

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 would like to remain anonymous at the meeting without stating your name, please let us know.

Attention: Public comment requests must be submitted via email to PublicComment@lacera.com.

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

AGENDA

A SPECIAL MEETING OF THE AUDIT COMMITTEE
AND BOARD OF RETIREMENT AND BOARD OF INVESTMENTS
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., WEDNESDAY, MARCH 23, 2022

This meeting will be conducted by the Audit Committee by teleconference under California Government Code Section 54953(e).

Any person may view the meeting online at
<http://lacera.com/leadership/board-meetings>

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

2022 AUDIT COMMITTEE MEMBERS

Gina V. Sanchez, Chair
Joseph Kelly, Vice Chair
Patrick L. Jones, Secretary
Alan J. Bernstein
Keith Knox
Wayne Moore
Herman B. Santos

AUDIT COMMITTEE CONSULTANT

Robert H. Griffin

I. CALL TO ORDER

II. APPROVAL OF MINUTES

- A. Approval of the Minutes of the Regular Audit Committee Meeting of February 17, 2022

III. PUBLIC COMMENT

(Written Public Comment - You may submit written public comments by email to PublicComment@lacera.com. 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.

Verbal Public Comment - You may also request to address the Committee. A request to speak must be submitted via email to PublicComment@lacera.com. We will contact you with information and instructions as to how to access the meeting as a speaker. If you would like to remain anonymous at the meeting without stating your name, please let us know.)

IV. CONSENT ITEMS

- A. That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, so long as the State of Emergency remains in effect, and direct staff to comply with the agenda and public comment requirements of the statute. (Memo dated March 10, 2022)

V. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Audit Committee, review and discuss the Institute of Internal Auditors (IIA) Quality Services' (Quality Services) engagement report in accordance with the current Audit Committee Charter and 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.(Memo dated March 16, 2022)

March 23, 2022

Page 3 of 4

V. NON-CONSENT ITEMS (Continued)

- B. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive:
That the Audit Committee approve the proposed Internal Audit Fiscal Year (FY) 2022-2023 salaries and employee benefits (S&EB) Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval. (Memo dated March 16, 2022)

VI. GOOD OF THE ORDER

(For Information Purposes Only)

VII. 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 REGULAR 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, CA 91101

9:00 A.M., THURSDAY, FEBRUARY 17, 2022

This meeting was conducted by teleconference pursuant to the Governor's Executive Order N-29-20.

PRESENT: Gina V. Sanchez, Chair
Joseph Kelly, Vice Chair
Patrick L. Jones, Secretary
Alan J. Bernstein
Keith Knox
Wayne Moore
Herman B. Santos

MEMBERS AT LARGE

Vivian H. Gray, Board of Retirement
Elizabeth Greenwood, Board of Investments

STAFF, ADVISORS, PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer
Luis A. Lugo, Deputy Chief Executive Officer
Laura Guglielmo, Assistant Executive Officer

STAFF, ADVISORS, PARTICIPANTS (Continued)

JJ Popowich, Assistant Executive Officer

Steven P. Rice, Chief Counsel

Jonathan Grabel, Chief Investment Officer

Richard P. Bendall, Chief Audit Executive

Leisha E. Collins, Principal Internal Auditor

Christina Logan, Principal Internal Auditor

Nathan K. Amick, Senior Internal Auditor

George Lunde, Senior Internal Auditor

Kristina Sun, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Kathryn Ton, Senior Internal Auditor

Summy Voong, Systems Division Interim Assistant Manager

Robert H. Griffin, Audit Committee Consultant

I. CALL TO ORDER

The meeting was called to order virtually by outgoing Chair Kelly at 9:00 a.m.

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

A. Chair of the Audit Committee

Ms. Sanchez was nominated to the position of Chair of the Audit Committee by Mr. Santos. Hearing no other nominations, the nominations were closed. Mr. Kelly declared Ms. Sanchez as Chair of the Audit Committee for 2022.

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

B. Vice Chair of the Audit Committee

Mr. Kelly and Mr. Jones were nominated to the position of Vice Chair of the Audit Committee by Mr. Santos and Mr. Kelly, respectively. Mr. Jones declined the nomination. Mr. Kelly declared himself as Vice Chair of the Audit Committee for 2022.

Mr. Santos nominated Mr. Jones to the position of Secretary of the Audit Committee. Hearing no other nominations, the nominations were closed. Mr. Kelly declared Mr. Jones as Secretary of the Audit Committee for 2022.

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Audit Committee Meeting of December 2, 2021.

Mr. Bernstein made a motion, Mr. Knox seconded, to approve the minutes of the Regular Audit Committee meeting of December 2, 2021 with the amended revisions. The motion passed (roll call) with Messrs. Bernstein, Jones, Kelly, Knox and Ms. Sanchez voting yes and Messrs. Moore and Santos abstaining.

IV. PUBLIC COMMENT

There were no requests from the public to speak.

V. CONSENT ITEMS

- A. Recommendation as submitted by Steven P. Rice, Chief Counsel: That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, and if so, direct staff to comply with the agenda and public comment requirements of the statute. (Memo dated January 27, 2021)

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

Mr. Kelly made a motion, Mr. Knox seconded, to approve staff's recommendation. The motion passed (roll call) with Messrs. Bernstein, Jones, Kelly, Knox, Moore, Santos and Ms. Sanchez voting yes.

VI. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: The Audit Committee review and approve the proposed 2022 Audit Committee meeting dates. (Memo dated February 1, 2022)

Messrs. Bendall and Griffin were present and answered questions from the

Committee.

Mr. Kelly made a motion, Mr. Santos seconded, to return the item to staff.

Mr. Bernstein made a substitute motion, Mr. Jones seconded, to approve staff's recommendation with the added 8:00 a.m. start time. The motion passed (roll call) with Messrs. Bernstein, Jones, Knox and Ms. Sanchez voting yes and Messrs. Kelly, Moore and Santos voting no.

VI. NON-CONSENT ITEMS (Continued)

A motion for reconsideration of the vote was made by Mr. Bernstein and seconded by Mr. Moore, to consider meeting date changes. The motion passed (roll call) with Messrs. Bernstein, Knox, Kelly, Jones, Moore, Santos and Ms. Sanchez voting yes.

Mr. Bernstein made a motion, Mr. Jones seconded, to approve the 2022 Audit Committee schedule as follows: May 9, 2022, August 18, 2022, and November 17, 2022, and move the meeting start time to 8:00 a.m. The motion passed (roll call) with Messrs. Bernstein, Moore, Santos, Jones, Knox, and Ms. Sanchez voting yes and Mr. Kelly voting no.

- B. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Kristina Sun, Senior Internal Auditor: The Audit Committee approve staff's selection of Weaver & Tidwell, LLP to perform an organizational governance review. (Memo dated February 4, 2022)

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

Mr. Kelly made a motion, Mr. Bernstein seconded, to approve staff's recommendation. The motion passed (roll call) with Messrs. Bernstein, Jones, Kelly, Knox, Moore, Santos and Ms. Sanchez voting yes.

- C. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor and Christina Logan, Principal Internal Auditor: The Audit Committee approve the Proposed Internal Audit Fiscal Year 2022 - 2023 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval. (Memo dated February 4, 2022)

VI. NON-CONSENT ITEMS (Continued)

Messrs. Bendall, Griffin and Ms. Guglielmo were present and answered questions from the Committee.

Mr. Kelly made a motion, Mr. Santos seconded, to approve staff's submission of the services and supplies budget and staff levels in the staff document, and in May the Committee will consider the salary and benefits expenses of staff. The motion passed (roll call) with Messrs. Bernstein, Jones, Kelly, Knox, Moore, Santos and Ms. Sanchez voting yes.

Mr. Jones made a motion, Mr. Knox seconded, to have the Audit Committee Consultant to conduct a Benchmarking study of a peer group analysis of pension trends and present it to the Committee at the May meeting. Messrs. Bernstein, Jones, Kelly, Knox, Moore, Santos and Ms. Sanchez voting yes.

Subsequent to the approved motions, Mr. Griffin raised a question concerning the Audit Committee Charter and budget process and requested clarification for the scope of the Benchmarking study. The Audit Committee addressed the Charter language and provided guidance that the study should focus on larger peer pension systems' internal audit departments and provide the Committee with some high-level points of comparison between these peers and LACERA. Chair Sanchez said she would meet with Mr. Griffin and Mr. Bendall to further discuss and define the study.

VI. NON-CONSENT ITEMS (Continued)

- D. Recommendation as submitted by Richard P. Bendall, Chief Audit Executive, Leisha E. Collins, Principal Internal Auditor and Christina Logan, Principal Internal Auditor: The Audit Committee review and approve amendments to the FY 2022 Internal Audit Plan. (Memo dated February 9, 2022)

Mr. Bendall and Mr. Grabel were present and answered questions from the Committee.

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

VII. REPORTS

- A. 2022 Audit Committee Orientation
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
(Presentation) (Memo dated February 1, 2022)

Ms. Logan and Ms. Sun provided a brief educational presentation. This item was received and filed.

- B. Management's Compliance Report
Santos H. Kreimann, Chief Executive Officer
Luis A. Lugo, Deputy Chief Executive Officer
(Memo dated January 31, 2022)

Mr. Lugo was present and answered questions from the Committee. This item was received and filed.

- C. Recommendation Follow-Up Report
Richard P. Bendall, Chief Audit Executive
Kristina Sun, Senior Internal Auditor
(Memo dated February 4, 2022)

VII. REPORTS (Continued)

Mr. Bendall and Ms. Sun were present and answered questions from the Committee.

This item was received and filed.

- D. Recommendation Follow-Up Sensitive Information Technology Areas
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Memo dated February 4, 2022)

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

- E. Recommendation Follow-Up KPMG's External Quality Assessment
Richard P. Bendall, Chief Audit Executive
Christina Logan, Principal Internal Auditor
(Memo dated February 1, 2022)

Messrs. Bendall, Rice and Ms. Logan were present and answered questions from the Committee. This item was received and filed.

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

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

This item was received and filed.

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

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

This item was received and filed.

VII. REPORTS (Continued)

H. Continuous Auditing Program (CAP)

Richard P. Bendall, Chief Audit Executive

Nathan K. Amick, Senior Internal Auditor

(For Information Only) (Memo dated February 1, 2022)

This item was received and filed.

I. Ethics Hotline Status Report

Richard P. Bendall, Chief Audit Executive

Kathryn Ton, Senior Internal Auditor

(For Information Only) (Memo dated January 31, 2022)

This item was received and filed.

VIII. CONSULTANT COMMENTS

Robert H. Griffin, Audit Committee Consultant

(Verbal Presentation)

Mr. Griffin provided brief comments to the Committee.

IX. REPORT ON STAFF ACTION ITEMS

The Committee requested that Internal Audit staff include at least one Audit Committee member in the RFP process when selecting firms. In addition, it was requested that members of the selection committee be included in the memo.

X. GOOD OF THE ORDER

The Committee thanked staff for their work.

XI. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 10:58 a.m.

March 10, 2022

TO: Each Trustee,
Audit Committee

FROM: Steven P. Rice, *SPR*
Chief Counsel

FOR: March 23, 2022 Audit Committee Meeting

SUBJECT: Approval of Teleconference Meetings Under AB 361 and Government Code
Section 54953(e)

RECOMMENDATION

That, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, so long as the State of Emergency remains in effect, and direct staff to comply with the agenda and public comment requirements of the statute.

LEGAL AUTHORITY

Under Section VI of its Charter, the Audit Committee controls its own meeting schedule and specifically "has such other powers as provided in the Brown Act." This authority includes the ability to manage the scheduling and manner of Committee meetings and to evaluate and act on legal options for the conduct of such meetings, such as whether to invoke teleconferencing of meetings under the terms and conditions provided in AB 361 and Government Code Section 54953(e) of the Brown Act to protect the health and safety of Trustees, staff, and the public.

DISCUSSION

A. Summary of New Law.

On September 16, 2021, the Governor signed AB 361 which enacted new Government Code Section 54953(e) of the Brown Act to put in place, effective immediately and through December 31, 2023, new teleconferencing rules that may be invoked by local legislative bodies, such as the Audit Committee, upon making certain findings and following certain agenda and public comment requirements.

Specifically, Section 54953(e)(3) provides that the Committee may hold a teleconference meeting without the need to comply with the more stringent procedural requirements of

Section 54953(b)(3) if a state of emergency under Section 8625 of the California Emergency Services Act remains active or state or local officials recommend social distancing rules, provided that the Committee makes the following findings by majority vote:

(A) The Committee has considered the circumstances of the State of Emergency;

(B) Any of the following circumstances exist:

- (i) The State of Emergency continues to directly impact the ability of the Trustees to meet safely in person;
- (ii) State or local officials continue to impose or recommend measures to promote social distancing.

If the Committee makes the required findings, the Committee may hold teleconference meetings for the next 30 days, so long as the State of Emergency remains in effect, without the need to comply with the regular rules of Section 54953(b)(3), provided that: agendas are prepared and posted under the Brown Act; members of the public are allowed to access the meeting via a call-in option or an internet-based service option; and the agenda provides an opportunity for public comment in real time and provides notice of the means of accessing the meeting for public comment.

B. Information Supporting the Required Findings and Process if the Audit Committee Determines to Invoke Section 54953(e).

The Governor's State of Emergency for the COVID-19 pandemic as declared in the Proclamation of a State of Emergency dated March 4, 2020 remains active. The Proclamation was issued under the authority of Section 8625 of the California Emergency Services Act. It is unclear when the State of Emergency will end, although the Governor recently ordered that certain COVID-19 emergency provisions end on various dates in the near future. See Order No. N-04-22, issued February 25, 2022.

The Los Angeles County Department of Public Health maintains guidance to "Keep your distance. Use two arms lengths as your guide (about 6 feet) for social distancing with people outside your household when you are not sure that they are vaccinated." <http://publichealth.lacounty.gov/acd/ncorona2019/reducingrisk/>. The County Public Health Department also maintains guidance that employers should, "Implement policies and practices that support physical distancing: Whenever possible, take steps to reduce crowding indoors and enable employees and customers to physically distance from each other. Generally, at least 6 feet of distance (2 arm lengths) is recommended, although this is not a guarantee of safety, especially in enclosed or poorly ventilated spaces." <http://publichealth.lacounty.gov/acd/ncorona2019/bestpractices/>.

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The City of Pasadena (City), where LACERA's offices are located and Audit Committee meetings are held, has substantially revised its guidance to give more flexibility. The City still offers guidance that businesses recognize that COVID-19 continues to pose a risk to communities, and it is important for employers to continue to take steps to reduce the risk of COVID-19 transmission among their workers and visitors." <https://www.cityofpasadena.net/economicdevelopment/covid-19-business-resources/>. Earlier guidance promoting physical distancing by business is also still posted on the City's COVID web page as a reference.

The Centers for Disease Control and Prevention (CDC) has recently updated its guidance, but the CDC still advises the public to "Stay 6 feet away from others" and that, "Indoors in public: "If you are not up to date on COVID-19 vaccines, stay at least 6 feet away from other people, especially if you are at higher risk of getting very sick with COVID-19." <https://www.cdc.gov/coronavirus/2019-ncov/prevent-getting-sick/prevention.html#stay6ft%20>.

The pandemic continues to present a significant health risk, as the virus presents itself in different variants. LACERA has not yet returned to the office. Management is preparing return to office vaccination and testing protocols to ensure the safety of LACERA employees, members, and others, including Trustees.

Under these circumstances, the Audit Committee may reasonably conclude and find that teleconferencing under Section 54953(e) is appropriate for the Committee meetings, if any, during the next 30 days because (1) the State of Emergency continues to directly impact the ability of the Trustees to meet safely in person, and (2) the County and other authorities continue to recommend measures to promote social distancing, as required by the statute. Such findings can only be effective for so long as the State of Emergency is in effect.

If the Committee makes these findings and directs teleconferencing under Section 54953(e), procedures exist and will be implemented to ensure compliance with the agenda and public comment requirements of the statute, as stated above.

CONCLUSION

Based on the above information, staff recommends that, under AB 361 and Government Code Section 54953(e)(3) of the Brown Act, the Audit Committee consider whether to find that the Governor's COVID-19 State of Emergency continues to directly impact the ability of the Committee to meet safely in person and that the County of Los Angeles and other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days, so long as the State of Emergency is in

Re: Approval of Teleconference Meetings Under AB 361 and Gov't Code § 54953(e)

March 10, 2022

Page 4 of 4

effect, and direct staff to comply with the agenda and public comment requirements of the statute.

c: Santos H. Kreimann
Luis Lugo
Jonathan Gabel
Richard Bendall
JJ Popowich
Laura Guglielmo
Carly Ntoya
Leisha Collins
Christina Logan



March 16, 2022

TO: 2022 Audit Committee
Gina V. Sanchez, Chair
Joseph Kelly, Vice Chair
Patrick L. Jones, Secretary
Alan J. Bernstein
Keith Knox
Wayne Moore
Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: March 23, 2022 Audit Committee Meeting

SUBJECT: **Internal Audit's External Quality Assessment (EQA)**

RECOMMENDATION

In accordance with the current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the Institute of Internal Auditors (IIA) Quality Services' (Quality Services) 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.

EXECUTIVE SUMMARY

The External Quality Assessment (EQA), which is to be 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 EQA 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.

Quality Services 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 EQA, the Quality Services team also identified opportunities for improvement that will assist Internal Audit in more fully complying with the Standards and providing enhanced services to LACERA. Staff have provided action plans to address each of the recommendations which are included in the Quality Services' Report.

Steve Goodson, who led the Quality Services team, will present the results of the EQA to the Committee at the March meeting and, along with staff, will address any questions. See the presentation (Attachment B).

BACKGROUND

Section IV.2 of the Audit Committee Charter, provides that 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.

Section VII.A.3.b. provides that the Committee has the responsibility for Standards Conformance of Internal Audit's activities. Section VII.A.3.b. provides that the Committee will "Ensure the Internal Audit Division conforms with the IIA's International Standards for the Professional Practice of Internal Audit, particularly the independence of Internal Audit and its organizational structure."

Section VII.A.3.d. provides that the Committee will "ensure the Internal Audit Division has an external quality assurance review every five years." The Charter states further that the Committee will "review the results of the external quality assurance review and monitor the implementation of related recommendations," and "advise the Boards about any recommendations for the continuous improvement of the internal audit activity."

For these reasons, staff with the Audit Committee's approval engaged Quality Services, an external vendor, to perform the EQA of Internal Audit. Consideration of the assessment results falls within the Committee's authority under its Charter.

RFP AND SELECTION PROCESS

At the April 2021 meeting, the Committee authorized the Chief Audit Executive (CAE) to issue a Request for Proposal (RFP) to hire a consultant to perform an EQA. The RFP was posted on the LACERA website on August 9, 2021, and six responses were received: IIA Quality Services, LLC; Mitchell & Titus, LLP; TAP International. Inc, Armanino LLP, Sjoberg Evashenk Consulting, and That Audit Guy, LLC.

A selection team consisting of the CAE, both Principal Internal Auditors, and Chief Legal Counsel evaluated the proposals. Key criteria for evaluating the proposals included each firm's depth and breadth of expertise relating to internal audit functions, experience performing EQAs, as well as the qualifications and experience of the proposed assessment team, the quality and cohesiveness of the proposal and sample reports provided, as well as fees. The selection team scored Quality Services the highest amongst all candidates and recommended the Committee approve their engagement at the October 2021 meeting.

At the October meeting, the Committee decided unanimously to form an ad hoc Committee to perform a secondary evaluation of all proposals to ensure independence in the selection process. The ad hoc committee, selected by the Audit Committee Chair, was comprised of the Chair, the Administrative Assistant-Executive Officer, and a Senior Internal Auditor, not involved in the initial evaluation. After evaluating and scoring the proposals, the ad hoc committee independently scored Quality Services the highest, in alignment with what the initial evaluation team had determined. The CAE, along with the ad hoc committee, then made the final decision to move forward and recommend to the full Audit Committee the selection of Quality Services. The independence of the ad hoc committee further strengthened the recommendation, and the Audit Committee approved the hiring of Quality Services at the December 2, 2022 meeting.

IIA QUALITY SERVICES' REVIEW AND REPORT

Following its engagement, the Quality Services team independently performed its scope of work. During the fieldwork staff met periodically with the Quality Services team to discuss the results of their work and upon receipt of a draft report, staff reviewed it and provided input. The report was completed on March 4, 2022.

In the report the Quality Services team summarizes applicable standards, its review process, and its observations and recommendations. Internal Audit staff provided responses and action plans to the recommendations, which are included in the final report.

Attachments:

- A. IIA Quality Services' Quality Assessment Report
- B. IIA Quality Services' Audit Committee Briefing (Presentation)

c: Santos H. Kreimann
Luis A. Lugo
Laura Guglielmo
JJ Popowich
Steven P. Rice



A REPORT PRESENTED TO
LOS ANGELES COUNTY
EMPLOYEES RETIREMENT
ASSOCIATION (LACERA)

QUALITY ASSESSMENT REPORT

Prepared February 18, 2022

Table of Contents

TOPIC	PAGE
Overall Conclusion	3
List of Acronyms	4
Executive Summary Conformance Summary Overall Opinion	5
Detailed Observations Successful Practices Conformance Gaps Improvement Opportunities	10
Appendix A Conformance Rating Criteria	22
Appendix B Stakeholder Feedback	24

Los Angeles County Employees Retirement Association

This Internal Audit Department **Generally Conforms** to the *International Standards for the Professional Practices of Internal Auditing* and the IIA Code of Ethics.

A Generally Conforms rating means the internal audit activity conforms to the requirements of the Standards and elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects. This rating does not imply full conformance and is achievable even when some areas of the Standards are determined to be in partial conformance.

GOVERNANCE		STAFF		MANAGEMENT		PROCESS	
Standard	Rating	Standard	Rating	Standard	Rating	Standard	Rating
1000	GC	1200	GC	2000	GC	2200	GC
1100	GC			2100	GC	2300	GC
1300	GC			2450	GC	2400	GC
Code of Ethics	GC			2600	GC	2500	GC



Steve Goodson
Steve Goodson, CIA
 Team Leader
 IIA Quality Services, LLC

Team Members:
 Anne Etter
 Hardy Patton

Bill Radish
Bill Radish
 Director, IIA Quality Services
 IIA Quality Services, LLC

List of Acronyms

ACRONYM	DESCRIPTION
CAATs	Computer-Assisted Audit Techniques
CAE	Chief Audit Executive
CPE	Continuing Professional Education
EQA	External Quality Assessment
IA	Internal Audit
IIA	The Institute of Internal Auditors
Internal Audit	Internal Audit Department
IPPF	International Professional Practices Framework
IT	Information Technology
QAIP	Quality Assurance and Improvement Program
<i>Quality Assessment Manual</i>	<i>Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition</i>
<i>Standards</i>	<i>International Standards for the Professional Practice of Internal Auditing</i>
SWOT	Strengths, Weaknesses, Opportunities, and Threats

Executive Summary

Conformance Summary

STANDARDS AND THE IIA CODE OF ETHICS

		GC	PC	DNC
ATTRIBUTE STANDARDS				
1000 - Purpose, Authority, and Responsibility		X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100 - Independence and Objectivity		X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	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 (QAIP)		X		
1310	Requirements of the QAIP	X		
1311	Internal Assessments		X	
1312	External Assessments		X	
1320	Reporting on the QAIP	X		
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Statement		X	
1322	Disclosure of Nonconformance	X		
PERFORMANCE STANDARDS				
2000 - Managing the Internal Audit Activity		X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		

		GC	PC	DNC
PERFORMANCE STANDARDS (CONTINUED)				
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 Programs	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 International Standards for the Professional Practice of Internal Auditing"		X	
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500 - Monitoring Progress		X		
2600 - Communicating the Acceptance of Risks		X		
IIA CODE OF ETHICS				
Code of Ethics		X		
OVERALL CONFORMANCE RATING		X		

Overall Opinion

OPINION AS TO CONFORMANCE WITH THE *STANDARDS* AND THE IIA CODE OF ETHICS

The internal audit activity at Los Angeles County Employees Retirement Association (LACERA) Generally Conforms with the Standards and the IIA Code of Ethics. A Generally Conforms rating means the internal audit activity conforms to the requirements of the Standards and elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects. This rating does not imply full conformance and is achievable even when some areas of the Standards are determined to be in partial conformance.

A summary of conformance with individual *Standards* and the IIA Code of Ethics is provided within the “Conformance Summary” section of this report. Upon issuance of this report, Internal Audit may use the phrases “Conforms with the *International Standards for the Professional Practice of Internal Auditing*” and “Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” within its practice materials and/or audit reports.

The IIA *Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition (Quality Assessment Manual)* suggests a scale of three ratings, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” Detailed rating definitions and criteria associated with “Generally Conforms,” “Partially Conforms,” and “Does Not Conform” are described within Appendix A of this report and are consistent with IIA guidance stated in its *Quality Assessment Manual*.

Under the *Standards*, an External Quality Assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or an independent assessment team from outside the organization. IIA Quality Services, LLC was selected to lead this assessment. This engagement’s Assessment Team demonstrated competence in both the professional practice of internal auditing and the EQA process as required by the *Standards*. The External Quality Assessment was conducted virtually primarily during the week of February 7, 2022. Conclusions were as of February 11, 2022.

Future changes in external factors and actions taken by personnel, including actions taken to address our recommendations, may have an impact upon the operation of Internal Audit in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the observations and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions. All information included in this report is proprietary and confidential and is intended for internal use only. This report may not be distributed to any other third-party (other than your regulator, Audit Committee, or external auditor) without the prior written consent of IIA Quality Services, LLC.

Objectives, Scope, and Methodology

OBJECTIVES

The primary objective of this assessment was to evaluate conformance to the *Standards*, which require an EQA of an internal audit activity at least every five years. In addition, the Assessment Team:

- Assessed conformance with the IIA Code of Ethics
- Assessed Internal Audit's effectiveness in providing assurance and advisory services to stakeholders and other interested parties
- Identified opportunities, offered recommendations for improvement, and provided counsel to Internal Audit for improving its performance and services, as well as promoting its image and credibility throughout the organization

SCOPE

The scope of this assessment included an evaluation of Internal Audit's efficiency and effectiveness in executing its mission, as set forth by the Internal Audit Charter, which defines the purpose, authority, responsibilities, and accountabilities of Internal Audit.

METHODOLOGY

To accomplish the aforementioned objectives, the Assessment Team:

- Reviewed information prepared by Internal Audit at the Assessment Team's request
- Conducted interviews with key stakeholders of Internal Audit including board members, senior executives, the external auditors, the Chief Audit Executive (CAE), and members of the Internal Audit function
- Reviewed a limited sample of audit projects and associated work papers and reports
- Reviewed survey data received from Internal Audit stakeholders resulting from IIA Quality Services' survey process
- Reviewed benchmark data
- Prepared diagnostic tools consistent with the methodology established for an EQA as stated in the *Quality Assessment Manual*

Observations Specific to Internal Audit

OVERALL SUMMARY

The internal audit activity at Los Angeles County Employees Retirement Association (LACERA) Generally Conforms with the Standards and the IIA Code of Ethics. A conformance rating of Generally Conforms (GC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity conforms to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual *Standards* and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

While LACERA Internal Audit Generally Conforms with the Standards and the IIA Code of Ethics, Internal Audit received a rating of Partially Conforms for six Standards resulting in five Conformance Gaps:

1311	Internal Assessments
1312 -	External Assessments
1321/2430 -	Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”
2330 -	Documenting Information
2340 -	Engagement Supervision

These Conformance Gaps are discussed in the Detailed Observations section of this report along with six leading practices and eight opportunities to improvement. Of note, Internal Audit has recently implemented a comprehensive follow-up process that provides the Audit Committee and management valuable insight into efforts to implement internal audit recommendations. Lastly, multiple additional opportunities to improve the audit activity that did not raise to the level of reporting were discussed with the Chief Audit Executive and his management team.

Detailed Observations

Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

#	STANDARD	SUCCESSFUL PRACTICE
SP01	1220 – Due Professional Care 1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.	LACERA IA has well-credentialed staff. Many staff members hold multiple certifications in the areas of internal auditing, fraud, accounting, data analytics, and information technology. Internal Audit has employed data analytics tool to assist with engagements. LACERA supports staff continuing professional development and provides an annual bonus for certified staff.
SP02	1312 External Assessments	A commitment to quality is demonstrated by engaging this external assessment. See separate conformance gap 1312 External Assessments.
SP03	2330 - Documenting Information Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.	The department is making good use of TeamMate for Audit Planning and Working Papers. See separate opportunities related to: 2330 - Documenting Information 2340 - Engagement Supervision
SP04	2120 – Risk Management The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.	Internal audit conducts a robust annual risk assessment and planning effort prior to developing their annual plan. The effort includes interviews and discussions with key stakeholders and an evaluation of external leadership using the IIA's "On Risk" annual report. See separate opportunity related to: 2010 – Planning 2030 – Resource Management



Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

#	STANDARD	SUCCESSFUL PRACTICE
SP05	Leading Practice – Management and Audit Committee Relations	Management and the Audit Committee are engaged with Internal Audit. Overall, Internal Audit is commonly viewed as value adding and as having positive relationships with management.
SP06	Leading Practice – Thought Leadership	LACERA IA shares risk intelligence and benchmarking thought-leadership with the board audit committee using the IIA's report "On Risk." This annual report offers boardroom, C-suite, and internal audit annual perspectives on risk to challenge and extend management and the board's view on risk, see https://www.theiaa.org/OnRisk . LACERA IA could consider including views of risk sourced from industry publications, public accounting firms, and other internal auditing service providers to broaden the landscape of thought-leadership presented to the board audit committee during IA's annual risk assessment.



Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG01	<p>1311 Internal Assessments</p> <p>Internal assessments must include:</p> <ul style="list-style-type: none"> • Ongoing monitoring of the performance of the internal audit activity. • Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices 	<p>Ongoing monitoring of engagements is conducted, but can be improved. Ongoing monitoring of performance is discussed under the opportunity for 2340 - Engagement Supervision</p> <p>Internal Audit did conduct a periodic internal assessment and reported the results to the Audit Committee. However, workpapers to support the assessment were not maintained and available for review.</p> <p>Key Performance Indicators (KPI) are vital for monitoring the performance of the overall internal audit activity. Several indicators are routinely tracked and communicated to the Audit Committee such as:</p> <ul style="list-style-type: none"> • Audit Plan Completion • Internal Audit Coverage of the Organization • Engagement-level audit cycle time <p>Internal Audit has an opportunity, working with the Audit Committee and Executive Management, to establish KPIs that will be meaningful to these stakeholders. Establishing goals for each KPI will help Internal Audit target their efforts to accomplish the metrics.</p>	<p>Recommendation #1:</p> <ol style="list-style-type: none"> Work with the Committee and Executive Management to establish meaningful KPIs and measurable goals related to each. Adequately document the work performed for the Internal Periodic Assessment. This effort could be included in Internal Audit's to be developed Strategic Plan, see IO05. 	<p>Recommendation #1 – Management Responses and Action Plans:</p> <ol style="list-style-type: none"> Internal Audit (IA) management agrees with the recommendation and will discuss KPIs with the Executive Office and Audit Committee (AC) Chair in developing meaningful and measurable KPIs. We will then establish KPIs which we will report in the Audit Plan Status Report presented at AC meetings. Due Date: 8/30/22 IA management agrees with the recommendation and will develop formalized Internal Periodic Assessment and establish due dates for completion. Due Date: 3/31/22 IA management agrees with the recommendation and will include these efforts in our Strategic Plan. Due Date 10/31/22

Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG02	1312 External Assessments External assessments must be conducted at least once every five years.	Internal Audit's most recent external quality assessment was completed in 2016. With the completion of this assessment, Internal Audit comes into conformance with this Standard	Recommendation #2: Assure an EQA is conducted at least every 5 years.	Management Response and Action Plan Recommendation #2: IA management agrees with the recommendation and will ensure that the next EQA is conducted within 5 years. Due Date: Implemented
CG03	1321 & 2430 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Indicating that engagements and the internal audit activity are "in conformance with the International Standards for the Professional Practice of Internal Auditing" is appropriate only if supported by the results of the quality assurance and improvement program.	Internal Audit continued to use the statement even though an external QA as not conducted at least once every five years.	Recommendation #3: Refrain from using Conformance Statement without external quality assessment confirming conformance.	Management Response and Action Plan Recommendation #3: IA management agrees with the recommendation and will not use the Conformance Statement until the Final EQA Report is issued. Due Date: Implemented



Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG04	2330 - Documenting Information Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.	<p>Engagement documentation reviewed for this assessment was limited due to:</p> <ul style="list-style-type: none"> a) The structure of engagement files that were converted into TeamMate+ (TM), b) The changing and maturing of departmental procedures during the period of review, and c) A lack of centralized and complete procedures to outline the intended documentation practices. <p>Our review primarily focused on a limited sample of one engagement that had followed current and intended departmental practice and which was fully completed within the new TM file structure.</p> <p>We also reviewed additional historical files to assess and confirm observations related to the 2200 series performance standards gaps and opportunities that are noted in this report.</p>	<p>Recommendation# 4:</p> <p>Improve the quality and consistency of engagement working papers.</p> <p>In addition to the new file structure and process templates warehoused in TeamMate+, we strongly recommend the following actions be taken by Internal Audit to improve the quality and consistency of working paper documentation:</p> <ul style="list-style-type: none"> a. Document the intended work paper practices in the departmental manual. b. Align the end of audit quality review checklist to the steps in the IIA's QAIP's Internal Audit Process Program Guide. c. Continue to reinforce intended procedural standards in the monthly departmental quality team meetings. d. For a period of time, evaluate every engagement for compliance with documentation standards and once procedures and quality results are satisfactory, then mature your periodic internal quality reviews to a sample of audits. e. Once departmental procedures have been firmly established and operating for a period of time (at least six months) consider performing another external quality assessment (either a full assessment / independent assessment with external review, or a readiness assessment) more frequent than the suggested five-year requirement to ensure that the department processes are working as intended and are following good practice. 	<p>Recommendation #4 Management Response and Action Plan:</p> <ul style="list-style-type: none"> a. IA management agrees with the recommendation and will update Operation Guide and include this practice in the Guide. Due Date: 6/30/2022 b. IA management agrees with the recommendation and will align audit quality review checklist with the IIA QAIP Program Guide. Due Date: 3/31/2022 c. IA Management agrees with the recommendation and will continue to reinforce standards in monthly QAIP meetings. Due Date: Implemented d. IA Management agrees with the recommendation and in connection with recommendation #4b above, will perform a post audit evaluation of audit engagements for compliance with documentation Standards until FYE 2023 and subsequently will be perform the post audits on a sample basis. Due Date: 6/30/2023 e. Will work on refining and improving IA operations and after one year of doing so, will consider a readiness assessment. Due Date: 6/30/2023

Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG05	2340 - Engagement Supervision Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.	<p>Internal audit management and staff reported a high degree of interaction and discussion during the conduct of audits. What has been a greater challenge is the timely documentation of supervisory approvals or “sign-off” in the automated workpaper tool TeamMate (TM).</p> <p>IA migrated to a new version of TM during the pandemic and prior to fully assessing and solidifying their internal working practices. Thus, IA management disclosed, and we observed, that supervisory sign-off during audit engagements was not always timely documented in the official working papers. The new TM file structure, that was recently implemented, reflected an improved level of timely supervision as observed in the TM tool.</p>	<p>Recommendation #5: We recommend IA management:</p> <ul style="list-style-type: none"> a) establish timelines for what constitutes timely supervisory review in the Internal Audit operating manual, b) ensure supervision is timely and contemporaneously documented in TM during audits, and c) include an evaluation of timely supervisory sign-off in their periodic internal quality assessments. 	<p>Recommendation #5 Management Response and Action Plan:</p> <ul style="list-style-type: none"> a) IA Management agrees with the recommendations and will establish timelines for audit engagements and will address them in our operating manual. Due Date 6/30/2022 b) IA Management agrees with the recommendations and will ensure Supervisory review is timely and documented based on our continuous QC reviews as noted in recommendation # 4d. Due Date 6/30/2022 c) IA Management agrees with the recommendations and will include an evaluation of timely supervisory sign-off in our periodic internal quality assessments. Due Date 6/30/2022

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO01	<p>1110 – Organizational Independence Organizational independence is effectively achieved when the chief audit executive reports functionally to the board.</p>	<p>IA clearly reports functionally to the LACERA Audit Committee, However, the LACERA organizational chart on the organization's external website does not show the Internal Audit Activity's functional reporting relationship to the Audit Committee of the Boards.</p>	<p>Recommendation #6: Strengthen internal audit's independence by updating the LACERA organization chart that is publicly facing to reflect a solid (functional) reporting line to the Audit Committee. Review all public and internally facing organization charts to ensure the reporting lines are appropriately reflected.</p>	<p>Recommendation #6 Management Response and Action Plan: IA Management agrees with the recommendations and will work with Exec Office and Communications Division to update the org charts accordingly. Due Date 3/31/22</p>
IO02	<p>1210 – Proficiency Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.</p> <p>1230 - Continuing Professional Development Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.</p>	<p>Internal audit has well-credentialed staff. Many staff members hold multiple certifications in the areas of internal auditing, fraud, accounting, data analytics, and information technology.</p>	<p>Recommendation #7: In order to enhance their competencies and continue their professional development, Internal Audit can:</p> <ol style="list-style-type: none"> Utilize a staff competency model similar to the IIA Internal Audit Competency Framework to self-assess staff against a formal competency framework. Add certification requirements to Internal Audit Job Descriptions if the practice is consistent with LACERA's internal job description methodology. Ensure staff receive timely finalized and formal performance appraisals on at least an annual basis. 	<p>Recommendation #7 Management Response and Action Plan:</p> <ol style="list-style-type: none"> IA Management agrees with the recommendation and will develop a staff competency model using the IIA Internal Audit Competency Framework as a guide. We plan to discuss this at our April monthly QAIP meeting and will begin using it in FY 2023. Due Date: 6/30/2022. IA Management agrees with the recommendation and will review LACERA job descriptions for Internal Audit positions to align with current internal audit practices and evaluate the inclusion of certifications if feasible under LACERA job description methodology. Due Date: 6/30/2022 IA Management agrees with the recommendation and will ensure performance appraisals are completed in a timely manner and within LACERA's PE timeline. We will also complete Competency Assessments on a fiscal year basis beginning with Fiscal Year 2023. Due Date 7/30/22

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO03	<p>1110 - Independence and Objectivity The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.</p> <p>2400 - Communicating Results Internal auditors must communicate the results of engagements.</p>	<p>Independence is the freedom from conditions that threaten the ability of the internal auditing activity to carry out their responsibilities in an unbiased manner.</p> <p>Further, the internal audit policies and procedures manual establishes the process for documenting the support for an observation/conclusion related to the engagement and the internal audit activity may develop an engagement communication plan to provide guidance for final engagement results.</p> <p>Internal audit follows a somewhat unique procedure to provide the board audit committee directors advance copies of final audit reports for review, questions, and comment. In certain circumstances, the CAE may change the audit report as a result of this process.</p>	<p>Recommendation #8: Creating ongoing systems and structures that ensure independence regardless of the unbiased nature of individuals, would strengthen independence and potentially mitigate any undue influence that might present itself in the future, either in perception or fact.</p> <p>Consider providing guidance in the Internal Audit operating manual and the audit charter to describe the nature and intended purpose of this preliminary board review and the safeguards in place to ensure this review and comment period does not create a perceived challenge to the internal audit function's independence.</p>	<p>Recommendation #8 Management Response and Action Plan: IA Management agrees with the recommendation. As part our strategic planning and review of our processes, we will reevaluate and document our process of issuing audit reports in our operations guide, as well as consider the necessity of changes to the Internal Audit and Audit Committee charters, to ensure Internal Audit's independence is maintained.</p> <p>Due Date: 10/31/2022</p>
IO04	<p>2120.A1 – Fraud Risk The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk</p> <p>2240 - Engagement Work Program Internal auditors must develop and document work programs that achieve the engagement objectives..</p>	<p>We reviewed a limited number of audit workpapers and queried IA management on their engagement-level planning process. IA management demonstrated an awareness for the potential of fraud and outlined the steps they follow to evaluate the potential for fraud in the engagement. However, evidence of conclusions could be more fully documented in the work papers.</p>	<p>Recommendation #9: Documentation of the engagement process followed, and the conclusions reached, could be enhanced so an independent reviewer would reach the same conclusion and to better support the agreed upon engagement-level scope and objectives.</p> <p>We recommend IA move forward with enhancing policies and procedures to better document and support their engagement-level fraud risk assessment including an assessment of the specific fraud red flags considered.</p>	<p>Recommendation #9 Management Response and Action Plan: IA Management agrees with the recommendation. We are in the process of enhancing our audit engagement process and to more effectively document and support engagement-level fraud risk assessment. The updates will be incorporated into our operations guide. Due Date 3/31/22.</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO05	<p>2000 – Managing the Internal Audit Activity The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</p>	<p>Developing and documenting a formalized strategic plan for Internal Audit is an emerging and evolving successful practice that supports internal audit activities operating in dynamic environments. A multi-year Internal Audit strategic plan can help Internal Audit improve their support to LACERA in a proactive, thoughtful, systematic, and practical manner.</p> <p>Additionally, strategic planning can help with Internal Audit leadership development and succession planning.</p> <p>The strategic plan might have a three-year horizon that is adjusted on an annual basis and presented to senior management and the Audit Committee in conjunction with the annual risk assessment and audit plan for review and approval. Strategic plans and related initiatives are generally supported by a “Strengths, Weaknesses, Opportunities, Threats” analysis.</p>	<p>Recommendation #10: Create a strategic plan to identify and address strategic initiatives going forward.</p>	<p>Recommendation #10 Management Response and Action Plan: IA Management agrees with the recommendation. IA management plans to develop a Strategic Plan to support internal audit activities and LACERA. The Plan will also address initiatives for succession planning. Due Date: 10/31/2022</p>
IO06	<p>2010 – Planning The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.</p> <p>2030 – Resource Management The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.</p>	<p>Stakeholder feedback indicates the annual audit planning process currently in place results in more work on the annual audit plan than Internal Audit can accomplish. This, as well as auditor vacancies and a maturing audit process, resulted in Internal Audit completing only 64% of their most recent annual plan.</p>	<p>Recommendation #11: Establish a realistic and achievable risk-based annual audit plan. Seek additional resources if the risk assessment indicates more risk than can be covered by Internal Audit’s current resources (staff and out-sourcing.). See also related opportunity IO08 Coordination and Reliance</p>	<p>Recommendation #11 Management Response and Action Plan: IA Management agrees with the recommendation. We will refine our risk assessment process to include 1) risks mapped to proposed projects based on available Internal Audit resources (staff and Audit Pool), 2) other risks areas that are being addressed by the organization or were recently addressed by Internal Audit, and 3) risks mapped to proposed projects if additional resources were available. We will provide the Audit Committee our updated risk assessment at the May 2022 AC meeting and final FY 2022/23 Audit Plan at the August 2022 meeting. Due Date 8/31/22</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO07	<p>2040 - Policies and Procedures</p> <p>The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>	<p>IA operating practices matured and evolved over the period under our review and we noted that the department policies and procedures (operating manual) in minor areas are not fully aligned with the current IPPF.</p> <p>In addition, the operating manual has limited details on how internal audits are conducted at LACERA and specific procedures are outlined in multiple documents that are decentralized.</p> <p>A good practice is to centralize and detail the intended process staff should follow in the conduct of audits and perform a quality assessment of completed audits against the detailed process. The operating manual may take many forms, e.g., a MS Word document, an automated working paper file structure, instructions, and templates, and/or flowcharts and checklists. Detailing the intended practice staff are to follow also supports staff feedback, development, and performance accountability.</p>	<p>Recommendation #12:</p> <p>a. Stabilize Internal Audit process changes, update and fully centralize departmental policies and procedures, and develop a sustainable cadence for guidance updates and the related training of staff on those updates.</p> <p>b. Move forward with the planned update of departmental policies and procedures (operating manual), align this guidance with the current 2017 IPPF, and incorporate the following elements in the manual:</p> <ul style="list-style-type: none"> • The criteria and process for selection of third-party service providers. • Criteria used to evaluate and support reliance on the work of any LACERA internal second line functions, e.g., information security, quality assurance, and the proposed compliance division. • IA departmental Data Analytics expectations and procedures for ensuring data accuracy, requirements associated with handling data, standards and conventions for documentation data analytics in working papers, and standards for reporting data in audit reports. • Include the requirement for annual ethics training for Certified Internal Auditors (CIAs). • The frequency of operating manual updates and the process to ensure the manual remains current with IPPF guidance. • Consider moving the detailed IPPF standards to in an appendix to not distract from specific departmental policies and procedures. 	<p>Recommendation #12 Management Response and Action Plan:</p> <p>IA Management agrees with the recommendations 12a and 12b. We are in the process of updating our Operation Guide and will incorporate elements of the 2017 IPPF and other suggested inclusions, some we of which are already our practice, such as the annual ethics training for all staff, noted in the audit recommendations.</p> <p>Due Date: 6/30/2022</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO08	2050 –Coordination and Reliance The chief audit executive should share information, coordinate activities, and consider relying on the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts. The goal is to provide management and the board with a comprehensive view of risk, including associated management accountabilities, and an assessment of where independent assurance is provided or warranted.	Internal audit directly coordinates the work of the external financial auditor, in addition they include discussions with operating and second line management in their annual risk assessment. IA has also recently assessed the second line Quality Operations department. However, IA has not established a consistent process for any basis of reliance, including an assessment of the competency, objectivity, and due professional care of the other assurance and consulting service providers nor has internal audit or management developed a comprehensive map of key risks and assurance coverage.	<p>Recommendation #13:</p> <p>We recommend Internal Audit work with LACERA Executive Office to coordinate and create an assurance map by linking identified significant risk categories with a management owner, the relevant sources of assurance, and rating the level of assurance provided for each risk category.</p> <p>Because the map is comprehensive, it can expose gaps and duplications in assurance coverage thus minimizing duplication and maximizing the efficiency and effectiveness of assurance coverage.</p> <p>The map can take many forms and be developed and populated over time. It need not be owned by Internal Audit but Internal Audit should play a key role in its development and update and utilize the information to establish its annual Internal Audit plan and evaluate its resource requirements.</p> <p>Following this approach provides management and the board with the necessary decision-making information to ensure efficient and effective coverage of key risks faced by LACERA. A combined assurance mapping effort typically:</p> <ul style="list-style-type: none"> • identifies the landscape of key corporate risks, • identifies the executive accountable for the risk, • reflects the various assurance providers responsible for management and board assurance related to these risks, and • ties to the annual Internal Audit plan including supporting resource needs. 	<p>Recommendation #13 Management Response and Action Plan:</p> <p>To address the conformance gap relating to Standard 2050 we will develop a feasible process to coordinate activities, and criteria for reliance on the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts. As part of our risk assessment process, we will provide Exec management and the Committee with a comprehensive view of risk, and an assessment of risk assurance effectiveness and efficiency and identify any gaps or deficiencies.</p> <p>Due Date: 8/30/23</p>



Appendix A

Conformance Rating Criteria

Conformance Rating Criteria

“Generally Conforms” (GC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity conforms to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual *Standards* and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

“Partially Conforms” (PC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is making good faith efforts to conform to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or the IIA Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

“Does Not Conform” (DNC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.



Appendix B

Stakeholder Feedback

Stakeholder Feedback

SENIOR MANAGEMENT AND KEY STAKEHOLDERS

NAME	TITLE
Joe Kelly	Audit Committee Chair
Keith Knox	Audit Committee Member
Gina V. Sanchez	Audit Committee Member
Santos H. Kreimann	Chief Executive Officer
Luis A. Lugo	Deputy Chief Executive Officer
Laura Guglielmo	Assistant Executive Officer
JJ Popowich	Assistant Executive Officer
Carlos Barrios	Division Manager, Benefit Services
Jonathan Gabel	Chief Investment Officer
Kathy Delino	Manager, Information Systems
Ted Granger	Interim Chief Financial Officer
Steven Rice	Chief Counsel, Legal Services
Carly Ntoya	Director, Human Resources

In addition to interviews with the individuals listed above, broad-based and confidential surveys were conducted by IIA Quality Services. Surveys were sent to senior management and stakeholders throughout the organization. A separate survey was sent to Internal Audit management and staff.

Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF

NAME	TITLE
Richard Bendall	Chief, Internal Audit
Christina Login	Principal Internal Auditor
Leisha Collins	Principal Internal Auditor
Kathryn Ton	Internal Auditor
Gabriel Tafoya	Internal Auditor
George Lunde	Internal Auditor

In addition to interviews with the individuals listed above, broad-based and confidential surveys were conducted by IIA Quality Services. Surveys were sent to senior management and stakeholders throughout the organization. A separate survey was sent to Internal Audit management and staff.

Stakeholder Feedback

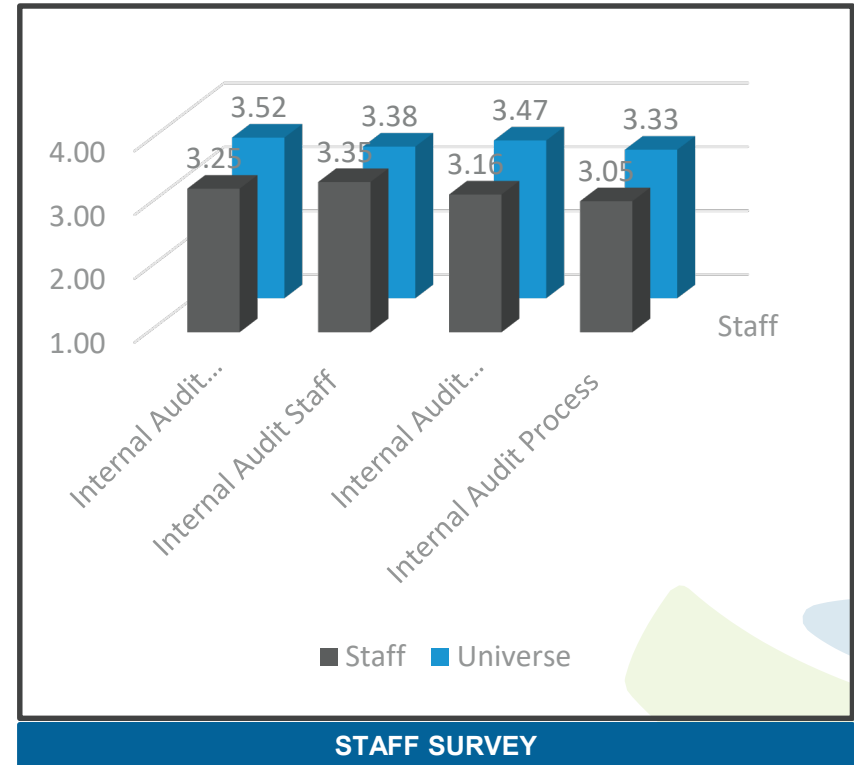
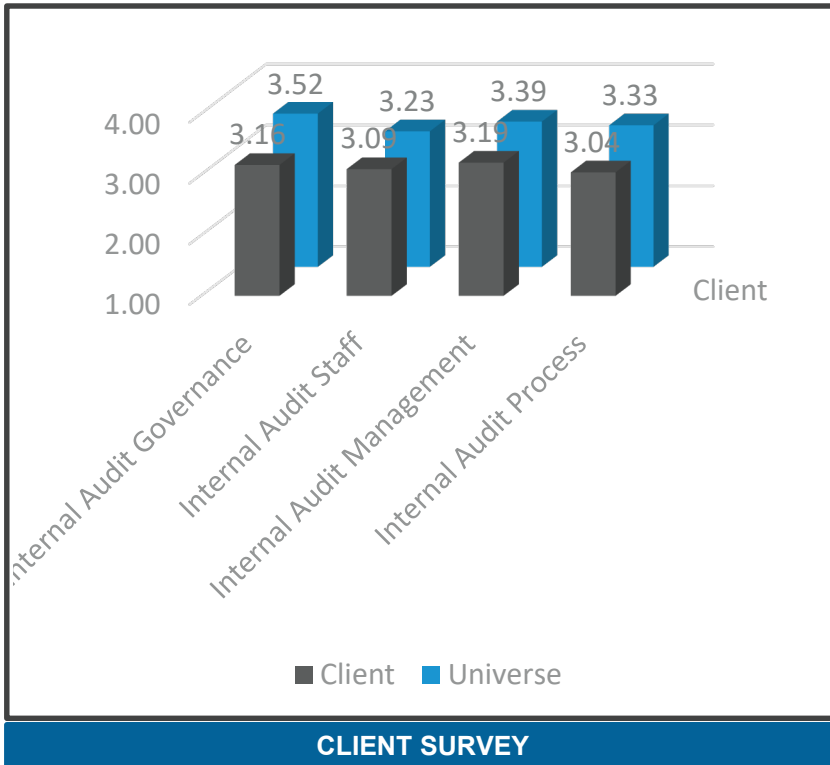
COMMENTS RECEIVED DURING INTERVIEWS AND SURVEYS

The summary comments listed below represent general themes expressed by more than one stakeholder during stakeholder interviews and/or surveys that were validated by the Assessment Team. All stakeholder interviews were conducted privately without presence of the CAE. All surveys were conducted in a confidential manner. Statistical results of surveys are presented separately from these comments.

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none">▪ Their dedication to independent controls and being independent is admirable▪ The LACERA IA team excels at communicating.▪ They follow up on audit findings in a systematic way, hold regular meetings with LACERA Management to identify barriers, obstacles and organizational risks, and they collaborate with management to problem solve on areas of risk that may or may not be part of an audit.▪ Good teamwork and collegial relationships▪ Good communication skills with AC, management, and staff▪ Good institutional knowledge which helps them effectively perform their work▪ We have a stronger IA team than we had in the past and I wish to convey my congratulations for their efforts.	<ul style="list-style-type: none">▪ Focus the work plan -- current plan tackles too many subjects▪ Training on the role of audit and audit processes for MAC would help with understanding and help reinforce IA independence▪ Increased subject matter expertise – particularly in the Information Technology and Investment areas▪ Audits take too long to complete▪ Continue to help with Enterprise Risk Management▪ Training on the role of audit and audit processes for MAC▪ Focus on benefits processes▪ Improve quality assurance review at the supervisory and management level is often poorly executed▪ Provide interim status reporting when projects lag or take too long▪ Consider teaming better with management and utilizing the new “Data Lake/Warehouse” to speed up data requests and ease the burden on management.

Stakeholder Feedback

SURVEY RESULTS (SUMMARY)



“Client” represents the weighted average of all stakeholder respondents.

“Universe” represents the weighted average of all respondents from all organizations that completed this survey since May 2013.

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

Stakeholder Feedback

SURVEY RESULTS (DETAIL)

Internal Audit Governance	1	2	3	4	AVG	UNV
IA activity personnel respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.	4.00	3.33	3.25	3.25	3.33	3.70
IA activity personnel exhibit the highest level of professional objectivity in performing their work, making a balanced assessment of all relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.	4.00	3.00	2.75	3.00	3.00	3.47
The IA activity is perceived as adding value and helping our organization accomplish its objectives.	3.00	3.00	3.25	3.40	3.21	3.35
The integrity of the IA activity establishes confidence, providing the basis for their role as trusted advisor within our organization.	4.00	3.33	3.25	3.00	3.23	3.43
Organizational placement of the IA activity ensures its independence and ability to fulfill its responsibilities.	4.00	3.25	3.00	3.25	3.23	3.56
IA activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	4.00	3.33	3.00	3.25	3.25	3.62

LEGEND

- Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)
- Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)
- Group 3 = LACERA Senior Executive Team (4 of 6 respondents)
- Group 4 = LACERA Division Management (5 of 12 respondents)

"AVG" represents the weighted average of all respondents for all stakeholders.

"UNV" represents the weighted average of all respondents from all organizations that completed this survey since May 2013.

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response



Stakeholder Feedback

SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	3	4	AVG	UNV
IA activity staff and management communicate effectively (oral, written, and presentations).	3.00	3.00	3.50	3.20	3.21	3.34
IA activity staff and management keep up to date with changes in my business, our industry and relevant regulatory issues.	4.00	3.00	3.00	3.00	3.13	3.22
IA activity staff display adequate knowledge of my business processes including critical success factors.	3.00	3.25	2.75	3.00	3.00	3.14
IA activity staff exhibit effective problem identification and solution skills.	3.00	3.25	3.00	3.00	3.08	3.23
IA activity management demonstrate effective conflict resolution and negotiating skills.	3.00	3.33	3.25	2.50	3.10	3.27
The IA activity is viewed as viable source of talented individuals who could successfully transfer to other parts of our organization.	4.00	3.00	3.25	3.00	3.18	3.19

LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

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Stakeholder Feedback

SURVEY RESULTS (DETAIL)

Internal Audit Management	1	2	3	4	AVG	UNV
Internal audit activity management communicates effectively (oral, written, and presentations).	3.00	3.00	3.50	3.20	3.23	3.37
Internal audit activity management keeps up to date with changes in my business, our industry, and relevant regulatory issues.	4.00	3.00	3.33	2.50	3.13	3.23
The IA activity establishes annual audit plans to assess areas or topics that are significant to our organization and consistent with our organizational goals.	4.00	3.67	3.50	3.00	3.38	3.44
The IA activity sufficiently communicates its audit plans to management of areas being reviewed. This includes descriptions of audit objectives and scope of review.	4.00	3.67	3.50	3.00	3.38	3.42
The IA activity effectively promotes appropriate ethics and values within our organization.	3.00	3.33	3.50	3.20	3.31	3.55
The IA activity adequately assesses the effectiveness of risk management processes employed by management to achieve objectives.	3.00	3.00	3.00	2.80	2.92	3.33

LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)

Group 3 = LACERA Senior Executive Team (4 of 6 respondents)

Group 4 = LACERA Division Management (5 of 12 respondents)

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Stakeholder Feedback

SURVEY RESULTS (DETAIL)

Internal Audit Process	1	2	3	4	AVG	UNV
The IA activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	3.33	3.25	3.00	3.15	3.37
The IA activity exhibits proficient project management and organizational skills to assure the timely completion of their audit engagements.	3.00	2.50	3.25	3.00	3.00	3.30
The IA activity demonstrates sufficient knowledge of key information technology risks and controls in performing its audit engagements.	3.00	3.00	3.25	2.80	3.00	3.28
The IA activity demonstrates sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning its audit engagements.	3.00	3.33	3.00	3.00	3.09	3.40
IA activity audit reports are accurate, objective, clear, concise, constructive, complete, and timely.	3.00	2.67	3.33	2.80	2.92	3.29

LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Governance	1	2	AVG	UNV
Our internal audit activity is perceived as adding value and helping our organization accomplish its objectives.	3.00	3.00	3.00	3.47
Our internal audit activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	4.00	3.25	3.33	3.33
My chief audit executive effectively promotes the value of our internal audit activity within our organization.	3.00	3.00	3.00	3.64
Our internal audit activity staff is fully aware of, and completely conforms with, both the Principles and the Rules of Conduct that comprise the Code of Ethics established by The Institute of Internal Auditors (IIA).	4.00	3.38	3.44	3.59
Our internal audit activity staff is fully aware of, and completely conforms with, The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) relating to objectivity and due professional care and the Code of Ethics.	3.00	3.50	3.44	3.56
Our internal audit activity has a conflict-of-interest policy to report any perceived or actual issues that may have an influence on the independence and objectivity of the auditors.	4.00	3.38	3.44	3.53

LEGEND

Group 1 = CAE (1 of 1 respondent)

Group 2 = Internal Audit Department (8 of 8 respondents)

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
IA activity staff and management communicate effectively (oral, written, and presentations).	4.00	3.50	3.56	3.43
Our audit assignments provide internal audit activity staff with opportunities to develop adequate knowledge of key business processes, including critical success factors.	4.00	3.38	3.44	3.46
I have sufficient knowledge of key IT risks and controls to perform my audit engagements.	3.00	3.00	3.00	3.20
I have sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning my audit engagements.	3.00	3.25	3.22	3.36
Our internal audit activity management provides me with ample opportunities to develop the skills and knowledge necessary to perform all of my audit engagements.	4.00	3.50	3.56	3.41
Our internal audit activity management provides me with ample opportunities to develop skills and knowledge and acquire experience that enable me to develop professionally and advance my career.	4.00	3.38	3.44	3.38
I have ample opportunity to enhance my knowledge, skills, and competencies through in-house training sessions and/or outside seminars.	4.00	3.63	3.67	3.39
My performance is reviewed on a regular and sufficiently frequent basis, the criteria used are adequate, and the reviews are meaningful and helpful.	3.00	3.13	3.11	3.32
Our internal audit activity management encourages and supports internal audit activity staff in demonstrating its proficiency by obtaining appropriate professional certifications such as designations offered by The IIA or other designations related to internal auditing.	4.00	3.63	3.67	3.54
Our internal audit activity is viewed as a valuable developmental assignment by individuals from other parts of our organization.	4.00	3.17	3.29	3.26

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
Our internal audit activity management has established policies and procedures that clearly guide the operation of our internal audit activity.	3.00	3.00	3.00	3.49
Our internal audit activity actively encourages collaborative effort between internal audit management and staff to effectively complete our engagements in a timely manner.	3.00	3.25	3.22	3.47
Our internal audit activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	3.29	3.25	3.49
Our internal audit activity adequately assesses the effectiveness of risk management processes employed by management to achieve our organization's objectives.	3.00	3.33	3.29	3.40
Our internal audit activity effectively promotes appropriate ethics and values broadly across our total organization.	3.00	3.25	3.22	3.57
Our internal audit activity adequately assesses the effectiveness of governance processes, including ethics-related programs and activities.	3.00	2.83	2.86	3.42

LEGEND

Group 1 = CAE (1 of 1 respondent)

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
Our internal audit activity develops and documents a plan for each engagement based on a preliminary assessment of risks relevant to the area being reviewed (including the probability of fraud), and our engagement objectives reflect the result of this risk assessment.	3.00	3.13	3.11	3.54
Our internal audit activity uses computer-assisted audit techniques, including data mining, to facilitate data collection and analysis during completion of our engagements.	4.00	3.00	3.11	3.17
I receive appropriate, timely, and constructive feedback regarding my performance in completing engagements, enabling me to continue developing my knowledge, skills, and competencies.	3.00	3.25	3.22	3.29
Our internal audit activity management and staff exhibit proficient project management and organizational skills to assure the timely completion of our audit engagements.	3.00	2.75	2.78	3.29
Our internal audit activity management and staff demonstrate effective conflict resolution and negotiating skills.	3.00	3.14	3.13	3.35

LEGEND

Group 1 = CAE (1 of 1 respondent)

Group 2 = Internal Audit Department (8 of 8 respondents)

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IIA Quality Services

All information included in this report is proprietary and confidential and is intended for internal use only. This report may not be distributed to any other third-party (other than your regulator, Audit Committee, or external auditor) without the prior written consent of IIA Quality Services, LLC.

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ATTACHMENT B

Los Angeles County Employees Retirement Association (LACERA) Internal Audit

Audit Committee Briefing
March 23, 2022



IIA
Quality
Services, LLC

Agenda

- Quality Assessment Coverage
- Results
- Assessment Criteria
- Overall Assessment

Quality Assessment Coverage

- Internal Audit's Reporting Lines and Quality Assurance
- Organization of Audit Services
- Risk Assessment and Engagement Planning
- Follow-up Process
- Staff Professional Proficiency
- Information Technology
- Production and Value Added
- Limited Review of Selected Work Papers and Reports
- Client & IA Staff Surveys
- Interviews with the Audit Committee Chair and Members
- Interview with CEO
- Interviews with Executive & Senior Management
- Interviews with Audit Staff
- Interview with the External Auditor

Results

- Six Successful Practices
- Five Conformance Gaps
- Eight Improvement Opportunities

Successful Practices

1. 1220 – Due Professional Care - Well-credentialed staff
2. 1312 External Assessments - A commitment to quality is demonstrated by engaging this external assessment
3. 2330 - Documenting Information - Use of TeamMate for Audit Planning and Working Papers
4. 2120 – Risk Management - Robust annual risk assessment and planning effort prior to developing their annual plan
5. Leading Practice – Engaged Management and Audit Committee
6. Leading Practice – Sharing risk intelligence and benchmarking thought-leadership

Conformance Gaps

1. 1311 Internal Assessments
 - Establish meaningful KPIs and measurable goals
 - Document Internal Periodic Assessment work performed
2. 1312 External Assessments
 - Assure an EQA is conducted at least every 5 years
3. 1321/2430 - Use of “Conforms with the International Standards...”
 - Refrain from using Conformance Statement without external quality assessment confirming conformance
4. 2330 Documenting Information
 - Improve the quality and consistency of engagement working papers
5. 2340 Engagement Supervision
 - Establish timelines for what constitutes timely supervisory review in the Internal Audit operating manual
 - Ensure supervision is timely and contemporaneously documented in TM during audits
 - Include an evaluation of timely supervisory sign-off in their periodic internal quality assessments.

Improvement Opportunities

1. 1110 Organizational Independence - Strengthen internal audit's independence by updating the LACERA organization chart that is publicly facing to reflect a solid (functional) reporting line to the Audit Committee
2. 1210 Proficiency – Enhance competencies and continue their professional development
3. 1110 Independence and Objectivity - Create ongoing systems and structures that ensure independence regardless of the unbiased nature of individuals, would strengthen independence and potentially mitigate any undue influence that might present itself in the future, either in perception or fact
4. 2120.A1 Fraud Risk – Enhance documentation of the engagement process

Improvement Opportunities

5. 2000 Managing the Internal Audit Activity - Create a strategic plan to identify and address strategic initiatives
6. 2010 Planning - Establish a realistic and achievable risk-based annual audit plan
7. 2040 Policies and Procedures - Stabilize Internal Audit process changes, update and fully centralize departmental policies and procedures
8. 2050 Coordination and Reliance - Coordinate and create an assurance map

Assessment Criteria

GC – “GENERALLY CONFORMS”

The evaluator has concluded that the relevant structures, policies and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects.

PC – “PARTIALLY CONFORMS”

The evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section or major category, but has fallen short of achieving some of their major objectives.

DNC – “DOES NOT CONFORM”

The evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section or major category.

Conformance Summary

- STANDARDS AND THE IIA CODE OF ETHICS

		GC	PC	DNC
ATTRIBUTE STANDARDS				
1000 - Purpose, Authority, and Responsibility		x		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	x		
1100 - Independence and Objectivity		x		
1110	Organizational Independence	x		
1111	Direct Interaction with the Board	x		
1112	Chief Audit Executive Roles Beyond Internal Auditing	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 (QAIP)		x		
1310	Requirements of the QAIP	x		
1311	Internal Assessments		x	
1312	External Assessments		x	
1320	Reporting on the QAIP	x		
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Statement		x	
1322	Disclosure of Nonconformance	x		
PERFORMANCE STANDARDS				
2000 - Managing the Internal Audit Activity		x		
2010	Planning	x		
2020	Communication and Approval	x		
2030	Resource Management	x		
2040	Policies and Procedures	x		
2050	Coordination and Reliance	x		
2060	Reporting to Senior Management and the Board	x		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	x		

		GC	PC	DNC
PERFORMANCE STANDARDS (CONTINUED)				
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 Programs	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 International Standards for the Professional Practice of Internal Auditing"		x	
2431	Engagement Disclosure of Nonconformance	x		
2440	Disseminating Results	x		
2450	Overall Opinions	x		
2500 - Monitoring Progress		x		
2600 - Communicating the Acceptance of Risks		x		
IIA CODE OF ETHICS				
Code of Ethics		x		
OVERALL CONFORMANCE RATING		x		

OVERALL ASSESSMENT

Los Angeles County
Employees Retirement Association
Internal Audit

Generally Conforms

With the IIA Standards and Code of Ethics

Thank You!

Steve Goodson
Steve.Goodson@theiia.org
512-422-0164




IIA
Quality
Services, LLC



March 16, 2022

TO: 2022 Audit Committee
Gina V. Sanchez, Chair
Joseph Kelly, Vice Chair
Patrick L. Jones, Secretary
Alan J. Bernstein
Keith Knox
Wayne Moore
Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: March 23, 2022 Audit Committee Meeting

SUBJECT: **Internal Audit Proposed Fiscal Year 2022 – 2023 Salaries and Employee Benefits Budget Request**

RECOMMENDATION

That the Audit Committee approve the proposed Internal Audit Fiscal Year (FY) 2022-2023 salaries and employee benefits (S&EB) Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

BACKGROUND

At the February 17, 2022 meeting, staff requested the Committee approve the Internal Audit FY 2022-2023 Budget Request (Attachment A). Staff were unable to include the S&EB portion of the Budget in those meeting materials, therefore, the Committee requested that staff bring the S&EB budget request back to the next meeting for Committee approval.

Staff scheduled this ad hoc meeting in March, because the Committee needs to review and approve Internal Audit's budget prior to the Joint Operating Governance Committee's (JOGC) approval of the proposed administrative budget which will occur in April. Unfortunately, staff could not produce a FY 2022-2023 S&EB proposed budget by the cutoff for this meeting's mailing, due to the manual nature of the current budget development process. If this information becomes available prior to the March 23, 2022, meeting, we will provide it to the Committee as a supplemental document through the green folder. As indicated in the Budget section below, we have provided you with the current FY's S&EB budget summary (Attachment B) with an explanation as to what increases you can expect in the FY 2022-2023 S&EB Budget for which we are requesting the Committee's approval.

STAFFING REQUEST

At the February 2022 meeting, staff informed the Committee that we were requesting an additional Senior Internal Auditor position for the purposes of hiring an Information Technology (IT) auditor. However, after the completion of our External Quality Assurance (EQA) review, staff has decided to focus our efforts on continuing to develop the effectiveness and efficiency of Internal Audit. We will fill our current open budget positions when organizational priorities allow and as we do, we will still seek auditors with specific skills, such as IT and investment audit experience. In the interim, with our pool of external audit firms, we do have flexibility to expand our ability to address risks. Notwithstanding this development, the Audit Committee Consultant, Robert Griffin, is continuing to survey peer funds, as requested, and will present his findings to the Committee at the May 9, 2022 meeting.

BUDGET

Since we are not requesting any changes to the level of staffing, the only changes between the FY 2021-2022 S&EB budget and the FY 2022-2023 S&EB budget, for which we are seeking the Committee's approval, will be non-discretionary. These will include changes and adjustments, such as, the change in the Senior Secretary position to Senior Administrative Assistant, any step increases and cost of living increases, as well as any other non-discretionary cost adjustments to salaries and/or employee benefits. The change in the Senior Secretary position was the result of an organization-wide classification study.

CONCLUSION

The Audit Committee approve the Proposed Internal Audit Fiscal Year 2022-2023 S&EB Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

Attachments:

- A. February 17, 2022 Audit Committee Budget Memo
- B. FY 2021-2022 Approved Internal Audit S&EB Budget




February 4, 2022

TO: 2022 Audit Committee
Alan J. Bernstein
Patrick L. Jones
Joseph Kelly
Keith Knox
Wayne Moore
Gina V. Sanchez
Herman B. Santos

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Principal Internal Auditor

FOR: February 17, 2022 Audit Committee Meeting

SUBJECT: **Internal Audit Proposed Fiscal Year 2022 - 2023 Budget Request**

RECOMMENDATION

The Audit Committee approve the Proposed Internal Audit Fiscal Year 2022 - 2023 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

BACKGROUND

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, *Standard 2020 (Attachment A)*, the Chief Audit Executive should "communicate internal audit plans and resource requirements to senior management and the board for review and approval." In alignment with Standard 2020, the Audit Committee Charter (Attachment B) states "the Committee is to review and approve Internal Audit's Annual Audit Plan and resource plan, to make recommendations concerning audit projects.

To remain in compliance with the above Standards Audit Committee Charter, the Chief Audit Executive (CAE) prepared the attached Proposed Internal Audit Fiscal Year (FY) 2022-2023 Budget Request (Budget) (Attachment C) for Committee review and approval. Upon Committee approval the Internal Audit Budget will be included in LACERA 's Administrative Budget for Board approval.

Draft FY 2022-2023 Audit Plan

The Audit Plan is based on our expectation of available staffing for the upcoming fiscal year and is used as a basis for the Budget. Due to the timing of the organization's budget cycle which begins early March, and Internal Audit's timeline for completing the Risk Assessment and Audit Planning process, which is completed in May, staff is providing a draft FY 2022-2023 Audit Plan (Attachment D). The draft Audit Plan outlines Internal Audit's work planned for the upcoming fiscal year based on projects that reoccur annually, and projects identified during our mid-year risk assessment discussions with Management.

Staff will provide the final Audit Plan to the Committee for approval at the May 2022 meeting. We do not anticipate that any changes we make to finalize the Audit Plan will affect Internal Audit's Budget. However, should that be necessary, we would prepare a budget adjustment request to accompany the Audit Plan for the Audit Committee's approval at the May meeting and then provide that to the Executive Office to be included in the organization's mid-year budget adjustments.

BUDGET HIGHLIGHTS

For Fiscal Year 2022-2023, we based our budget request on our draft Audit Plan and anticipated staffing needs. We are requesting one additional Senior Internal Auditor position. We plan to use this position to hire an auditor with strong information technology experience. Any further increase to our Salaries and Employee Benefits (S&EB) budget request for Fiscal Year 2022-2023 over the current year is attributable to cost-of-living adjustments.

Our Services and Supplies (S&S) budget request for Fiscal Year 2022-2023 remains materially unchanged from the current year's budget. The most significant portion of the S&S budget is for external audit services, \$650,000. Internal Audit continues to leverage the use of external resources to better meet the needs for audit work within the organization as defined by our risk based Audit Plan. Of the external audit budget portion, \$150,000 is for the external financial audit. \$500,000 is to perform external operational audits including IT audits, investment audits, and other consulting engagements. This is the same amount that was included in our budget in the current Fiscal Year. While we do not anticipate spending it all this year, we are requesting the Committee approve the same amount for Fiscal Year 2022-2023 to provide us flexibility in the scope and number of projects we engage our pool and any other outside firms to perform.

CONCLUSION

The Audit Committee approve the Proposed Internal Audit Fiscal Year 2022-2023 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

Attachments:

- A. IIA Standard 2020
- B. Audit Committee Charter
- C. FY 2023 Proposed Internal Budget
- D. FY 2023 Draft Audit Plan



International Professional
Practices Framework

Implementation Guide 2020

Standard 2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

Revised *Standards*, Effective 1 January 2017

Getting Started

Before communicating to senior management and the board regarding the internal audit plan, the internal audit activity's resource requirements, and the impact of resource limitations, the chief audit executive (CAE) determines the resources needed to implement the plan, based on the risk-based priorities identified during the planning process (Standard 2010). Resources may include people (e.g., labor hours and skills), technology (e.g., audit tools and techniques), timing/schedule (availability of resources), and funding. A portion of resources is usually reserved to address changes to the audit plan that may arise, such as unanticipated risks that could affect the organization and requests for consulting engagements from senior management and/or the board. For example, the need for a new internal audit project may arise when new risks are introduced due to organizational divestitures or mergers, political uncertainty, or changes in regulatory requirements.

It is helpful if the CAE, the board, and senior management agree in advance on the criteria that would characterize a significant enough change to warrant discussion and on the protocol for communicating such changes. It may be helpful to record these criteria in the internal audit charter or other document.

Considerations for Implementation

The CAE usually itemizes the audits that comprise the internal audit plan and then assesses the types and quantity of resources that would be needed to accomplish each audit project. Estimates are generally based on past experience with a particular project or comparisons to a similar project. The CAE can compare the resources needed to accomplish the plan's priorities with those available to the internal audit activity to determine whether any gaps exist. This comparison can be used as a basis for determining the impact of resource limitations.

The CAE typically meets with individual senior executives to solicit their input regarding the proposed internal audit plan before it is formally presented to the board for approval. During the meetings, the CAE can address any concerns that senior executives may express, incorporate their feedback (as appropriate), and obtain their support. The process may involve gathering additional information about the timing of proposed audit engagements and the availability of resources. It might introduce changes that affect the scope of work. The insight the CAE acquires from these discussions helps determine whether any adjustments should be made to the internal audit plan before it is presented to the board for approval.

The CAE's presentation of the internal audit plan to the board usually occurs during a meeting, which may include senior management. The proposed internal audit plan may include:

- A list of proposed audit engagements (and specification regarding whether the engagements are assurance or consulting in nature).
- Rationale for selecting each proposed engagement (e.g., risk rating, time since last audit, change in management, etc.).
- Objectives and scope of each proposed engagement.
- A list of initiatives or projects that result from the internal audit strategy but may not

be directly related to an audit engagement.

Resource limitations affect the priorities in the internal audit plan. For example, if resources are not sufficient to complete every proposed engagement in the plan, some engagements may be deferred, and some risks may go unaddressed. During the board presentation, the CAE discusses the proposed internal audit plan and the risk assessment on which it is based, indicating the risks that will be addressed, as well as any risks that cannot be addressed due to resource constraints. Board members can discuss this information and make recommendations before ultimately approving the internal audit plan.

The internal audit plan is developed with enough flexibility so that the CAE can adjust it as necessary in response to changes in the organization's business, risks, operations, programs, systems, and controls. However, the CAE must review *significant* changes to the audit plan, related rationale, and potential impact with the board and senior management to obtain their approval. Regularly scheduled quarterly or semiannual board meetings provide opportunities to review and adjust the internal audit plan.

Considerations for Demonstrating Conformance

The CAE may demonstrate conformance with Standard 2020 by keeping records of the distribution of the internal audit plan. Conformance may also be evidenced through a copy of board meeting materials that includes the internal audit plan as proposed for review and approval. Individual discussions with senior management could be documented through memos, emails, or notes made during the internal audit activity's risk assessment process. Typically, board meeting minutes contain records of the board's discussion and approval of the internal audit plan, any interim changes, and/or the impact of any resource limitations.



About The IIA

The Institute of Internal Auditors (The 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 180,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit www.globaliia.org or www.theiia.org.

About Implementation Guidance

Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (non-mandatory) guidance for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

For other authoritative guidance materials provided by The IIA, please visit our website at www.globaliia.org/standards-guidance or www.theiia.org/guidance.

Disclaimer

The IIA publishes this document for informational and educational purposes. This guidance 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 that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this guidance.

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Audit Committee Charter

April 2021



2021



AUDIT COMMITTEE CHARTER

Table of Contents

- I. CHARTER2**
- II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES.....2**
- III. PRINCIPLES OF THE AUDIT COMMITTEE 2**
- IV. AUTHORITY3**
- V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT..... 3**
- VI. AUDIT COMMITTEE MEETINGS4**
- VII. RESPONSIBILITIES5**
- 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
- F. Audit Committee and Internal Audit Budget

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.

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 Los Angeles County Treasurer. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of his or her 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 Chair, 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 and also published on the LACERA website, lacera.com. 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, 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. 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 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.
4. Resolve any significant disagreements regarding risks, findings and/or compensation between management and Professional Service Providers

C. Financial Reporting Process

The Audit Committee is responsible for oversight of the independent audit of LACERA's financial statements, 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. Audit Committee and Internal Audit Budget

LACERA will provide appropriate funding, as determined by the Audit Committee, for compensation to the Financial Auditor, to any Professional Service Provider that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

G. 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 April 23, 2021, and approved by the Board of Retirement on July 7, 2021, and the Board of Investments on July 14, 2021. This Charter is thereby effective July 14, 2021 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

*Joseph Kelly**July 19, 2021*

Joseph Kelly
Chair, Audit Committee

Date

*Keith Knox**July 19, 2021*

Keith Knox
Chair, Board of Investments

Date

*Alan Bernstein**July 19, 2021*

Alan Bernstein
Chair, Board of Retirement

Date

INTERNAL AUDIT
SERVICES

FISCAL YEAR 202**2**-202**3**
BUDGET REQUEST

Richard Bendall

INTERNAL AUDIT
FISCAL YEAR 2022-2023

Mission

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

INTRODUCTION

The purpose of Internal Audit is to provide independent, 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.
- The reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- The systems established to ensure compliance with those policies, procedures, laws, and regulations, which could have a significant impact on LACERA
- The means of safeguarding assets and, as appropriate, verifying the existence of such assets
- The effectiveness and efficiency with which resources are employed.
- 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
- And monitoring 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. During the current Fiscal Year, we established a pool of external audit firms and began using them to supplement the work we perform internally. 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 SOC-1 over OPEB Census data
- 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

We are requesting one additional Senior Internal Auditor position. Internal Audit is often called upon to support LACERA in other areas of the organization and the additional position will provide us the flexibility to continue providing that support while ensuring we are appropriately staffed. Also, a position study was previously requested of the Principal Internal Auditor positions.

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. The budget for our intern will be included in Human Resources' budget.

We are continuing to evaluate, improve, and ensure that we provide comprehensive training for personnel at all levels to develop themselves as auditors, obtain credentials and provide for succession planning to the management (Principal) and Division Management level (Chief Audit Executive).

SERVICES AND SUPPLIES

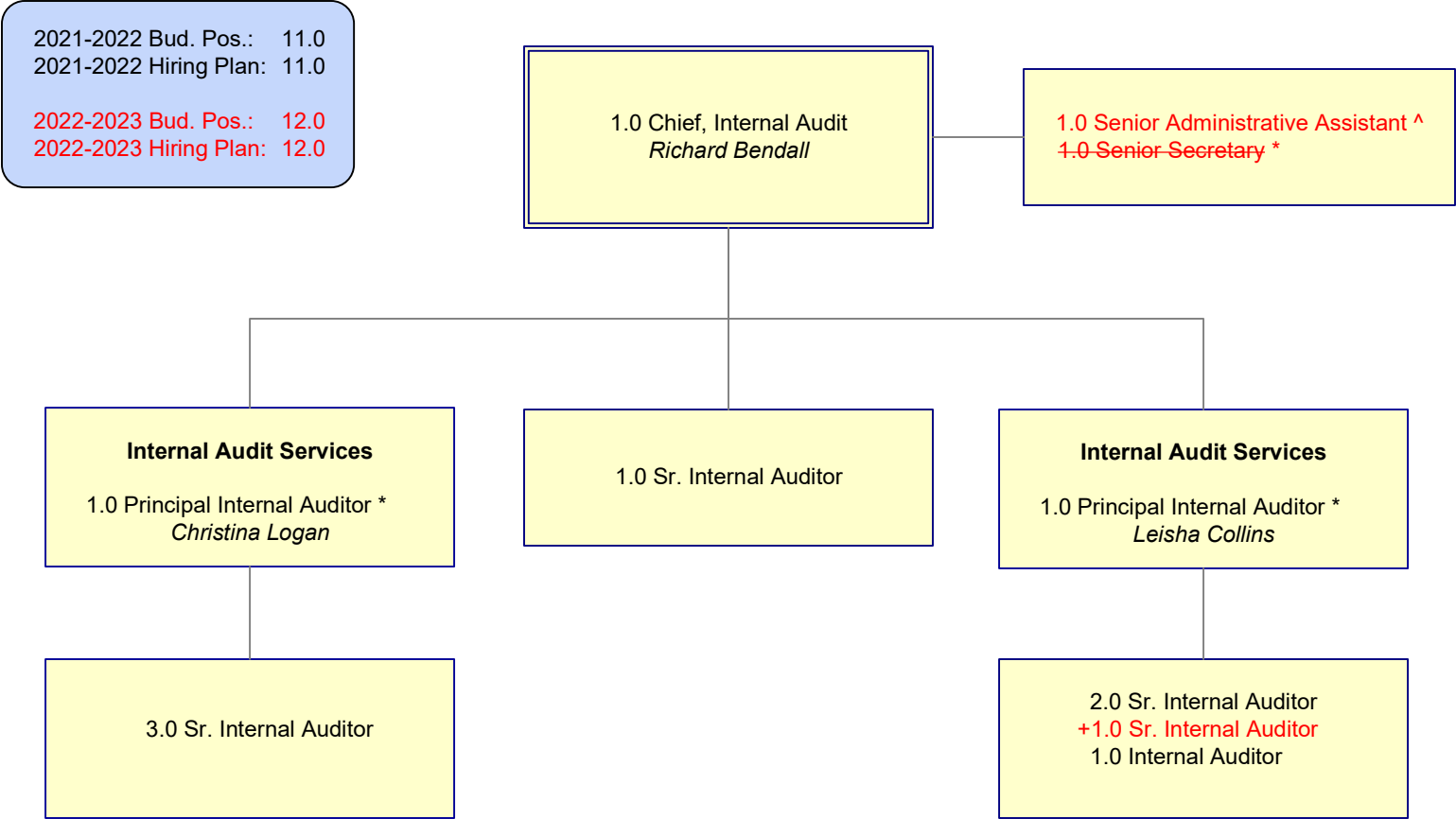
Each fiscal year, Internal Audit prepares a risk-based Audit Plan, approved by the Audit Committee. The Audit Plan defines the allocation of audit resources and communicates Internal Audit planned activities and resource requirements. This provides the basis for the Chief Audit Executive (CAE) and the 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, \$650,000. Of this, approximately \$150,000 is for the external financial audit. \$500,000 is to be used at the discretion of the Audit Committee and/or staff 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 remained relatively unchanged, increasing only by \$4,000, from \$720,500 for Fiscal Year 2021-2022 to \$724,500 for Fiscal Year 2022-2023.

INTERNAL AUDIT

FISCAL YEAR 2022-2023



2021-2022 Bud. Pos.: 11.0
 2021-2022 Hiring Plan: 11.0
 2022-2023 Bud. Pos.: 12.0
 2022-2023 Hiring Plan: 12.0

+ Added position

* Classification study for the position requested.

^ Position upgrade from Senior Secretary to Senior Administrative Assistant as a result of classification study (Pending Boards' approval).

INTERNAL AUDIT
FISCAL YEAR 2022-2023
AGENCY TEMPORARY STAFF

	<u>Amount</u>
Agency Temp Salaries	\$0

Justification: No agency staff requested for FY 2022-2023.

INTERNAL AUDIT SERVICES

FISCAL YEAR 2022-2023

LACERA INTERN PROGRAM

	<u>Amount</u>
Professional Student Worker/Intern	\$0

Justification: One (1) professional student worker or graduate student in the Accounting or Auditing field to assist in a Risk Management project in the Internal Audit Services for FY 2022-2023 which will come out of HR's Intern budget.

LACERA
FISCAL YEAR 2022-2023
OVERTIME REQUEST

INTERNAL AUDIT SERVICES

<u>POSITION</u>	<u>OVERTIME HOURS</u>	<u>TIME and 1/2 HOURLY RATES</u>	<u>TOTAL AMOUNT</u>
Internal Auditor	40		\$2,880
Senior Administrative Assistant	40		\$2,120
TOTAL	80		\$5,000

Justification:

Overtime request for special projects and audits.

INTERNAL AUDIT SERVICES
SERVICES AND SUPPLIES
FY 2022-2023 BUDGET REQUEST

ACCOUNT	DESCRIPTION	ACTUAL FY 2018-2019	ACTUAL FY 2019-2020	ACTUAL FY 2020-2021	APPROVED BUDGET FY 2021-2022	PROJECTION FY 2021-2022	DIVISION REQUEST FY 2022-2023	NOTES
TRANSPORTATION AND TRAVEL								
9181	TRANSPORTATION	\$1,058	\$1,333	\$0	\$2,000	\$800	\$2,000	APPFA, SACRS, IIA, ISACA, Roundtable, etc.
9182	TRAVEL	8,742	8,059	0	15,000	3,900	15,000	APPFA, SACRS, IIA, ISACA, Roundtable, etc.
	TOTAL	9,800	9,392	0	17,000	4,700	17,000	
OFFICE SUPPLIES AND EQUIPMENT								
9302	SPECIAL ORDERS/MINOR EQUIP	1,164	751	0	1,500	1,000	1,500	For new staff member, return to office, etc.
	TOTAL	1,164	751	0	1,500	1,000	1,500	
PROFESSIONAL AND SPECIALIZED SERVICES								
9541	AUDITS	312,476	279,411	292,969	650,000	650,000	650,000	Plante Moran, Ethical & Cultural Audit, IT, etc.
9702	AUDIT COMMITTEE CONSULTANT	8,600	7,350	16,450	21,000	21,000	25,000	Robert Griffin for audit committee consultant & travel expenses
	TOTAL	321,076	286,761	309,419	671,000	671,000	675,000	
EDUCATIONAL EXPENSES								
9961	MEMBERSHIPS	3,125	6,530	3,485	8,000	7,000	8,000	For new staff member
9962	REGISTRATION FEES	16,976	4,139	10,043	20,000	20,000	20,000	Governance Risks & Control, Ethics, APPFA, SACRS, IIA, Enterprise Risk & Pension Fund
9963	EDUCATIONAL MATERIALS	3,228	1,076	311	2,500	2,500	2,500	Roundtable, Teammate Automated Training, etc.
	TOTAL	23,329	11,745	13,839	30,500	29,500	30,500	
MISCELLANEOUS								
9986	MISCELLANEOUS	341	192	0	500	200	500	
	TOTAL	341	192	0	500	200	500	
GRAND TOTAL		\$355,709	\$308,840	\$323,258	\$720,500	\$706,400	\$724,500	3.0% more than FY 2021-2022 Projection & 0.6% more than FY 2021-2022 Mid-Year approved budget

ATTACHMENT D

Draft FY 2023 Audit Plan

Audit Projects		Audit Assignment	Basis For Inclusion In Audit Plan	Service Type
EXECUTIVE / LEGAL / ORGANIZATION				
1	Annual Organizational Governance Assessment	Internal	Annual	Assurance
2	Oversight of SOC-1 Type 2	Internal	Annual	Oversight
3	Business Continuity Plan / Disaster Recovery Audit	External	Risk Based	Assurance
4	Ethics Hotline Oversight & Investigations	Internal	Annual	Assurance
5	Targeted Organizational Governance Review	Internal	Risk Based	Assurance
6	Organizational Data Retention Audit	External	Risk Based	Assurance
7	Contract Development/Compliance Audit	Internal	Risk Based	Assurance
8	LA County Rehired Retirees Audit	Internal	Annual	Assurance
ADMINISTRATION - Admin Services, HR, Systems				
9	Continuous Auditing Program	Internal	Annual	Assurance
10	Recommendation Follow-Up	Internal	Annual	Assurance
11	Inventory Management Audit	internal	Risk Based	Assurance
12	LACERA Rehired Retirees Audit	Internal	Annual	Assurance
13	Administration Focused Audits (TBD)	Internal	Risk Based	Assurance
14	IT Governance Review	External	Risk Based	Assurance
15	IT Network Security/Pen Test	External	Risk Based	Assurance
16	Mobile Device Audit	Internal	Risk Based	Assurance
INVESTMENTS & FASD				
17	Oversight of THC RE Financial Audits	Internal	Annual	Oversight
18	Oversight of Actuarial Services	Internal	Annual	Oversight
19	Oversight of External Financial Audit	Internal	Annual	Oversight
20	Census Testing	Co-Sourced	Risk Based	Assurance
21	Custodial Bank Services	Internal	Risk Based	Assurance
22	RFP - Hiring of External Financial Auditor	Internal	Risk Based	Advisory
23	Investments & FASD Focused Audits (TBD)	Internal	Risk Based	Assurance
OPERATIONS - Benefits, DRS, RHC, Member Services, QA				
24	Continuous Audit Program	Internal	Annual	Assurance
25	Recommendation Follow-Up	Internal	Annual	Assurance
26	415B Audit	Internal	Risk Based	Assurance
27	Benefits Governance, Risk Control Review	internal	Risk Based	Assurance
28	Felony Forfeiture Audit	Internal	Risk Based	Assurance
29	Operational Focused Audit (TBD)	Internal	Risk Based	Assurance
INTERNAL AUDIT OPERATIONS				
30	Risk Assessment & Audit Planning	Internal	Annual	----
31	Quality Assurance Improvement Plan	Internal	Annual	----
32	Professional Development	Internal	Annual	----
33	Audit Committee Support	Internal	Annual	----

Due to the organization's budget timeline, staff could not provide the S&EB for FY 2022-2023. However since Internal Audit is not requesting any additional staff, based on discussions with the Budget Team, the differences between this budget and FY 2022-2023 will be non-discretionary adjustments such as COLA, step increases and the change in position from Senior Secretary to Senior Administrative Assistant.

ATTACHMENT B

LACERA

FISCAL YEAR 2021-2022

SALARIES AND EMPLOYEE BENEFITS SUMMARY

INTERNAL AUDIT

	PROPOSED BUDGET 2021-2022	CURRENT YEAR 2020-2021			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 20-21 BUDGET	
		YTD			OVER/(UNDER)		\$ CHANGE	% CHANGE
		BUDGET	(03-31-21)	PROJECTION	BUDGET	% CHANGE		
Total LACERA Salaries	\$1,454,721	\$1,336,307	\$940,279	\$1,403,219	\$66,912	5.0%	\$118,414	8.9%
Total Agency Temp Salaries	0	0	0	0	0	0.0%	0	0.0%
Employee Benefits (Variable)	843,072	661,052	467,206	723,989	62,937	9.5%	182,020	27.5%
Employee Benefits (Other)	86,941	82,232	57,345	81,410	(822)	-1.0%	4,709	5.7%
OPEB Contribution	42,678	34,296	30,601	42,150	7,854	22.9%	8,382	24.4%
Stipends	0	0	0	0	0	0.0%	0	0.0%
Overtime	4,900	4,800	492	1,000	(3,800)	-79.2%	100	2.1%
Bilingual Bonus	0	0	0	0	0	0.0%	0	0.0%
Sick Leave Buyback	0	1,500	0	0	(1,500)	-100.0%	(1,500)	-100.0%
Rideshare Allowance	1,500	1,500	0	0	(1,500)	-100.0%	0	0.0%
Transportation Allowance	0	0	0	0	0	0.0%	0	0.0%
ADJUSTED GROSS S&EB	\$2,433,813	\$2,121,686	\$1,495,923	\$2,251,768	\$130,082	6.1%	\$312,127	14.7%
Salary Differential	-	-	-	-	-	-	-	-
TOTAL S&EB	\$2,433,813	\$2,121,686	\$1,495,923	\$2,251,768	\$130,082	6.1%	\$312,127	14.7%

*All amounts rounded to the nearest dollar.

Note: All YTD Salaries and Employee Benefits totals are as of 03/15/21, with the exception of Agency Temp Salaries, which are as of 03/31/21.