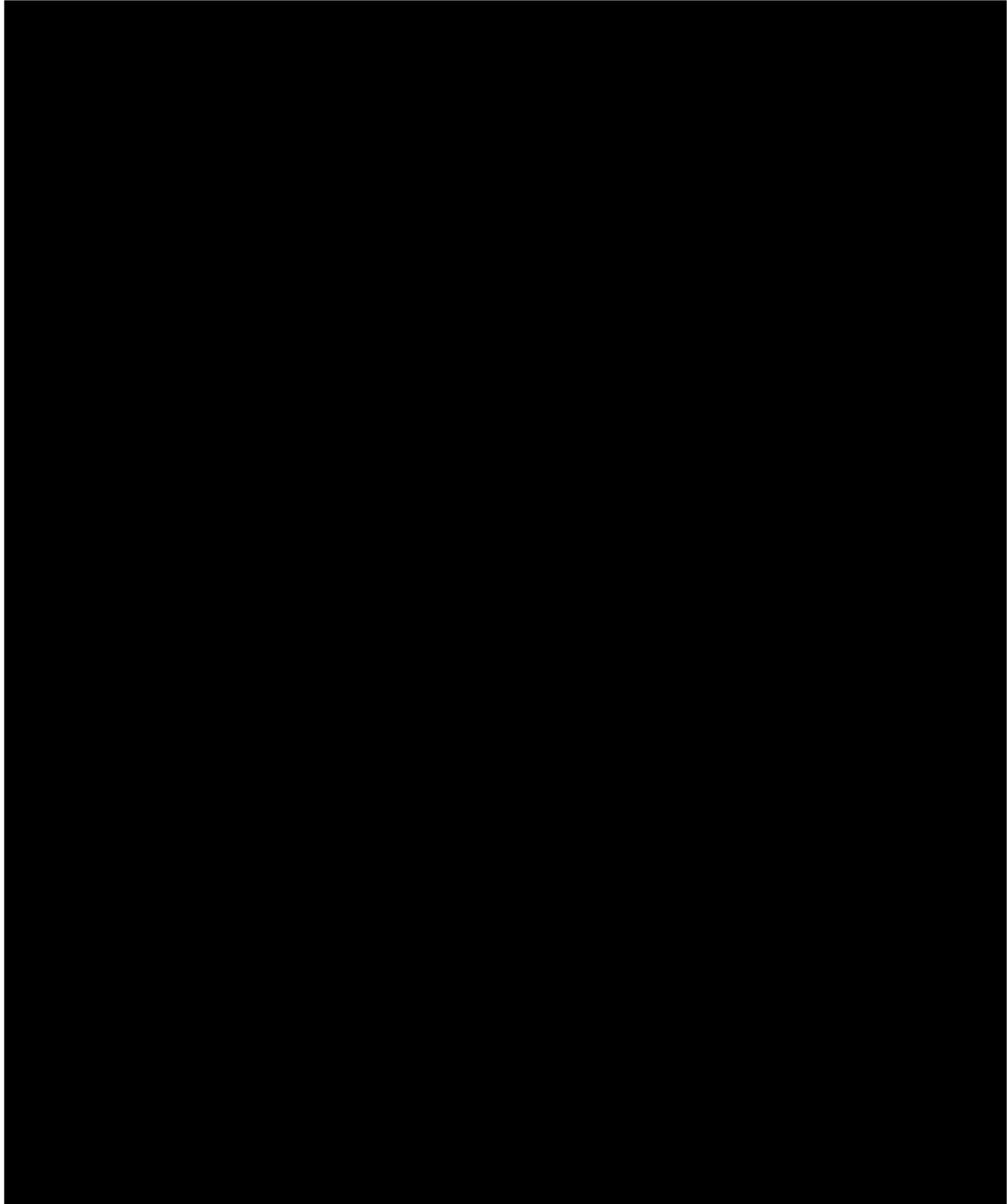
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



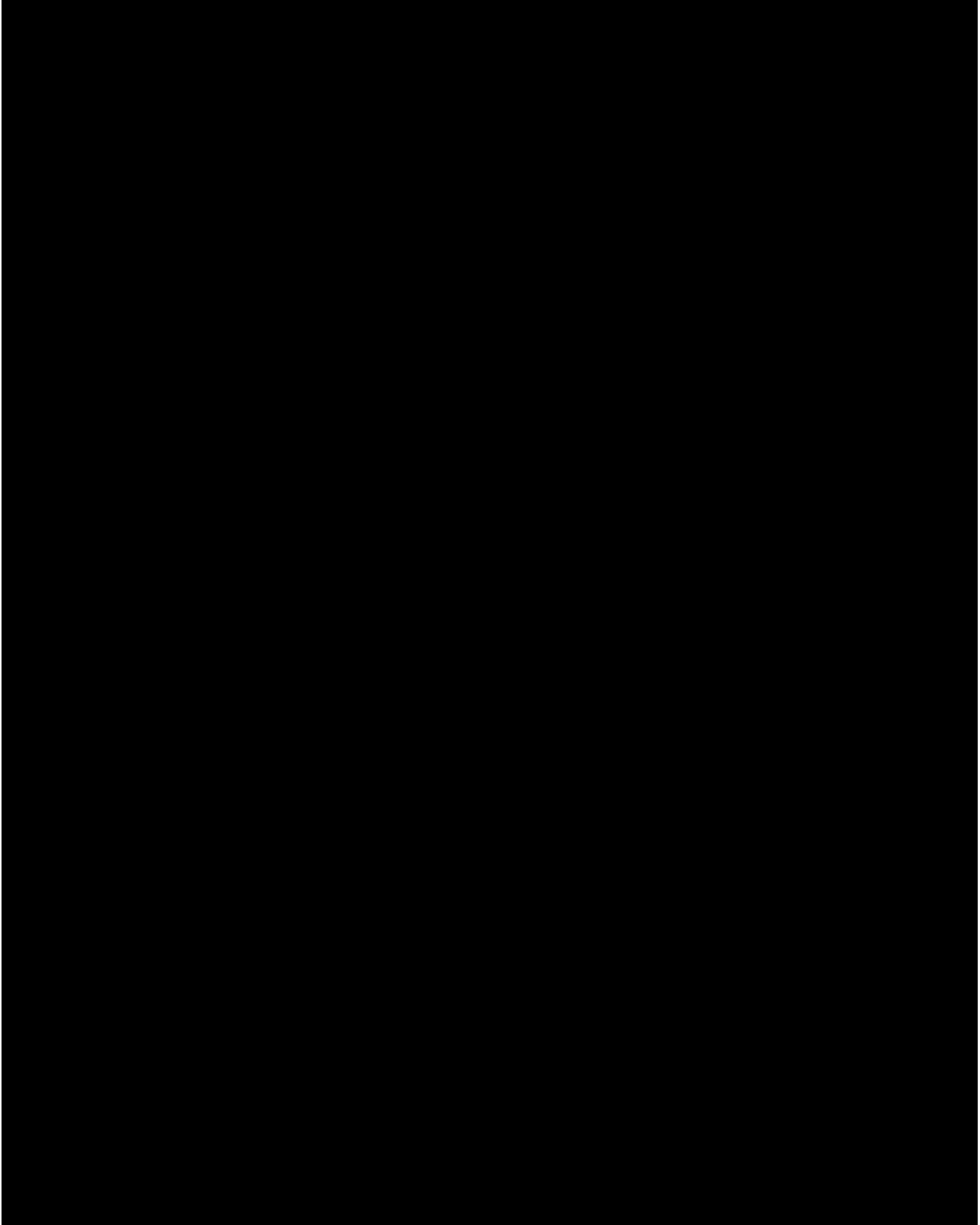
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



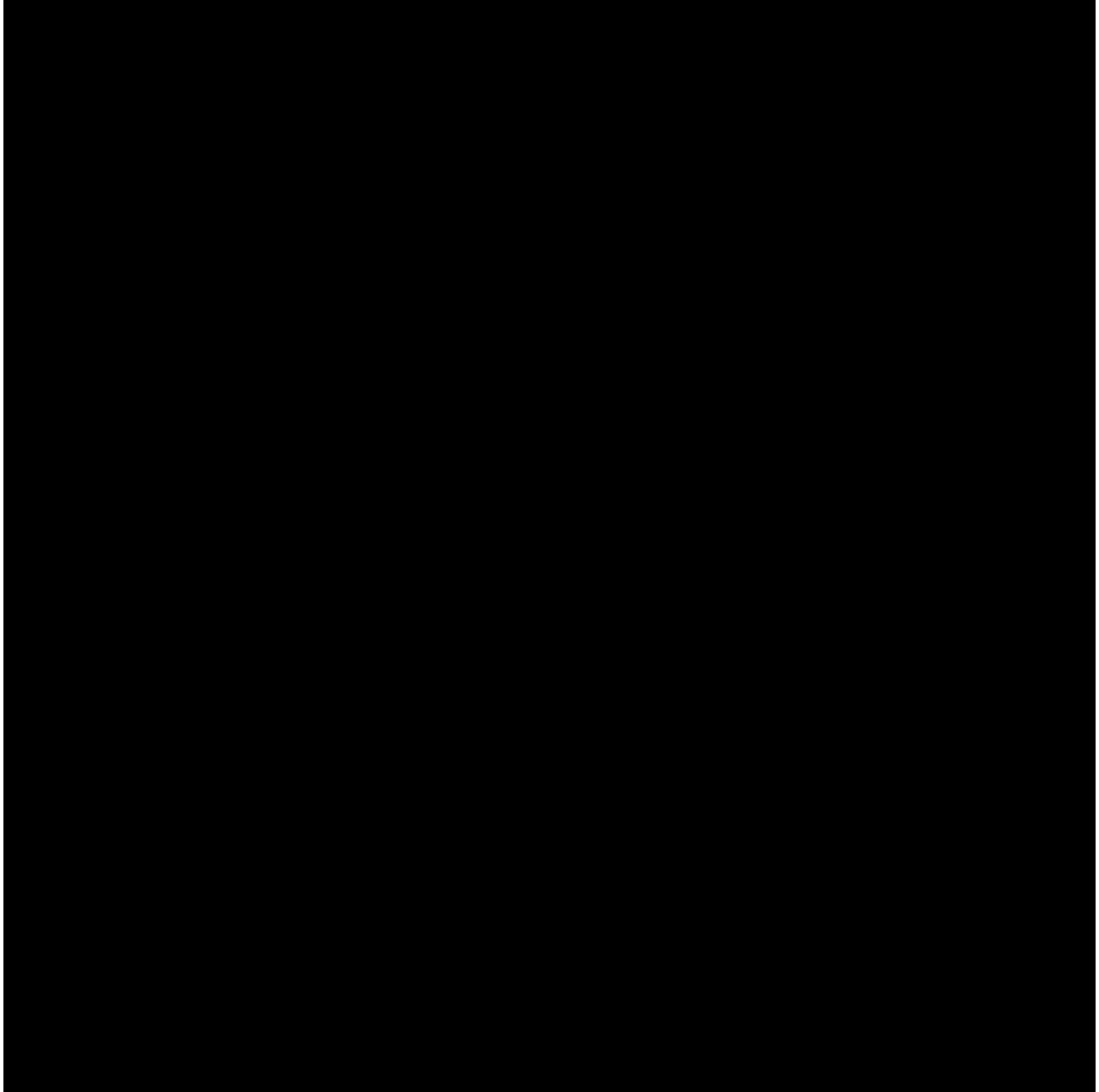
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



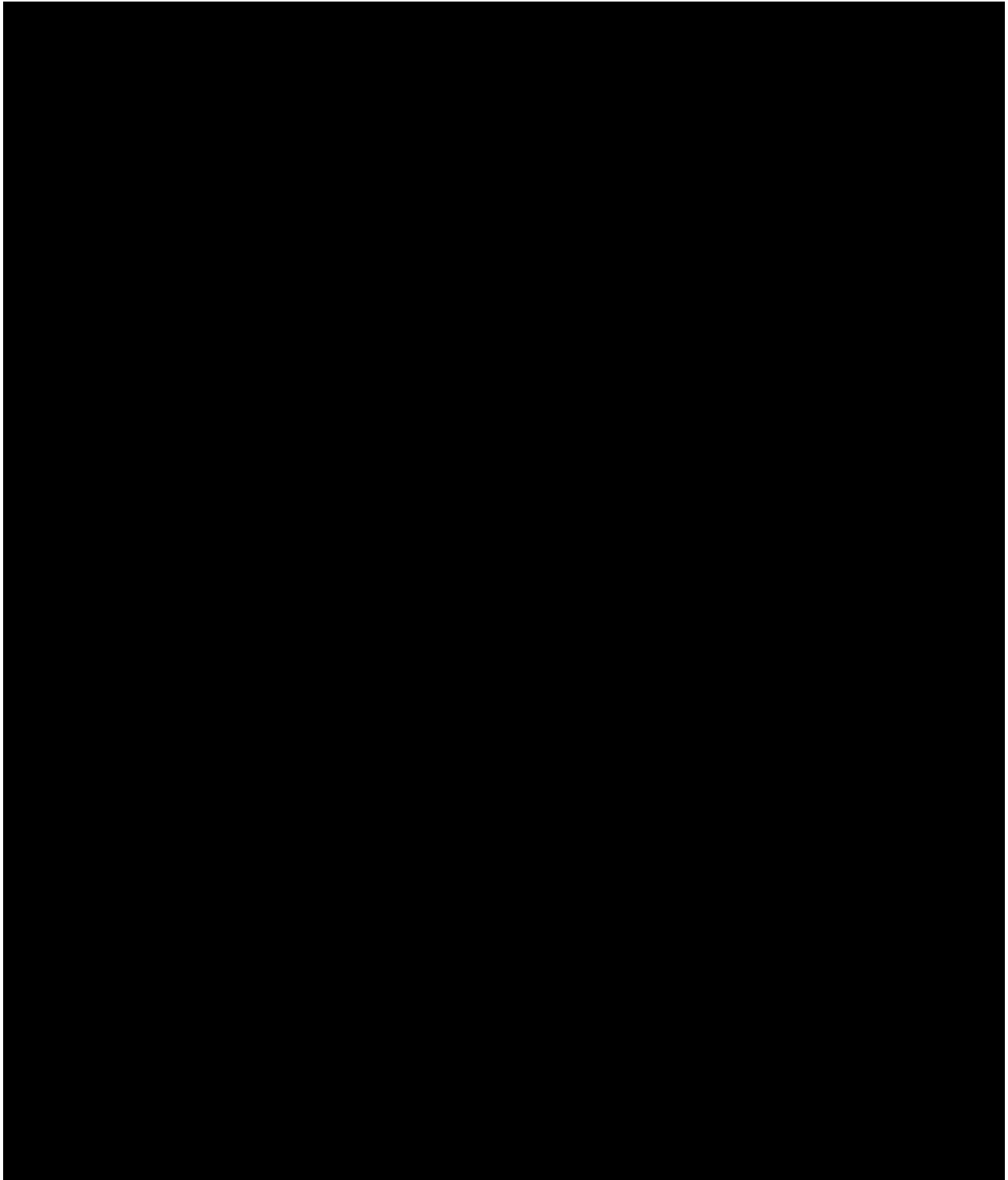
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



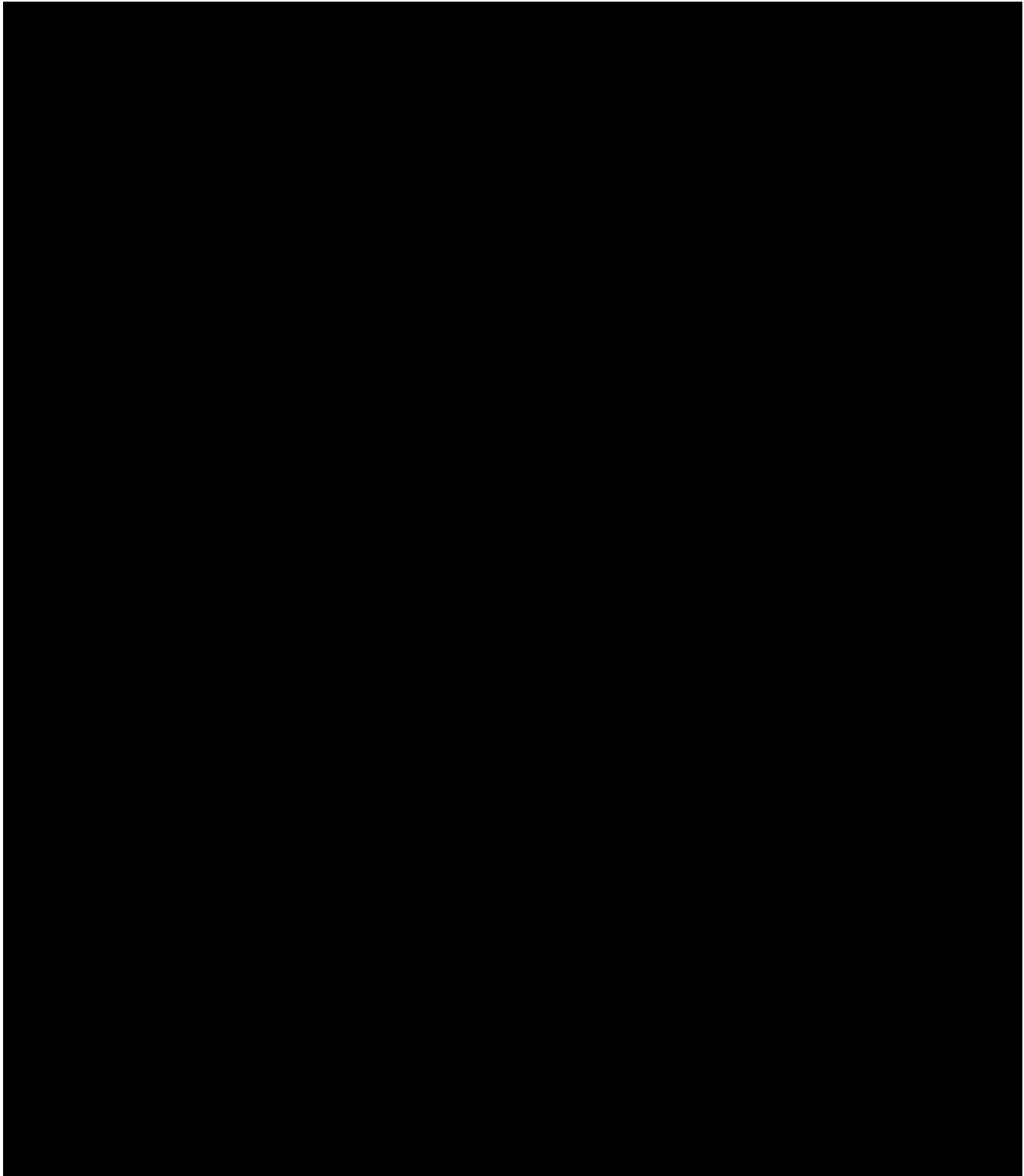
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



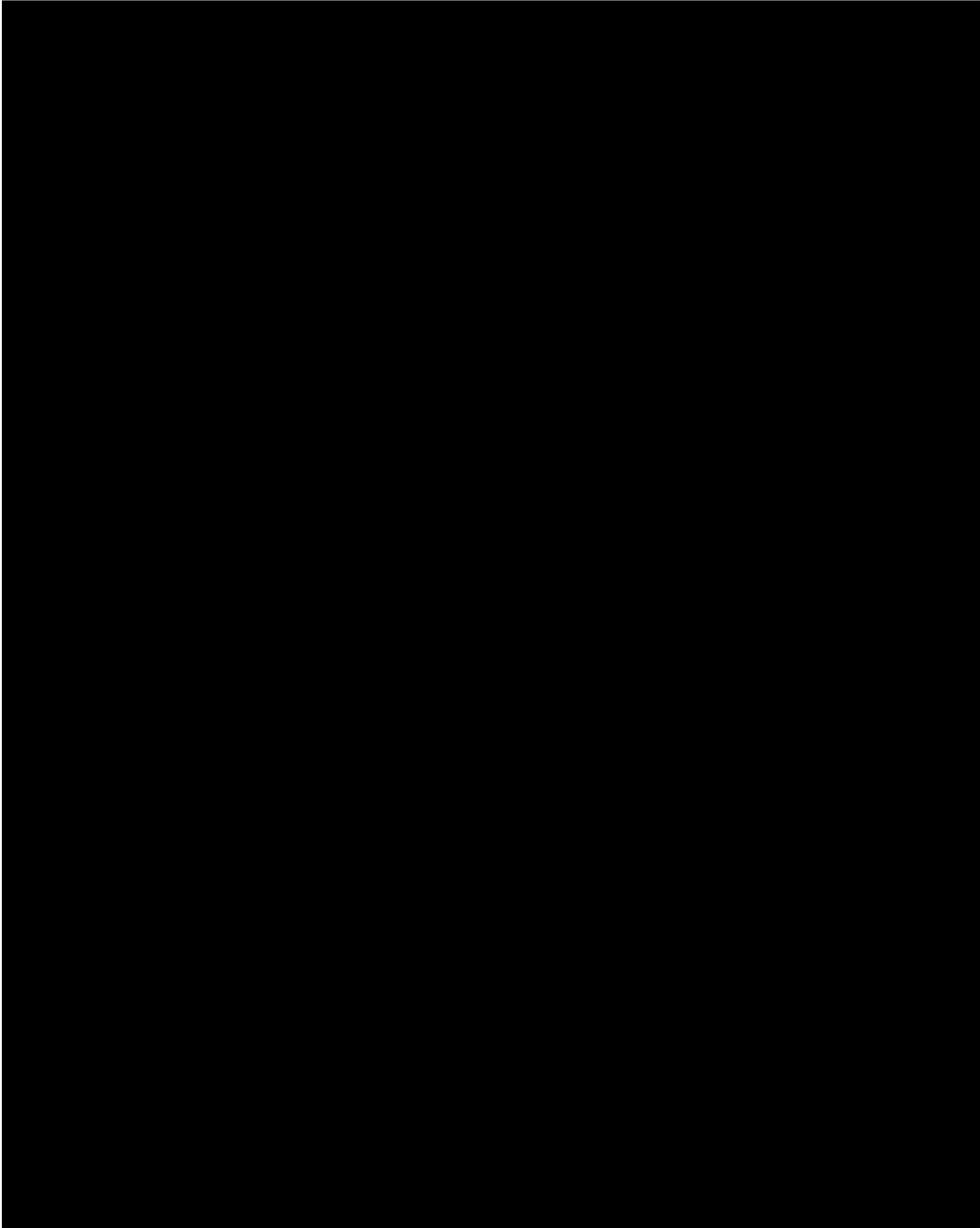
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



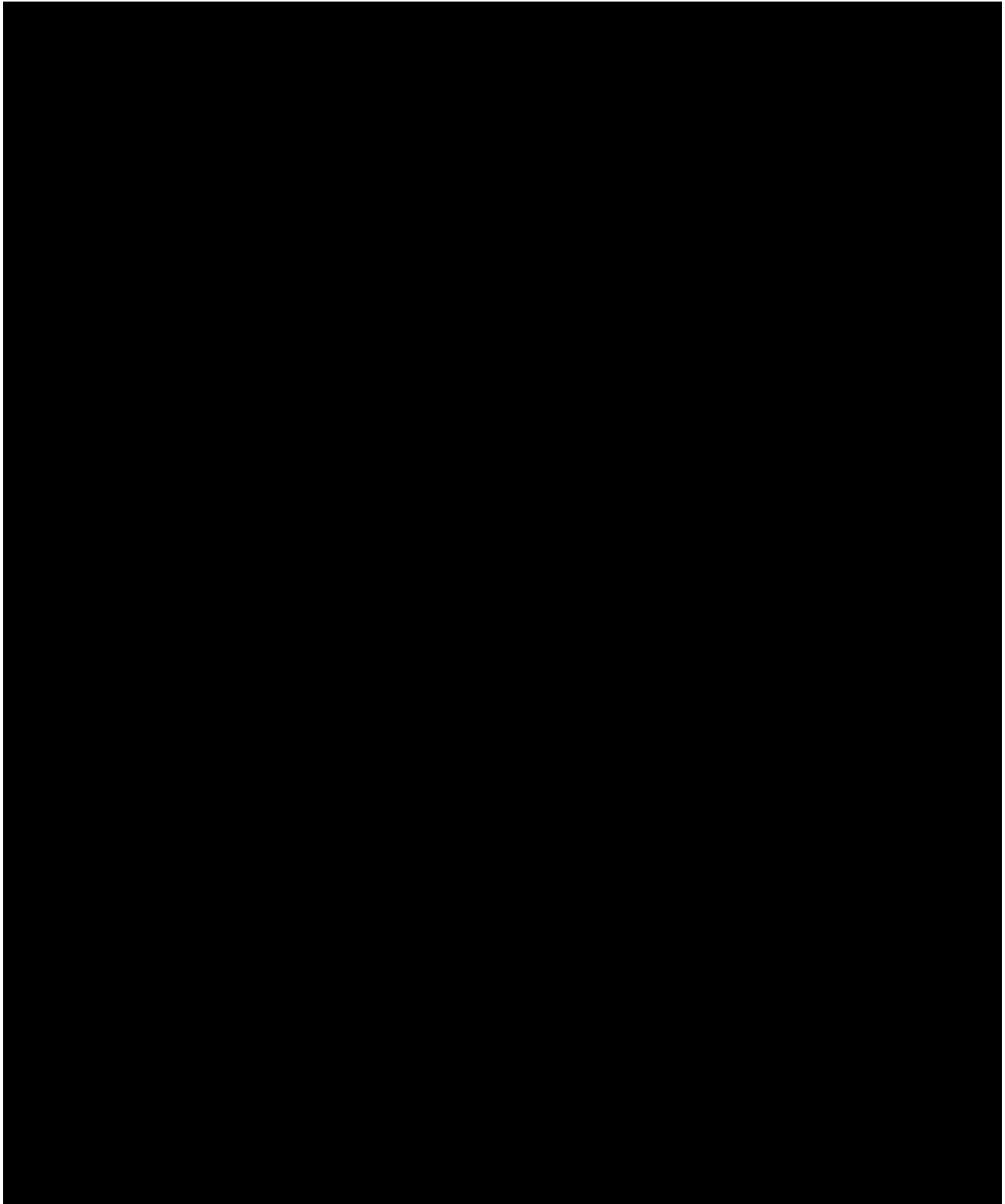
LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

Litigation



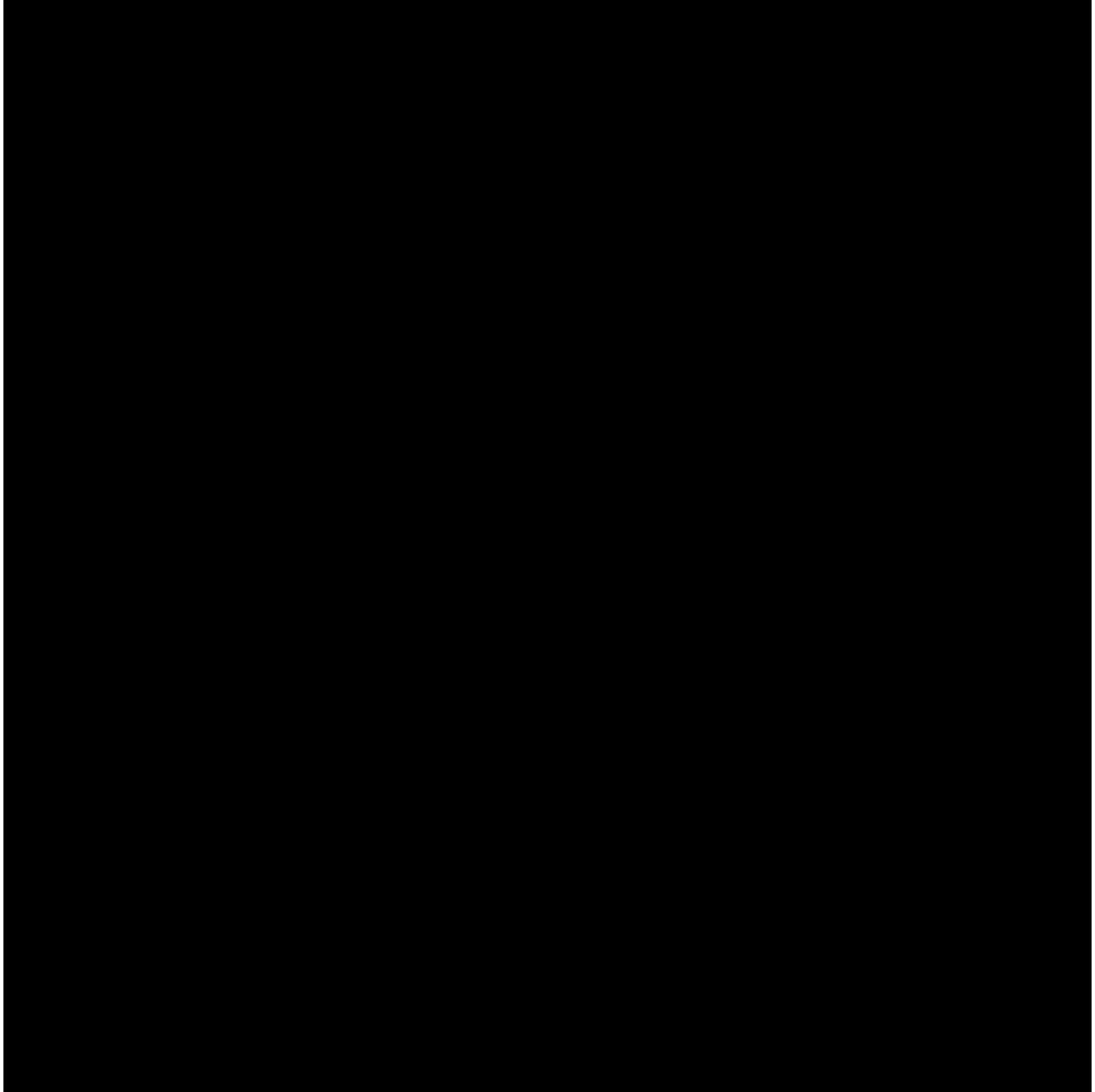
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



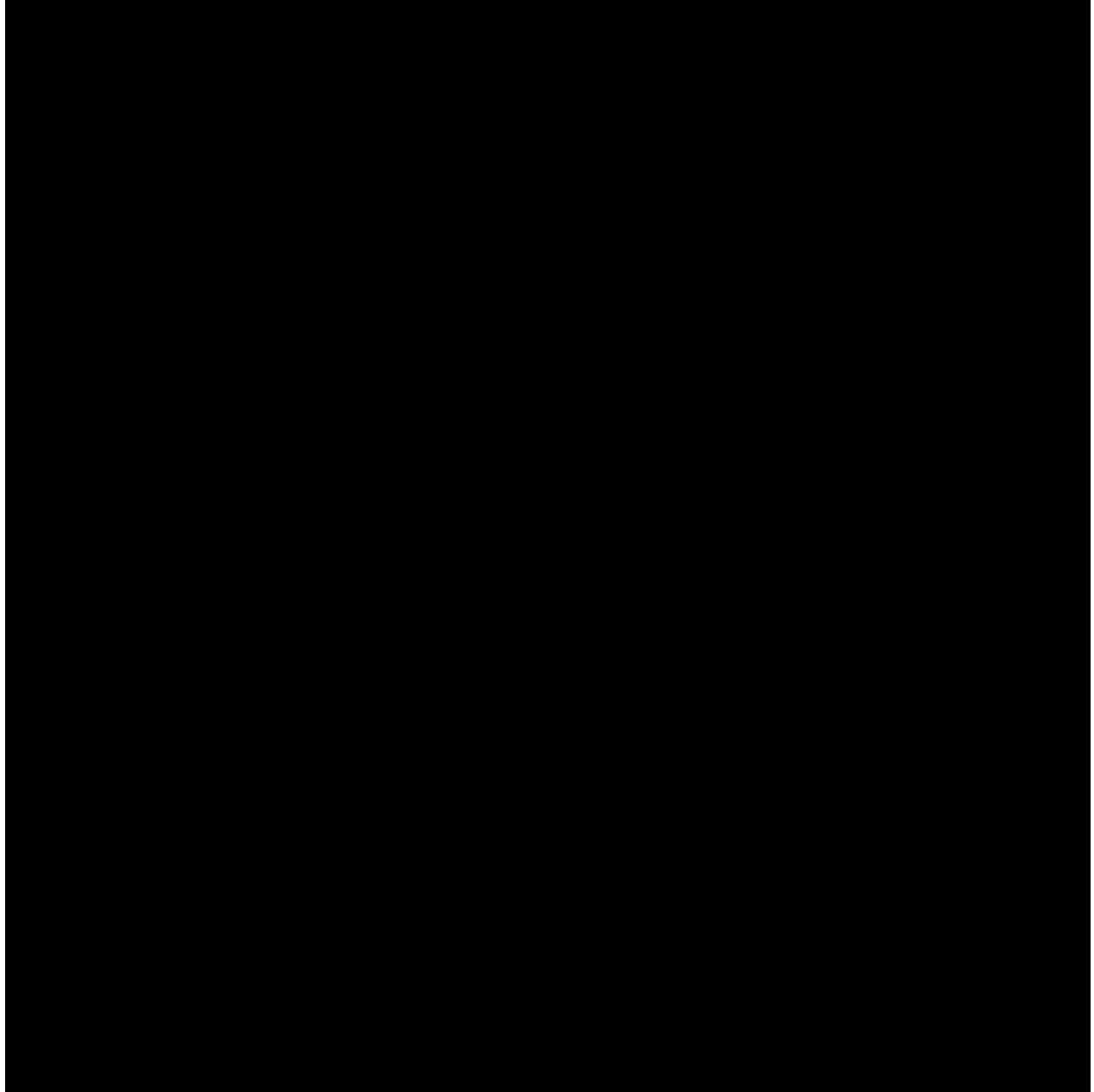
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



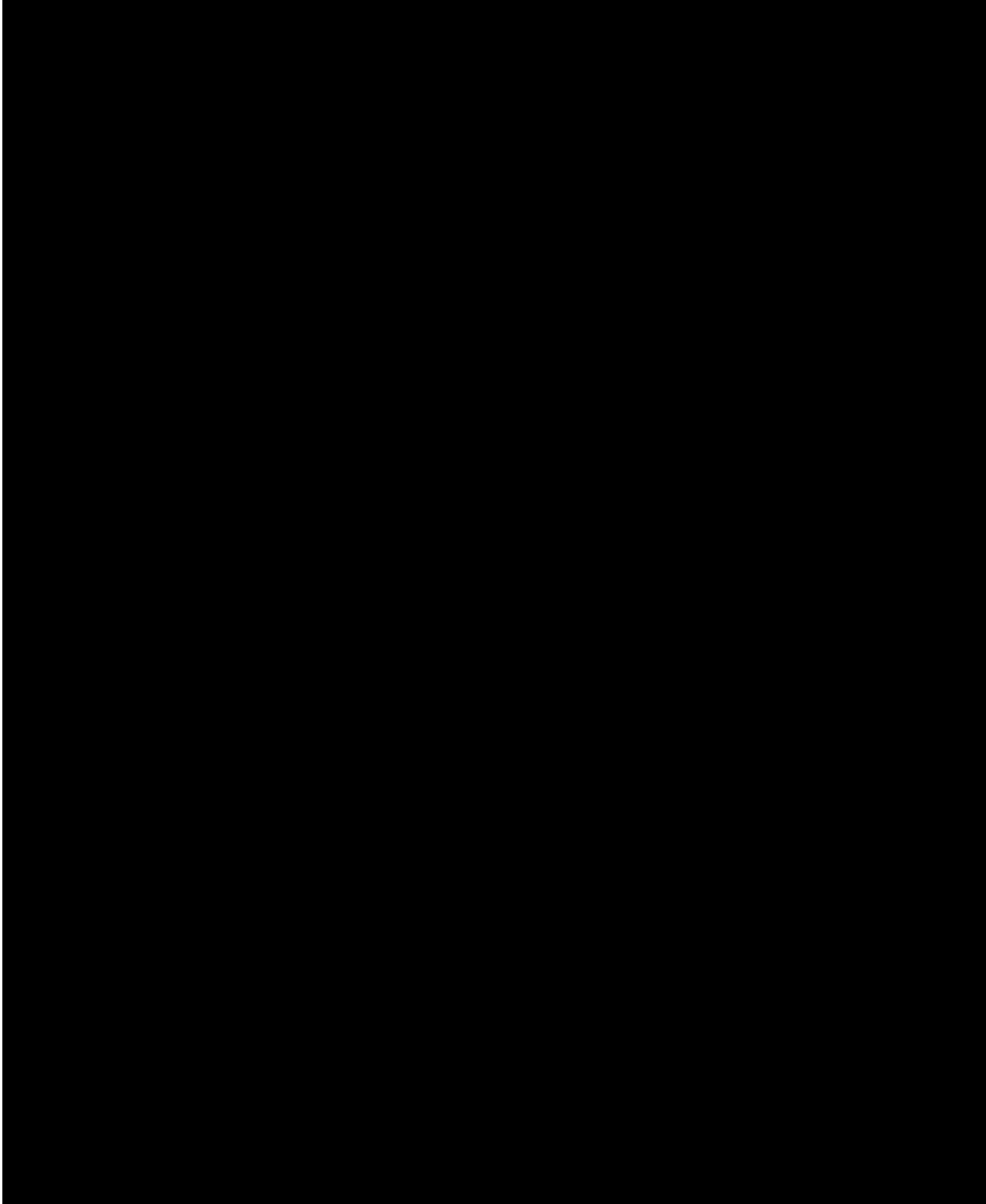
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



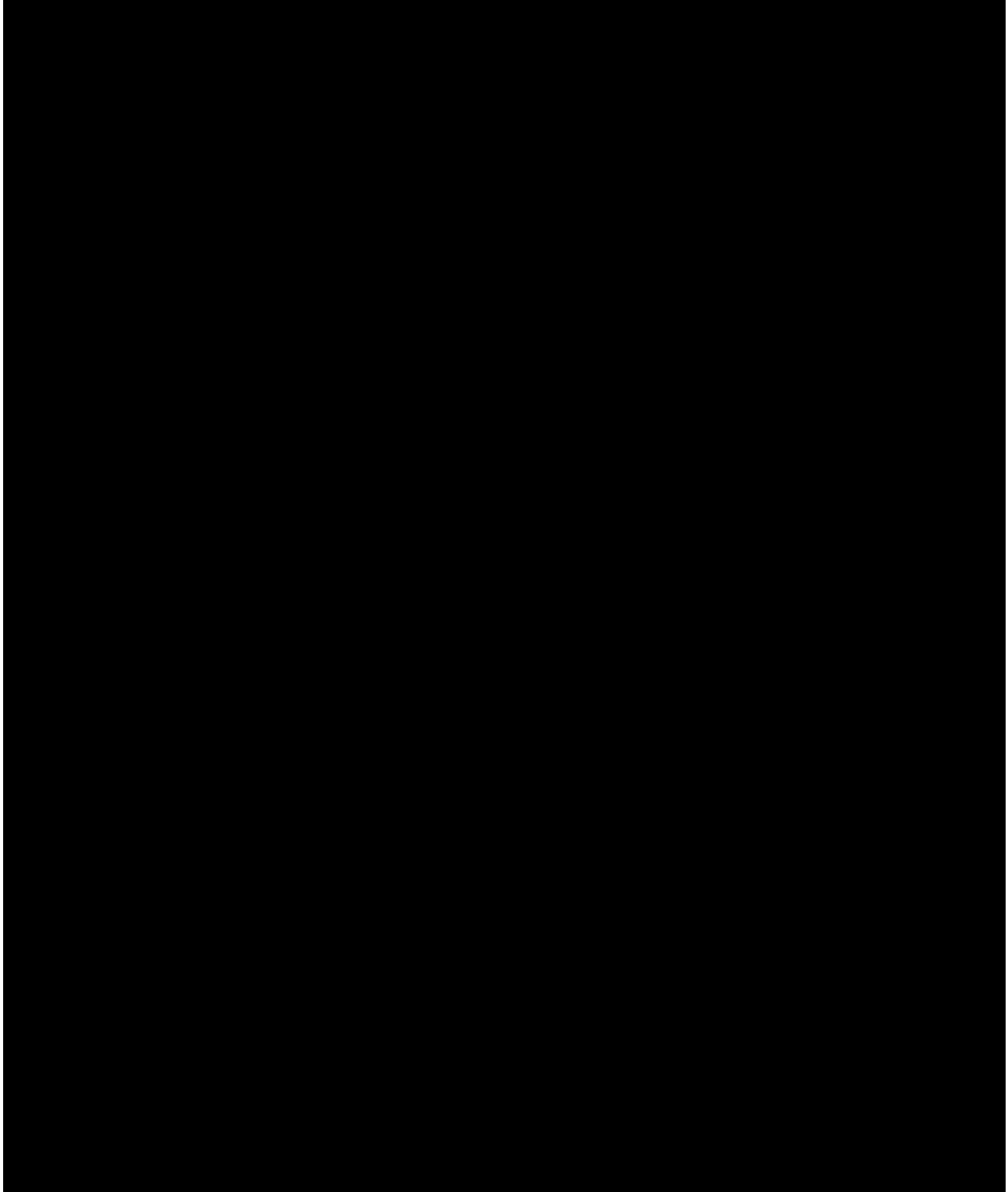
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation



**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Litigation

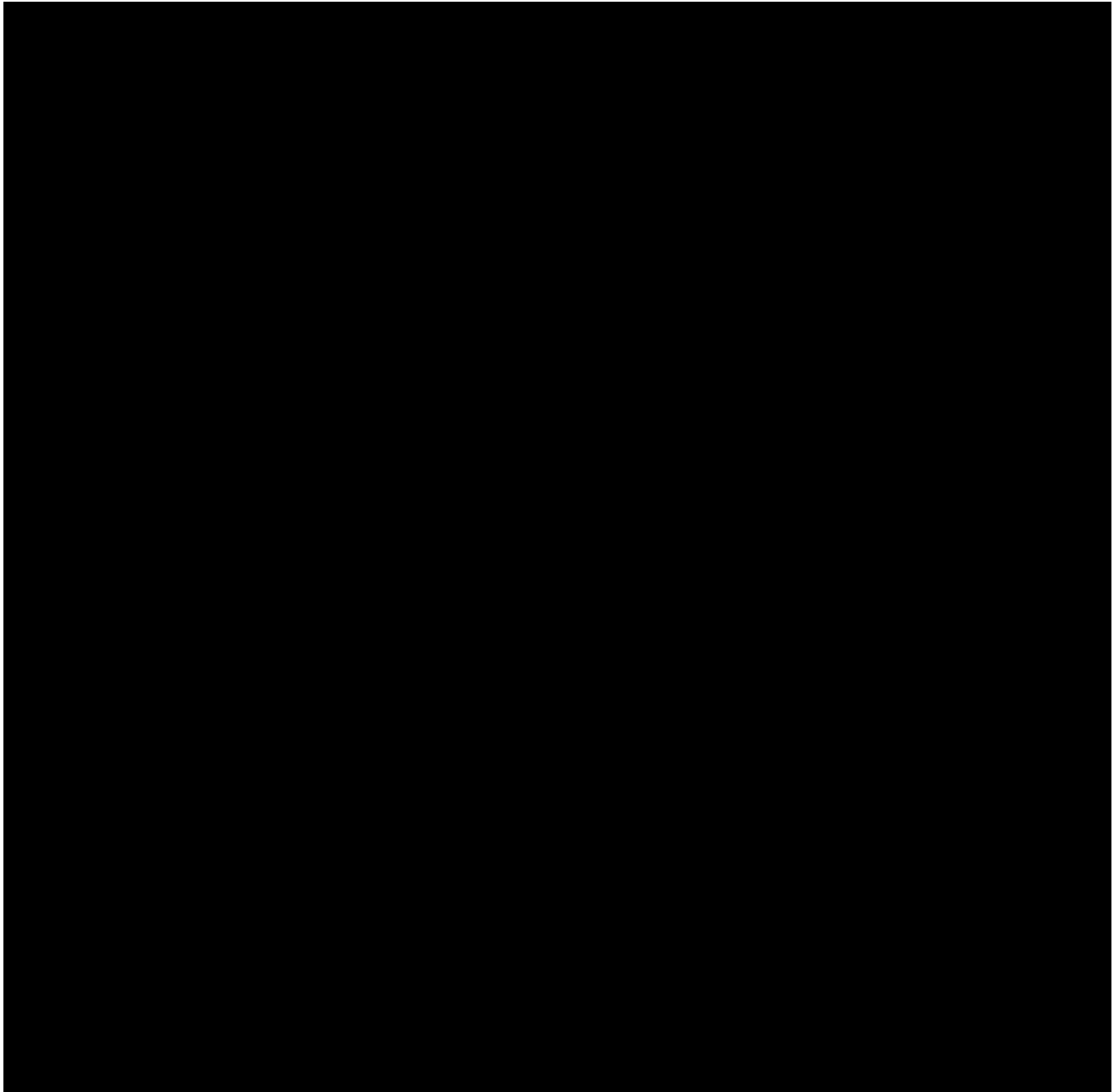


Exhibit 14
Procedure N-3
Senior Management Biographies

PRIVATE REAL ESTATE LEADERSHIP TEAM—AMERICAS



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Exhibit 15
Procedure R-1, R-2, R-3
Environmental, Social and Governance (ESG)

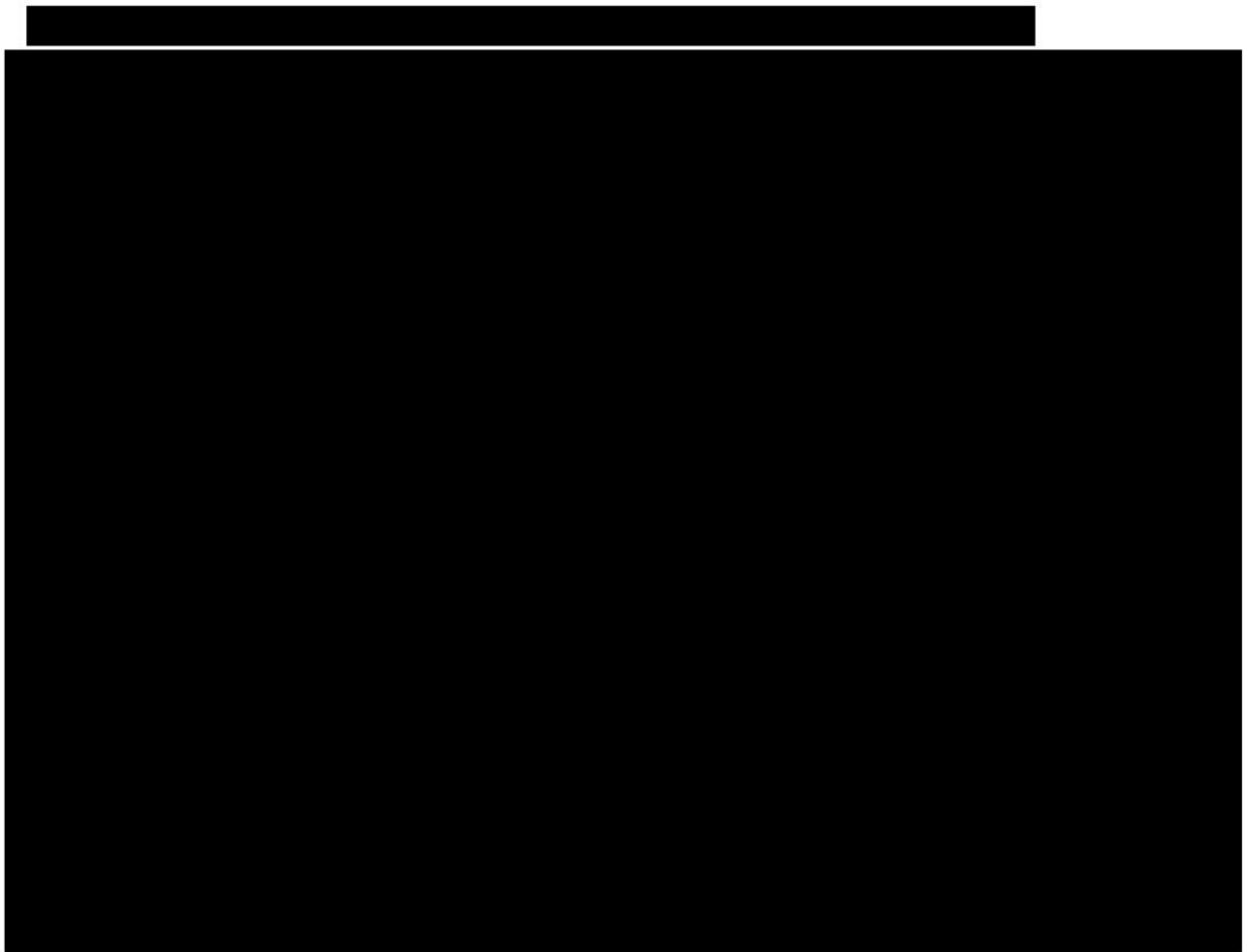
**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Environmental, Social and Governance (ESG)

RREEF America LLC provided the following in response to our inquiries.

In our view, integrating ESG factors into the investment process contributes to a better understanding of businesses and the respective environment they operate in. It enables us to identify the risks and opportunities that a traditional financial analysis would miss, or fail to systematically address, with potentially significant impact on long-term investment performance. We consequently understand ESG integration as a valuable complement to traditional fundamental analysis, which adds value to the quality of our investment decision and offers opportunities for higher risk-adjusted returns.

While ESG has varying degrees of relevance in the investment process across our different business lines, we work with all divisions to advance ESG integration in-line with client interest, business specific goals and tools to enhance risk adjusted returns.



LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

Environmental, Social and Governance (ESG)

[REDACTED]

[REDACTED]

| [REDACTED]

| [REDACTED]

| [REDACTED]

[REDACTED]

**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Environmental, Social and Governance (ESG)



Exhibit 16
Procedures S-1, S-2, S-3 and S-7
Investment Manager Response to COVID-19

**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Investment Manager Response to COVID-19

RREEF America LLC provided the following in response to KM's request for information.

Impact and Response to RREEF Operations

From the outbreak of the COVID-19 crisis in mid-March, DWS has taken quick and decisive actions to protect our staff, while ensuring the business operations continue with minimal impact. This included a moratorium on business travel and conference/event attendance, as well as testing and then implementing full work for home procedures as part of our overall Business Continuity Plan.

From a portfolio and property operations standpoint, DWS has been able to keep everything running smoothly despite the potential for significant business disruptions due to the COVID-19 crisis.

What we have been experiencing across our real estate portfolios has been playing out in two phases.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC

Investment Manager Response to COVID-19

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**LOS ANGELES COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
RREEF America LLC**

Investment Manager Response to COVID-19

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



March 2020

Dear Client,

As COVID 19 (Coronavirus) expands its footprint here in the U.S., we want to apprise you of the preparedness and protocols that DWS has in place to ensure seamless continuity of operations and services. Recognizing that significant business disruptions are possible, we have in place comprehensive business continuity procedures for all areas of our business, including portfolio management and trading, as discussed below.

Business Continuity Management

We have developed, implemented and continue to test and maintain a robust global BCM Program. This includes core procedures for the relocation or the recovery of operations in response to varying levels of disruption. Our procedures empower responsible personnel to evaluate the business disruption and initiate appropriate action, including:

- Safeguard employees and our property
- Ensuring our fiduciary duties continue to be performed without disruption
- Communicate with our employees, regulators, and clients
- Protect our books and records and recover/resume normal operations.

DWS and our major service providers maintain technical disaster recovery plans to protect and recover applications, information assets and technical infrastructure in the event of a facility failure or technology outage.

Crisis Management & Implementation

Our Chief Operating Officer (COO) ensures that DWS has a clearly defined, documented and tested crisis management process to assess, escalate and manage any disruption that may affect our ability to continue critical business operations.

Recovery Solutions

Customized recovery solutions are in place to facilitate the quickest possible resumption of work for the critical businesses and support functions. Examples include:

Alternate Sites

DWS uses self-managed, dedicated standby facilities that are physically separated from normal business locations to prevent both sites being affected by the same incident. We also retain recovery sites contractually through service providers who concentrate on business resiliency.

Technology Disaster Recovery

In the event of disruption scenarios such as the loss of a data center or the failure of specific IT assets and/or applications supporting critical business operations, confidential DR plans are in place to manage the recovery and continuation of operations from DR environments located at geographically separate sites.



Service Providers

Our service providers are contractually obligated to have business continuity capabilities in place that ensure continuity of services provided to DWS if their ordinary operations are interrupted.

Pandemic Planning

DWS maintains a risk-based approach to pandemic planning, using as a guide the World Health Organization (WHO) definitions of pandemic phases.

DWS Response to COVID 19 (Coronavirus)

DWS is actively managing the possible impact for the company and its operations. We are closely monitoring the development of the situation in all regions to protect staff and clients.

Travel is restricted to absolutely critical business travel only. Audio and video conference meetings are encouraged wherever possible. Employees who have returned from affected areas in the last 14 days, or who have household members that returned from there in the last 14 days, are asked to self-quarantine immediately after their return for a period of 14 days.

DWS is committed to protecting our employees while ensuring the continuity of critical group businesses and functions. All areas of our business remain fully operational and, as described above, we are fully prepared and equipped to address any adverse impact that COVID 19 may have on the delivery of services. Please do not hesitate to contact us if you have questions or concerns.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Bob Kendall".

Bob Kendall
Head of DWS, Americas

Please note that this information is subject to modification.


**FOR INFORMATION ONLY**

January 29, 2021

TO: 2021 Audit Committee
Alan Bernstein
Vivian Gray
Shawn Kehoe
Joseph Kelly
Keith Knox
Ronald Okum
Gina Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Kathryn Ton 
Senior Internal Auditor

FOR: February 19, 2021 Audit Committee Meeting

SUBJECT: Ethics Hotline Status Report

The purpose of this memorandum is to provide the Committee with information on ethics cases handled by LACERA. Since November 2019, LACERA has worked externally with NAVEX Global's EthicsPoint for its ethics hotline reporting and case management needs.

To date, LACERA has received four case reports, three of which have been closed out and one of which is under investigation at this time.

Issue Type	Count	Divisions Involved	Status
Time Abuse	1	Quality Assurance	In Process
Accounting & Auditing Matters	1	Systems	Closed
Time Abuse	1	Legal	Closed
Violations of Policy	1	Systems	Closed

Staff will continue to provide updates to the Committee on future reports.

RPB:lec:kt