L CERA

February 16, 2021

TO: Each Trustee,
                  Audit Committee

SUBJECT: Audit Committee Meeting on February 19, 2021 – Item V. C.

Following you will find additional information pertaining to Item V. C.

Item V. C. - KPMG's External Quality Assessment (EQA) of Internal Audit's Recommendation Follow-up Process Responses to Questions Received from the Audit Committee.

KPMG's External Quality Assessment (EQA) of Internal Audit's Recommendation Follow-up Process
Responses to questions received from the Audit Committee.
To be presented at Audit Committee on 2/19/2021

Section	Question	KPMG Response
Background & Scope	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.	This was included to provide background on events which occurred from 2014 - 2020 (period of the assessment).
Background & Scope	Previously defined	
Background & Scope	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?	The purpose of this sentence was to provide background on the aged IA findings. This relates to a finding in the report, please refer to finding 2 on page 15, for further detail.
Background & Scope	In this paragraph you state the process was revamped and improved, yet in the following paragraph you say it wasn't. This is confusing.	KPMG did observe and validate improvements in the recommendation follow-up process as a result of the QAIP. These improvements were observed within the recommendation follow-up procedure documentation dated July 2020, and review of findings which were remediated and validated by Internal Audit after this date. KPMG recommends further enhancements to this process in findings 1, 3 and 4, listed on pages 14, 15 and 17 to this report.
Background & Scope	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?	Yes, the QAIP was led by the CAE and he approved the initiative.

Background & Scope	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?	The LACERA CAE and internal auditors enhanced the follow-up process.
Approach page 5	Page 19 is a Header page. There is a list on page 20, but that list totals 15, not 12.	The page reference is incorrect, it should reference page 20. KPMG interviewed 12 key stakeholders of IA and 3 IA resources for a total of 15 interviews.
Executive Summary	You did not define effective.	For this assessment area, effectiveness of the recommendation follow-up process was based on the IIA standard definition included on page 9 of our report. c2500 – Monitoring Progress The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
Executive Summary	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?"	This statement refers to recommendation status reports prior to 2020. The level of detail in the status reports was improved in 2020, this is one of the outputs of the QAIP, which relates to your question on this topic above.
IIA standard definitions page 9	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.	KPMG's assessment was limited to public audit reports and not confidential audits, these were not provided.

Strengths and opportunities page 12	What is an "official recommendation follow-up process"? As well, you refer to "recommendations created using the new policy", but if the policy is in deeded related to the recommendation follow-up process, that policy is not, by definition, applicable to the recommendations that staff identify in new audits.	An official recommendation follow-up process is a process that is documented within a procedure document and implemented by all impacted personnel. For clarification, the procedure applies to the recommendation follow-up process for all open audit findings, and newly raised findings from July 2020 onwards. This procedure does not apply to the audit or recommendation creation process.
Strengths and opportunities page 12	This is a material finding.	Please refer to finding 5 for further detail.
Strengths and opportunities page 12	I recommend the Committee amend the CAE's MAPP goals to include staff training on, and utilization of, TEAMMATE.	KPMG refers to the committee.
Strengths and opportunities page 12	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.	To clarify, in this section KPMG is referring to the lack of a defined process around due date extensions. Please refer to finding 4 for KPMG's recommendation regarding the responsibilities for approval of extensions, which includes the role of Executive Management.

Finding 1	You are stating that there was no documented evidence of supervisory review of the analysis or determination, correct?	Yes, prior to July 2020, KPMG noted an absence of documented evidence of supervisory review of the analysis or determination of remediation in the samples reviewed within our detailed test work. In addition, prior to July 2020, there was no standardized process concerning the validation procedures required to be performed, or the evidence of said validation to be maintained.
Finding 1	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?	That is correct, KPMG concurs that proportionally the sample reviewed post July 2020 is low. At the time of our audit, the available closed recommendations post July 2020 was limited to the 3 we reviewed. This does limit the impact of the post July 2020 observations, however, KPMG's recommendations to enhance the process are based upon the July 2020 procedure which is why we consider this relevant to the reader.
Finding 1	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.	As part of our procedures KPMG discussed the availability of evidence with IA personnel. Evidence of Internal Audit's validation of management's remediation activity was either insufficient or not available in its entirety for forty-one (41) findings KPMG reviewed. In addition, KPMG refers to the point that there was no standardized process for the level of validation activity or evidence to be maintained prior to July 2020.

Finding 1	Was the auditor's work approved by a supervisor? My recollection is that TeamMate indicates that.	KPMG reviewed Internal Audit's validation of three recommendations which were closed post July 2020. For all three, KPMG observed evidence of supervisory review in TeamMate.
Finding 1	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?	To clarify, in this case KPMG is referring to a follow-up audit which would be appropriately designed to validate remediation of prior audit findings. KPMG considers it acceptable practice to conduct an overall re-audit of a process or function as part of recommendation follow-up procedures in defined circumstances. For example, an overall unsatisfactory report rating may trigger a full follow-up audit to allow greater testing into an area than solely conducting remediation testing of the defined action. Another example is where pervasive changes to a process or function have occurred during the remediation period. A follow-up audit may be required in this situation to allow Internal Audit to fully understand how management actions fit into the overall control environment and adequately assess the remediation actions.
Finding 1	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	This is unknown based on the scope of this assessment, this finding relates to the lack of definition for the evidence to be maintained to support the recommendation follow-up process only.

	would be applicable to the original audits themselves?	
Finding 1	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.	KPMG observed variance in the usage of TeamMate during our audit. In some cases, the Internal Audit follow-up process was observed to be well documented, whereas other cases, the only information observed in TeamMate was the remediation date. There were also some recommendations which were not loaded into TeamMate and were instead tracked in Excel. This is also consistent with the fact that there was not a standardized recommendation follow-up process prior to July 2020. KPMG has made recommendations regarding enhancements of the team's usage of TeamMate in Findings 1, 3 and 5, which includes ensuring that all Internal Audit personnel using Teammate are appropriately trained on the approved process.
Finding 1	The subject verb agreement in this sentence is not correct.	There is a typographical error. This sentence should read: 'Assess high risk findings which have been previously closed and determine if areas have been re-audited since the date of closure.'

Finding 2	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?	Yes, the finding and report was shared in the exit conference with the Audit Committee Chair, Chief Executive Officer and Chief Counsel
Finding 3	But the reports do contain current status. The section under each recommendation is headed "Current Status."	While the 2020 recommendation status report includes a discussion on current status, it does not consistently report whether the management action is expected to be completed by the designated due date or whether the action is at risk of missing the due date.
Finding 3	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.	In the prior section referred to in the question, KPMG identified the CAE's role in documenting a process for approval of extensions to internal audit finding due dates. Finding 3, to which this question refers, relates to the identification of the in-process remediation actions which are at-risk of going past their due date. The CAE and internal auditors have a responsibility in identifying these at-risk actions and escalating those to executive management. With this information, executive management can determine the appropriate action to take, either prioritizing remediation or accepting the risk of a longer remediation timeline.

Finding 4	Passive voice again. Who is remediating? Also, here you state you reviewed 112 recommendations but earlier you stated the population was 72.	During the period of our audit, the identified owner of the relevant agreed management action was not consistently completing remediation actions on a timely basis. KPMG reviewed 112 recommendations in total during our audit, 72 were closed, the remainder were in process of remediation.
Finding 5	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.	KPMG refers to the committee.