



August 25, 2021

TO: Each Trustee,
Board of Retirement
Board of Investments

SUBJECT: Audit Committee Meeting on August 26, 2021 – Agenda Item V.A.

Following you will find supplemental information regarding the above-mentioned meeting:

1. V. A. Internal Audit Annual Performance Report FYE June 30, 2021
(Presentation – Change to Slide 11)

Annual
Performance
Report

Fiscal Year
Ended
June 30, 2021



Executive Summary



It was a transformative year for Internal Audit, as we evaluated our internal operations and practices. Through our Quality Assurance Improvement Program (QAIP), we focused on four significant areas for development during the year: our audit report format, audit workpaper process, risk assessment process, and recommendation follow-up. These efforts were supplemented by the acquisition and implementation of a significant upgrade to our audit workpaper software, TeamMate+.

Some of Internal Audit's notable accomplishments during the year include:

- Provided support and stewardship of the first SOC 1 Type II review of LACERA's systems for OPEB reporting.
- Improved our recommendation follow-up process to include monthly updates from management and bi-monthly meetings with the Executive Office, and training on the process to LACERA management team.
- Closed out recommendations related to IT Sensitive Areas, making significant progress on those related to information security.
- Established a pre-qualified, Audit Committee approved pool of external firms to perform audits and consulting projects in areas where either the technical expertise of the firms or an outside perspective is desired to supplement the work performed by internal staff.
- Contributed to the completion of an InfoSec End-User Manual.
- Revised the Audit Committee Charter which enhanced the independence of the Audit Committee.

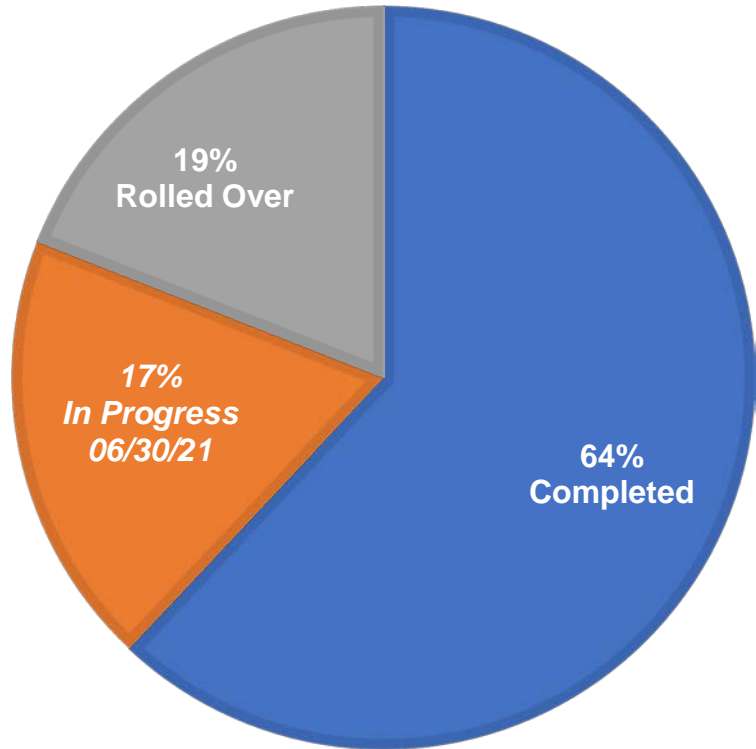
FYE 2021 AUDIT PLAN

Audit Projects		Project Type	YTD 6/31/21	Est. Hours	Hours Variance	Status
EXECUTIVE / LEGAL / ORGANIZATION						
1	Audit Committee Composition	Advisory	171	150	(21)	Completed
2	LA County Audit – Recommendation Oversight	Consulting	47	100	53	Completed
3	Form 700 Compliance Audit	Assurance	52	200	148	Postponed
4	Fiduciary Review Planning	Advisory	90	250	160	Completed
5	Business Continuity / Disaster Recovery	Assurance	44	300	256	Completed
6	Ethical Cultural Assessment	Consulting	5	300	295	Postponed
7	SOC 1 Type 2 Engagement (External)	Assurance	401	400	(1)	Completed
8	Governance, Risk, Ethics, Fraud, Compliance	Consulting	35	500	465	In Progress
9	Ethics Hotline & Investigations	Consulting	204	200	(4)	Completed
ADMINISTRATION						
10	IT End-User Manual	Advisory	90	150	60	Completed
11	Penetration Tests (External)	Assurance	0	150	150	Postponed to FY 2022
12	Contract Compliance / Third Party Data Security	Assurance	16	300	284	In Progress
13	Security Incident Management Review (External)	Assurance	0	100	100	Postponed to FY 2022
14	Privilege Access Review	Assurance	0	100	100	Postponed to FY 2022
15	Updated Inventory Process	Consulting	23	150	127	Completed
16	Employee Salary Bonuses	Assurance	59	200	141	In Progress
17	Continuous Auditing Program - Administration	Assurance	246	400	154	Completed
INVESTMENTS & FASD						
18	Accounts Payables	Assurance	157	150	(7)	In Progress
19	Corporate Credit Cards	Assurance	433	300	(133)	Report issued 10/5/20
20	Investments Due Diligence	Assurance	6	400	394	In Progress
21	Oversight of Actuarial Services (External)	Advisory	141	150	9	Completed
22	Oversight of Financial Audit (External)	Advisory	506	450	(56)	Completed
23	Oversight of THC RE Financial A	Advisory	154	150	(4)	Completed
24	Real Estate Manager Reviews	Assurance	358	200	(158)	Completed
25	Custodial Bank Services	Advisory	14	100	86	Completed
26	Updated Wire Transfer Process	Advisory	0	150	150	Completed
OPERATIONS						
27	Death Legal Process Audit	Assurance	175	200	25	Report issued 2/2/21
28	LA County Rehired Retirees	Assurance	385	200	(185)	Report Issued 6/15/21
29	Member Benefits Calculation Audit / Database	Assurance	0	300	300	Postponed to FY 2022
30	Quality Assurance Operations Review	Consulting	644	450	(194)	Report issued 4/9/21
31	Foreign Payee Audit	Assurance	7	150	143	In Progress
32	Governance, Risk, and Controls - Benefits	Consulting	7	400	393	Postponed to FY 2022
33	Governance, Risk, and Controls - RHC	Consulting	0	250	250	Postponed
34	Account Settlement Collections (ASC)	Advisory	0	150	150	Postponed to FY 2022
35	Continuous Audit Program - Operations	Assurance	810	500	(310)	Completed
IA ADMINISTRATION PROJECTS						
36	Audit Pool – RFP	Assurance	501	400	(101)	Completed
37	TeamMate Optimization	Admin	822	500	(322)	Completed
38	Annual Risk Assessment & Audit Plan	Assurance	267	300	33	Completed
39	External Quality Assessment Review	Admin	40	100	60	In Progress
40	Audit Committee Support	Admin	870	300	(570)	Completed
41	Professional Development	Admin	330	250	(80)	Completed
42	Quality Assurance & Improvement Program	Admin	264	300	36	Completed
43	Recommendation Follow-Up	Assurance	968	250	(718)	Completed
UNPLANNED PROJECTS						
44	KPMG Reco Follow-up	Admin	210	0	(210)	Report Issued 12/31/20
45	Real Estate THC Deposit Review	Assurance	401	0	(401)	Report Issued 6/15/21
46	THC Stale Operations Consulting	Advisory	65	0	(65)	In Progress
47	SSNVS Audit	Assurance	258	0	(258)	Report issued 2/2/21
TOTALS			10276	11000	724	

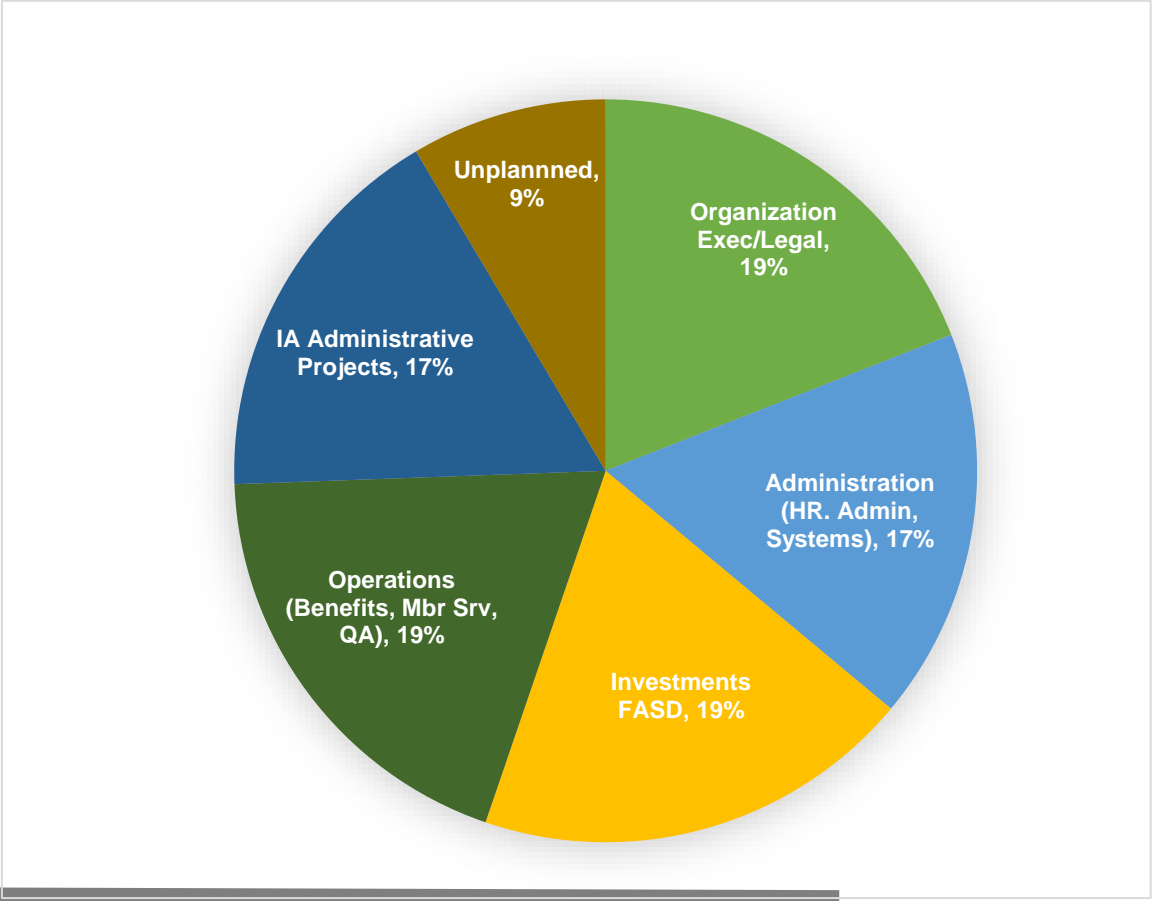
FYE 2021 AUDIT PLAN



81% of FY 2021 Audit Plan Completed or In Progress



Internal Audit Coverage Throughout LACERA



FYE 2021 HOT SPOTS



Hot Spots in 2021			
<p>Member Benefits</p> <ul style="list-style-type: none"> • Death Legal Unit Audit • QA Operations Review • Rehired Retirees Audit • CAP Testing: <ul style="list-style-type: none"> • New Employees • Pay Code • Minor Survivor • Census Data 	<p>IT Security</p> <ul style="list-style-type: none"> • Assisted in development of IT End User Manual • Monthly InfoSec Meetings • IT Sensitive Reco Follow-Up • CAP Testing • Soc1 Type 2 Audit • Established IT Audit Pool 	<p>Investments</p> <ul style="list-style-type: none"> • Real Estate Manager Compliance Reviews • THC Stale Check Review • Real Estate THC Operations Consulting Engagement • Wire Transfers Consulting • Custodial Bank Consulting • Established Inv. Audit Pool 	<p>Organizational</p> <ul style="list-style-type: none"> • Annual Risk Assessment and Reporting to AC • Fiduciary Planning Group • LIRT (CAE participates) • Credit Card Audit • Biweekly meetings with Exec Office
<p>Hot Spots Top-of-mind audits and projects that address key-risk areas and ongoing initiatives that are consistently referenced during risk assessment sessions, Board meetings, and/or identified during prior year audits.</p>		<p>Fraud</p> <ul style="list-style-type: none"> • Oversight of Ethics Hotline • Hotline & Special Investigations • Follow Up on LA County Hotline Incidents • CAP Testing 	<p>Internal Audit</p> <ul style="list-style-type: none"> • Refinement of Reco Follow-Up Process • Enhanced Audit Report • Development of Finding Disposition Report • Implementation of TeamMate+ Upgrade • Enhanced Risk Assessment Process • Established Audit Pool

SIGNIFICANT PROJECTS COMPLETED FYE 2021



Project	Description
Audits in Key Areas	Audit were completed in the following areas: Death Legal Unit, Credit Card Compliance, Quality Assurance Operations, LA County Rehired Retirees, Real Estate Audits THC Stale Check and Real Estate Manager Compliance Reviews.
SOC-1 Engagement	Review of OPEB's system and operational controls to ensure their design and operating effectiveness. Due to the complexity of this audit engagement, Internal Audit oversees data requests, works with key stakeholders to ensure delivery of data, coordinates the meetings, interviews, and other logistics to ensure the project goes smoothly.
Oversight of the External Financial Audit	Internal Audit continues to oversee LACERA's External Financial Audit, which includes coordinating meetings, gathering support and other administrative tasks, and ensuring audit deadlines are met.
Ethics Hotline & Investigations	Administrator, investigate, and oversee various hotline cases. Also, IA coordinates meetings with key divisions involved in the investigation of incidents, tracks and records resolution of cases.
IT End User Manual	Led a working group to create an IT End-User Manual for all staff. Work included updating and creating new IT policies.
RFP Audit Pool	Issued an RFP and reviewed proposals for professional service providers to provide audit services for organizational, investments, and systems work. Received Audit Committee approval for the recommended professional service providers. Worked with Legal and the firms to finalize contracts.

Key Administrative Projects Completed in FY 2021

Project	Description
Quality Assurance Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA. Improvements resulting from the QAIP include enhancements to our audit report structure, the establishment of risk rankings for findings, and preliminary risk assessment to develop audit scope.
KPMG Reco Follow-Up Audit	Provided supporting documentation for KPMG's audit. Implemented recommendations.
Audit Committee Consultant	Issued an RFP and reviewed proposals for an Audit Committee Consultant. Received Audit Committee approval for the recommended consultant.
Reco Follow-Up	Internal Audit enhanced procedures and incorporated standardized forms into the Recommendation Follow-Up Process. Internal Audit provided an overview of the revised recommendation follow-up process at the March Management meeting.
Annual Risk Assessment & Audit Planning	Issued a risk survey to all division managers. Conducted meetings with each manager to discuss significant changes in their divisions, as well as risks, and controls impacting their critical business functions. Held discussion with the Executive Office. Prepared an organization-wide risk assessment which was used for development of the audit plan.
Teammate Optimization	Transitioned to TeamMate+ (TM+), an upgraded version of our former TM systems that is used for audit workpapers and reporting. This project included working with a TM consultant to help optimize our usage of the product and training.
Audit Committee Charter	The Audit Committee Charter was updated at the April Audit Committee Meeting. The Charter was approved by both Boards in July 2021.
Audit Committee Support	Provided the Audit Committee with educational resources, including strengthening the Committee's independence, 2021 risks, and the updated Three Lines Model. Created an Audit Committee Calendar. Revised the Audit Committee Charter twice during the year.

Other Value-Added Activities



Activity	Impact / Value-Added
Assessed the contracts for LACERA's financial auditor, actuary, and audit actuary to determine best timelines for going out to bid.	Assisted in determination and timely extension of existing contracts.
Met bi-monthly with the Executive Office to review outstanding recommendations and other current issues.	Strengthened the partnership and communication between the Executive Office and IA.
Met monthly with Systems Division Office to review outstanding sensitive IT recommendations.	Helped to ensure recommendations were being addressed timely.
Met monthly with the Information Security Office to understand current concerns and on-going projects.	Strengthened the partnership and communication between Information Security Office and IA.
Participated in discussions on revised Education and Travel Policies.	Contributed to the Board presentations and memos on the revised policies.
Reviewed and provided feedback to the Legal Office regarding LACERA's Code of Ethical Conduct.	Provided feedback to help improve LACERA's Code of Ethical Conduct.
Participated in discussions regarding revising the ADR process.	Provided input in developing a more efficient and effective process.
Participated in meetings regarding the implementation of a new travel solution.	Helped to ensure the recommendation was being addressed timely and all parties were communicating effectively.

Quality Assurance & Improvement Program (QAIP)



Periodic Self-Assessment as of June 30, 2021

Key Conformance Criteria	Generally Conforms
A. Internal Audit Governance	
1. Purpose, Authority, and Responsibility	✓
2. Independence & Objectivity	✓
3. Quality Assurance Program	✓
B. Internal Audit Staff	
1. Proficiency	✓
C. Internal Audit Management	
1. Planning	✓
2. Nature of Work	✓
D. Internal Audit Process	
1. Operations Guide	✓
2. Engagement Planning	✓
3. Engagement Reporting	✓
4. Recommendation Follow-Up	✓

As part of IA's QAIP, we conducted a Periodic Self-Assessment based on a template provided by the IIA. In our opinion, we generally conform (*the highest rating*) with the IIA's criteria, but we recognize there are areas where we can improve our efficiency and effectiveness.

During FYE June 30, 2021, IA focused on:

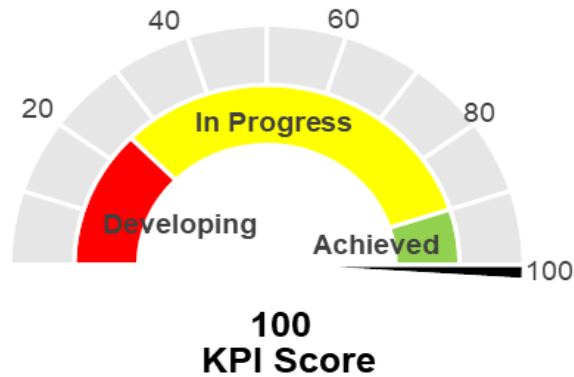
1. Conducting monthly internal QAIP meetings to discuss changes to processes, suggestions, and other current issues.
2. Revising our Recommendation Follow-Up process as the result of KPMG's assessment of our process.
3. Implementing a new audit software, TeamMate+, to more efficiently document and track our audits, projects, and recommendation.
4. Surveying division managers after an audit engagement to get feedback for improvement.

During FYE June 30, 2022, IA will continue to focus on the above areas, and will work to develop and implement an On-Going Monitoring program as required by the IIA.

Summary of Goals



Goal #1: Develop and execute an Optimal Audit Plan



Score Performance Measures:

100	<p>Conduct annual and ongoing risk assessments and incorporate results in the Audit Plan. We conducted our annual risk assessment process from February – May 2021 and conducted 100 engagement-level risk assessments for all assurance projects. The results of both risk assessments were used in the development of the FYE June 30, 2022 Audit Plan.</p>
100	<p>Expend 70% or more of total available Internal Audit staff hours (excluding uncontrollable leave) on direct assurance, consulting, and advisory services. We spent 75% of total available staff hours on assurance, consulting, and advisory services.</p>
100	<p>Ensure internal audit processes are in accordance with internal auditing standards. We are in compliance with all of the IIA's standards. See slide 9.</p>

Goal #2: Facilitate Audit Committee Governance



Score Performance Measures:

100	<p>Provide quarterly educational resources on effective Audit Committee practices. For FYE 2021, we held six meetings during which we provided Strengthening the AC (October 2020), OnRisk (Feb 2021), Three Lines (April 2021). Additionally, we coordinated two presentations on cybersecurity with InfoSec in October 2020 and December 2020.</p>
50	<p>Advise in the development of LACERA's Governance, Risk, and Compliance Programs and annually update the AC on progress. In Progress. Will report in FYE 2022.</p>
75	<p>Obtain annually the Audit Committee's feedback on Internal Audit performance and expectations. In Progress. Provide feedback to CAE's evaluation. Provided feedback in Feb - April 2021 on risks. Will survey AC in upcoming FYE.</p>

Summary of Goals



Goal #3: Continue to improve Internal Audit's processes



Score Performance Measures:

	Complete an External Quality Assessment and obtain a "Generally Conforms" rating.
50	We issued the RFP was issued in August 2021.
	Administer Audit Surveys on 100% of audit engagements.
100	We issued and received surveys for all audit engagements. See Surveys on slide 12.
	Continue to employ new project management tools to improve efficiency & timeliness of the audit process.
100	We have spent the year revising our processes, including the implementation of TeamMate+.
	Develop & operationalize key performance indicators to improve IA's efficiency & effectiveness.
80	We have developed key performance indictors & will operationalize them in FYE June 30, 2022.

Goal #4: Ensure continued competence and expertise of Internal Audit



Score Performance Measures:

	Complete a self-assessment relate to internal audit skills and LACERA knowledge.
66	We are in the process of developing a self-assessment.
	Develop an annual training plan based on results from self-assessments.
100	Internal Audit developed an divisional annual training plan based on discussions with staff.
	Complete annual training plans and obtain a minimum of 30 hours of continuing education credits, including 2 hours of required ethics training.
100	All staff completed a minimum of 30 hours of continuing education credits. As a division we completed an annual training plan.

Audit Survey Results



Name of Audit	Average
Understanding and Planning the Audit	
Management's input was considered in the planning process.	2
Key business processes, risks, and/ concerns were understood and considered during the planning phase.	3
The timing of the audit was appropriate.	2
The audit objectives, scope, and methodology of the audit were clearly communicated to management.	3
Execution of the Audit	
The audit was completed within the timeframe communicated to management. Delays were communicated timely to management.	3
The audit was conducted efficiently and effectively with minimal disruption to daily activities.	3
The audit was conducted in a professional, constructive, and courteous manner.	3
Findings, Recommendations, and Reporting	
The auditor kept you informed of key issues / findings throughout the audit.	2
The audit report was accurate, findings were business relevant and supported, and recommendations were constructive, relevant, and actionable.	3
The audit report fairly reflected your team's comments and corrective actions.	2
The overall audit provided value to your division.	3
Rating Scale	
Disagree	1
Neutral	2
Agree	3

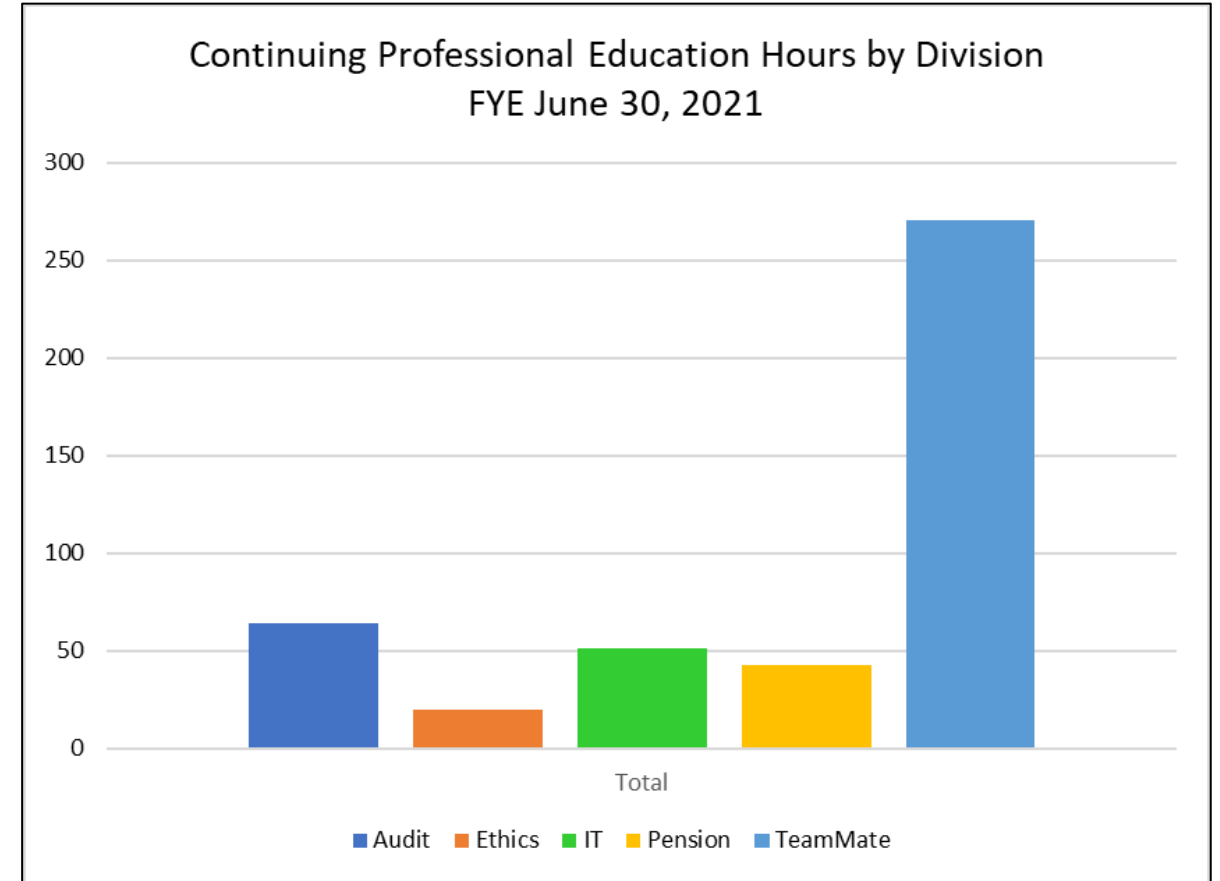
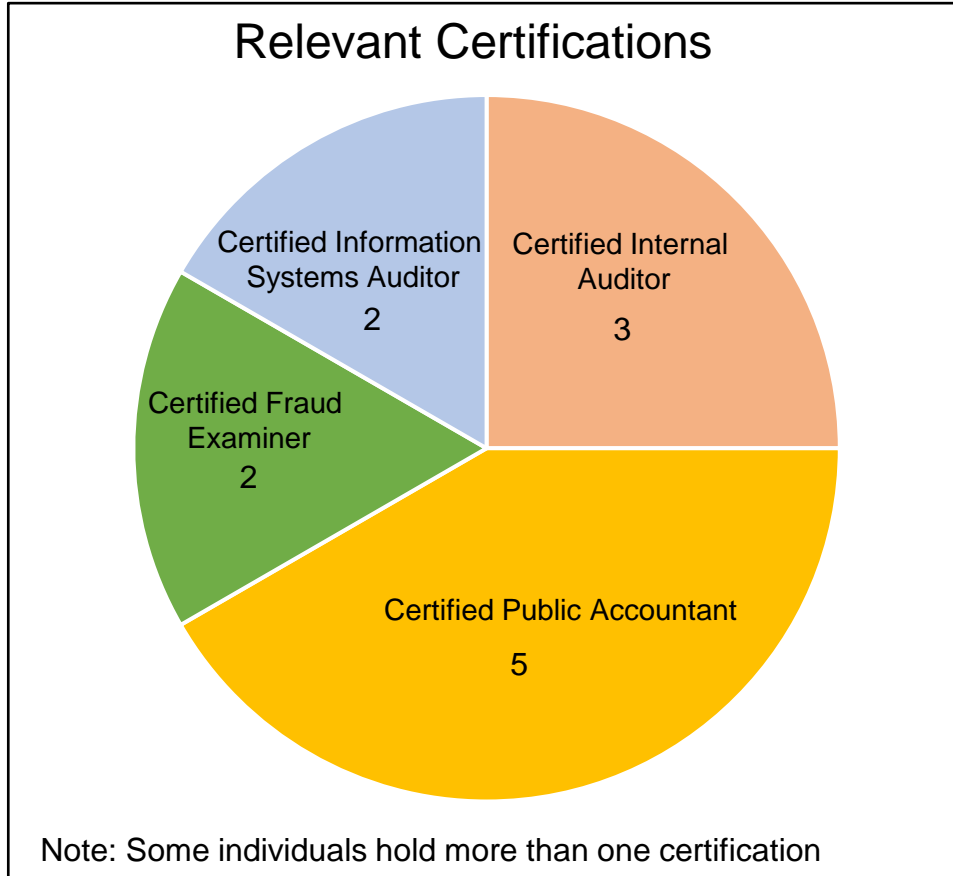
As part of our divisional goals, we requested and received five surveys for Assurance Engagements completed during FY 2021. We averaged the results from the surveys for this report. Overall Audit Survey Results are favorable for Internal Audit Division:

- ✓ The majority of scores reflect the highest rating of 3.
- ✓ All ratings relating for “Execution of Audit” where at 3
- ✓ Based on the survey results, we will enhance our audit process in the following areas:
 - Conducting more discussions with Management during preliminary phase of audit to get input and clarity of audit scope.
 - Coordinating audit start dates when less disruptive for auditees.
 - Keeping management informed of audit findings while conducting the audit and when drafting the audit report to ensure agreement with findings and recommendations

Professional Qualifications and Development



Part of the measure of an internal audit department is the qualifications and professional development of the personnel. We currently have eight full-time auditors in the division.



Questions
