



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

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

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

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

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

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

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

[https://www.lacera.com/about\\_lacera/bor/meetings/audit/2020-06-25\\_audit-agnd.pdf](https://www.lacera.com/about_lacera/bor/meetings/audit/2020-06-25_audit-agnd.pdf)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



March 23, 2016

TO: Each Member  
2016 Audit Committee

Audit Committee Consultant  
Rick Wentzel

FROM: Richard Bendall   
Chief Audit Executive

FOR: April 15, 2016 | Audit Committee Meeting

SUBJECT: **QUALITY ASSURANCE REVIEW – 2016**

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

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

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

RB:lc

Attachment

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

Office: 518-399-3235  
Cell: 518-894-7477  
Email: [gjsmo1@nycap.rr.com](mailto:gjsmo1@nycap.rr.com)

Certified: NYS  
Member: AICPA  
NYSSCPA  
IIA

**REPORT ON THE EXTERNAL QUALITY ASSESSMENT OF**

**LOS ANGELES COUNTY**  
**EMPLOYEES RETIREMENT ASSOCIATION**  
**OFFICE OF INTERNAL AUDIT**

**January 15, 2016**

## Overall Opinion on Conformance

January 15, 2016

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

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

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

George J Shemo, CPA, CGMA

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## Executive Summary

### **Purpose**

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

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

### **Scope and Methodology**

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

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

## Executive Summary

### **Scope and Methodology (Continued)**

The QA consisted of my assessing the following IA functions:

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

### **Summary of Recommendations**

#### **For Conformance**

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

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

## Executive Summary

### **Summary of Recommendations (Continued)**

#### **For Enhancement**

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

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

## Executive Summary

### Commendations

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

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

## Recommendations for Conformance

### 1. Strengthen and enhance Quality Assurance and Improvement

**Implementing Stakeholder:** Internal Audit

**Associated Stakeholders:** Senior Management  
Audit Committee

**References:**

**Standard 1311**

**Practice Advisory 1311-1**

**Practice Guides - Measuring IA Effectiveness and Efficiency  
- Quality Assurance and Improvement Program**

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

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

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

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

## Recommendations for Conformance

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

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

### **2. Implement procedures for audit engagement work programs**

**Implementing Stakeholder: Internal Audit**

**Reference:**

***Standards 2240, 2240.A1***

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

## Recommendations for Enhancement

### **1. Review the IA Charter on a more frequent basis**

**Implementing Stakeholder:** Internal Audit

**Associated Stakeholders:** Senior Management  
Audit Committee

**Reference:**

**Practice Advisory: 1000-1**

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

### **2. Expand management and reporting of IA resource requirements**

**Implementing Stakeholder:** Internal Audit

**Associated Stakeholders:** Senior Management  
Audit Committee

**References:**

**Practice Advisories 2020-1, 2030-1**

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

## Recommendations for Enhancement

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

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

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

## Recommendations for Enhancement

### 3. Update the “IA Operations Guide”

**Implementing Stakeholder:** Internal Audit

**Associated Stakeholders:** Operating Management

**Reference:**

#### **Practice Advisory 2040-1**

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

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

A comprehensive update of the Guide would accomplish the following:

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

## Recommendations for Enhancement

### 4. Enhance Audit Engagement Reports

**Implementing Stakeholder:** Internal Audit

**Associated Stakeholders:** LACERA Management  
Audit Committee

**Reference:**

***Standard 2430***

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

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

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

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

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

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

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

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



*G Shemo Consulting*

## Recommendations for Enhancement

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

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

**CAE Response**

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



Richard Bendall  
Chief Audit Executive  
LACERA Internal Audit

Attachment A

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

Attachment A

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