

IN PERSON & VIRTUAL BOARD MEETING



TO VIEW VIA WEB



TO PROVIDE PUBLIC COMMENT

Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit the above link and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

Attention: If you have any questions, you may email PublicComment@lacera.com. If you would like to make a public comment during the committee meeting, review the Public Comment instructions.

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, CA 91101

1:00 P.M., THURSDAY, MARCH 2, 2023

This meeting will be conducted by the Audit Committee and Board of Retirement and Board of Investments both in person and by teleconference under California Government Code Section 54953(b), (e), (f).

Any person may view the meeting in person at LACERA's offices or online at <https://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.

*Teleconference Location for Trustee Gina Sanchez and the Public
Estancia La Jolla Hotel & Spa - 9700 N. Torrey Pines Rd, La Jolla, CA 92037*

COMMITTEE TRUSTEES:

Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

- I. CALL TO ORDER
- II. ELECTIONS OF OFFICERS (Election of Chair, Vice Chair, and Secretary)

III. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449

- A. Just Cause
- B. Action on Emergency Circumstance Requests
- C. Statement of Persons Present at Teleconference Locations

(Memo dated February 15, 2023)

IV. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Regular Meeting of November 17, 2022

V. PUBLIC COMMENT

(Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit <https://LACERA.com/leadership/board-meetings> and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

If you select oral comment, we will contact you via email with information and instruction as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Committee. Oral comment requests will be accepted up to the close of the Public Comment item on the agenda.

If you select written comment, please input your written public comment or documentation on the above link as soon as possible and up to the close of the meeting. Written comment will be made part of the official record of the meeting. If you would like to remain anonymous at the meeting without stating your name, please leave the name field blank in the request form. If you have any questions, you may email PublicComment@lacera.com.)

VI. CONSENT ITEMS

A. **Approval of the Use of Teleconference Meeting**

If the State of Emergency is in effect on March 2, 2023, 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 other public agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days as part of hybrid meetings also in person, so long as the State of Emergency remains

VII. NON-CONSENT ITEMS

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

(Memo dated February 15, 2023)

B. Proposed 2023 Audit Committee Meeting Dates

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: The Audit Committee review and approve the proposed 2023 Audit Committee meeting dates.

(Memo dated February 1, 2023)

C. Selection of LACERA's External Financial Auditor

Recommendation as submitted by Nathan K. Amick, Senior Internal Auditor: Internal Audit recommends the Audit Committee discuss the merits of the three firms noted below and select a firm to be LACERA's external financial auditor for fiscal years ending (FYE) June 30, 2023 – 2027. (Memo dated February 10, 2023)

D. Request for Proposal for a System and Organization Controls (SOC) Audit

Recommendation as submitted by Christina Logan, Principal Internal Auditor and Kimberly D. Hines, Senior Internal Auditor: Internal Audit recommends that the Audit Committee authorize staff to release a Request for Proposal (RFP) to select a qualified certified public accounting firm to perform a System and Organization Controls 1 Type 2 (SOC) audit of LACERA's Other Post-Employment Benefits (OPEB) program for fiscal years ending June 30, 2024 – 2028, with an option to extend for up to two years. (Memo dated February 2, 2023)

E. Internal Audit Proposed Fiscal Year 2022 - 2023 Budget Request

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: The Audit Committee approve the Proposed Internal Audit Fiscal Year 2023 - 2024 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval. (Memo dated February 13, 2023)

F. Fiscal Year 2023 Internal Audit Plan Amendments

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: The Audit Committee review and approve the Fiscal Year 2023 Amended Internal Audit Plan. (Memo dated January 28, 2023)

VII. NON-CONSENT ITEMS (Continued)

G. **Audit Committee Annual Report to Boards**

Recommendation as submitted by Gina V. Sanchez, Audit Committee Chair and Richard P. Bendall, Chief Audit Executive: The Audit Committee provide suggested revisions and/or approve the issuance of the Audit Committee Annual Report to the Boards and direct staff to issue the report to the boards at their respective January 2022 meetings. (Memo dated February 8, 2023)

H. **Contract Operations Audit Report**

Recommendation as submitted by Kathryn Ton, Senior Internal Auditor: That the Committee review and discuss the Contract Operations Audit 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 February 1, 2023)

I. **Review of Chief Executive Officer's Credit Card Expenditures**

Recommendation as submitted by Gabriel Tafoya, Senior Internal Auditor: That the Committee review and discuss the Chief Executive Officer Credit Card 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 February 10, 2023)

VIII. REPORTS

- A. **2023 Audit Committee Orientation**
Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Presentation) (Memo dated February 7, 2023)
- B. **Management's Compliance Report**
Santos H. Kreimann, Chief Executive Officer
Luis A. Lugo, Deputy Chief Executive Officer
(Memo dated February 15, 2023)
- C. **Recommendation Follow-Up Report**
Kristina Sun, Senior Internal Auditor
(Memo dated February 10, 2023)
- D. **Recommendation Follow-Up Sensitive Information Technology Areas**
Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor
(Memo dated February 10, 2023)
- E. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit**
Richard P. Bendall, Chief Audit Executive
(Verbal Update)
- F. **Internal Audit Staffing Activity Report**
Richard P. Bendall, Chief Audit Executive
(Verbal Update)
- G. **Ethics Hotline Status Report**
Kathryn Ton, Senior Internal Auditor
(For Information Only) (Memo dated February 6, 2023)

IX. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agenda item at a future meeting.)

X. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

XI. GOOD OF THE ORDER

(For Information Purposes Only)

XII. 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.

Any documents subject to public disclosure that relate to an agenda item for an open session of the Committee, that are distributed to members of the Committee 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 Committee, at LACERA's offices at 300 North Lake Avenue, Suite 820, Pasadena, California during normal business hours from 9:00 a.m. to 5:00 p.m. Monday through Friday and will also be posted on lacera.com at the same time, [Board Meetings | LACERA](#).

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.

February 15, 2023

TO: Each Trustee,
Audit Committee

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

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: Procedure for Teleconference Meeting Attendance under AB 2449

At their February 2023 meetings, the Board of Retirement and Board of Retirement adopted the attached AB 2449 Teleconference Policy setting forth the procedures and limitations applicable to requests by Trustees for teleconference attendance at Board and Committee meetings based on Just Cause or Emergency Circumstances. All requests will be considered in accordance with the Policy after review by the applicable Chair. A public statement will be made at each meeting as to those Trustees who are granted attendance for Just Cause; such requests do not require Board or Committee approval. All requests based on Emergency Circumstances will be presented to the Board or Committee for approval at the beginning of each meeting. Trustees who teleconference under AB 2449 will be required to make a public statement at the beginning of the meeting disclosing all individuals 18 years or older who are present in the room with them and the general nature of each such person's relationship with the Trustee. All Trustees who teleconference under AB 2449 are required to participate by both video and audio throughout the meeting.

Meetings under AB 2449 can only proceed if there is a physical quorum of the Board or Committee in the noticed location for the entire duration of the meeting.

Attachment

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

AB 2449 TELECONFERENCE POLICY

Authorizing Manager: Chief Counsel

Effective Date: February 8, 2023

Last Updated: Not Applicable

Mandatory Review: Before January 1, 2026

Policy Type: Joint Board Policy

Approval Level: Board of Retirement and Board of Investments

1. PURPOSE

The purpose of this AB 2449 Teleconference Policy (Policy) is to establish a process (1) for Trustees to request Teleconference attendance at a publicly noticed Board and Committee meeting under the Act for Just Cause or Emergency Circumstances, and (2) to select Trustees who shall be permitted under the Act to attend a meeting by Teleconference, including when more than the maximum number of Trustees (which is one less than the number constituting a quorum allowed of the Board or any Committee) make a request for the same meeting.

2. SCOPE

This Policy applies only to Teleconference attendance at publicly noticed Board and Committee meetings for Trustees who request it based on a showing of Just Cause or Emergency Circumstances under AB 2449 (which enacted California Government Code Section 54953(f) for meetings until January 1, 2024, and Section 54953(e) for meetings from January 1, 2024 until January 1, 2026). This Policy expires and has no effect for meetings on and after January 1, 2026, unless extended.

The Policy does not apply to (1) teleconference meetings when the Board or Committee makes the findings required under California Government Code Section 54953(e) (applicable for meetings until January 1, 2024 during a proclaimed state of emergency), (2) teleconference meetings agendized under Section 54953(b) (which requires that all teleconference locations be identified on the agenda, open to the public, and ADA-compliant), or (3) to meetings that are not publicly noticed under the Brown Act. The Board of Retirement and Board of Investments' separate Teleconference Meeting Policies previously adopted shall continue to apply to requests for teleconference meetings under Government Code Section 54953(b).

To the extent that state law or federal law provides for additional restrictions or conflicts with this Policy, the law shall prevail over this Policy.

3. LEGAL AUTHORITY

This Policy is adopted pursuant to the plenary authority of the Board of Retirement and Boards of Investments over the administration of the system (Cal. Const., art. XVI, sec 17), the County Employees Retirement Law of 1937 (CERL), including California

Government Code Sections 31520, 31520.1, 31520.2, and 31595, and other governing law. The authority of both Boards includes the ability to establish policies to implement the Brown Act (California Government Code Section 54950 *et seq.*), including AB 2449.

4. DEFINITIONS

4.1 Just Cause means any of the following:

- (A) Childcare or caregiving needs of a child, parent, grandparent, grandchild, sibling, spouse, or domestic partner that requires a Trustee to participate remotely. “Child,” “parent,” “grandparent,” “grandchild,” and “sibling” have the same meaning as those terms do in Government Code Section 12945.2;
- (B) A contagious illness that prevents a Trustee from attending in person;
- (C) A need related to a physical or mental disability as defined in California Government Code Sections 12926 and 12926.1, to the extent not otherwise accommodated under this Policy; or
- (D) Travel while on official business of LACERA or another state or local agency.

4.2 Emergency Circumstances means a physical or family medical emergency that prevents a Trustee from attending a meeting in person.

4.3 Teleconference means both audio and on camera visual participation throughout a meeting.

5. LEGAL REQUIREMENTS AND PROCESS FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449

5.1 Teleconference Meeting Requests

Subject to the other requirements of this Policy, a Trustee shall be eligible to attend a meeting by Teleconference if one of the following circumstances apply:

- (A) A Trustee submits an email request to attend by Teleconference for Just Cause to the Executive Board Assistants, at boardoffices@lacera.com, as soon as possible prior to a Board or Committee meeting, but no later than the start of a meeting. The request must include a general description that need not exceed 20 words relating to their Just Cause. No action by the Board or Committee is required to approve a request based on Just Cause; or
- (B) A Trustee submits an email request to attend by Teleconference due to Emergency Circumstances to the Executive Board Assistants, at boardoffices@lacera.com, as soon as possible prior to a Board or Committee meeting, but no later than the start of a meeting. The request must include an email statement that need not exceed 20 words of the Emergency Circumstances. The Board or Committee must take action to approve the

request. If a request is not submitted in time for it to be placed on the noticed agenda, a Board or Committee may take action at the beginning of the meeting under Government Code Section 54954.2(b).

The required email statement of Just Cause or Emergency Circumstance shall not disclose any medical diagnosis or disability, or any medical or private information exempt under applicable law, including the Confidentiality of Medical Information Act (California Civil Code Section 56 *et seq.*). However, it shall provide sufficient non-confidential information to provide a general description of the basis for the Just Cause or Emergency Circumstances and allow the request to be evaluated for compliance with the definitions of Just Cause or Emergency Circumstances.

5.2 Process for Deciding and Allocating Teleconference Requests

In conjunction with the Board or Committee Chair, the Executive Board Assistants shall advise Trustees as soon as possible upon completion of the process described in this Section 5.2 as to whether their Teleconference request is allowed or denied or, in the case of a request based on Emergency Circumstances, recommended for approval or denial to a Board or Committee.

When less than a quorum of a Board or Committee request to attend a meeting via Teleconference, all requests shall be allowed if they are based on Just Cause and comply with this Policy, and all requests shall be recommended for approval by the Board or Committee if they are based on Emergency Circumstances and comply with this Policy.

When a quorum or more of a Board or Committee request to attend a meeting via Teleconference, attendance for Trustees whose requests comply with this Policy shall be allowed in the case of Just Cause or recommended in the case of Emergency Circumstances on a first come, first served basis based on the time the requests were first received by the Executive Board Assistants, including the statement describing Just Cause or Emergency Circumstances. Requests based on the Americans with Disabilities Act of 1990 (42 U.S.C. § 12132) (ADA) shall be given priority, notwithstanding when submitted.

In all cases, the Executive Board Secretaries shall review Teleconference requests for compliance with this Policy. They shall then submit all requests to the Chair of the Board or Committee and include information regarding compliance of each request with this Policy and recommendations as to which requests are proposed to be granted or denied. The Chair of the Board or Committee shall oversee the allocation process, including the final decision as to which requests are granted or denied, or recommended to be granted or denied in the case of Emergency Circumstances which require Board or Committee

approval, and to ensure that requests based on the ADA are given proper accommodation and priority.

As a condition of Teleconference meeting attendance that is allowed, at the beginning of a Teleconference meeting and, for requests based on Emergency Circumstances, before a Teleconference request is approved or acted upon, the Trustee shall publicly disclose whether any other individuals 18 years of age or older are present in the room from which the Trustee remotely attends, and the general nature of the Trustee's relationship with any such individuals. This information must be updated by each Trustee attending by Teleconference as needed during the meeting if other such individuals join the Trustee's meeting room.

Board and Committee agendas will include, at the beginning of each agenda, an item where those participating for Just Cause will be identified, for action regarding those requesting to attend for Emergency Circumstances, and the required statement as to other persons present in the room with Teleconference participants may be made.

If a Teleconference request is granted, the Trustee must participate by audio and on camera visual technology throughout a meeting.

5.3 A Quorum Must be Physically Present for the Entire Meeting

A quorum of Trustees of a Board or Committee must be physically present together for the entire Teleconference meeting at the same single location in the County of Los Angeles stated in the meeting agenda and open to the public in order for Teleconference attendance under this Policy to be allowed. A physical quorum can be established through the in-person attendance of alternate members of a Board or Committee. No action can be taken by a Board or Committee if there is not a physical quorum or if the quorum is lost during the meeting.

5.4 Public Participation

At any meeting of a Board or Committee at which Teleconference attendance is permitted under the Policy, the meeting must provide in-person attendance at the noticed location and one of the following means for the public to remotely hear and visually observe the meeting, and remotely address the meeting:

- (A) A two-way audiovisual platform; or
- (B) A two-way telephonic service and a live webcasting of the meeting.

The meeting agenda shall state the in-person and remote methods for the public to observe and participate in the meeting and provide instructions. Public comments must be allowed in real time up until the end of the Public Comment

section on the meeting agenda in the case of oral comment or until the end of the meeting in the case of written comment. If there is a technological disruption in the method for the public to remotely observe and participate, no further action may be taken by the Board or Committee until remote access is fully restored.

5.5 Limitation on Trustee Teleconference Attendance

No more than two requests based on Just Cause may be granted per calendar year, whether the meetings are regular or special.

As to requests based on either Just Cause or Emergency Circumstances, the following limitations apply and will be monitored by the Executive Board Assistants:

- (A) Subject to (B) and (C), no more than three consecutive meetings, whether regular or special, of a Board or Committee within a calendar year, of which no more than two may be regular or special meetings for Just Cause;
- (B) Subject to (C), no more than 20% of the regular meetings of a Board or Committee within a calendar year, of which no more than two may be regular or special meetings for Just Cause; and
- (C) If a body meets regularly less than 10 times per calendar year, no more than two meetings, regular and special, per calendar year.

6. REFERENCES

Ralph M. Brown Act ([California Government Code Section 54950 et seq.](#))
[AB 2449 California Government Code Section 54953\(f\) for meetings until January 1, 2024 and Section 54953\(e\) for meetings from January 1, 2024 until January 1, 2026](#)).

[Americans With Disabilities Act of 1990 \(42 U.S.C. § 12132\).](#)

[Confidentiality of Medical Information Act](#) (California Civil Code Section 56 *et seq.*) and other applicable privacy and medical confidentiality laws.

[Board of Retirement Teleconference Meeting Policy.](#)

[Board of Investments Teleconference Meeting Policy.](#)

7. VERSION HISTORY

First approved by the Board of Retirement on February 1 , 2023, and by the Board of Investments on February 8, 2023.

///
///
///

8. EFFECTIVE DATE AND REVIEW

This Policy is effective on the day adopted by the Board of Retirement and Board of Investments. This Policy shall expire on January 1, 2026 and shall be reviewed by the Boards by that date in order to address legislative changes.

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

8:00 A.M., THURSDAY, NOVEMBER 17, 2022

This meeting was conducted by the Audit Committee, Board of Investments, and Board of Retirement both in person and by teleconference under California Government Code Section 54953(e).

COMMITTEE TRUSTEES

PRESENT: Gina V. Sanchez, Chair (In-Person)
Patrick L. Jones, Secretary (Teleconference)
Alan J. Bernstein (Teleconference)
Keith Knox (Teleconference)
Wayne Moore (Teleconference)
Herman B. Santos (Teleconference)

ABSENT: Joseph Kelly, Vice Chair

OTHER TRUSTEES

Shawn R. Kehoe, BOR/BOI Trustee

STAFF, ADVISORS AND PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer

Luis A. Lugo, Deputy Chief Executive Officer

Jonathan Grabel, Chief Investment Officer

STAFF, ADVISORS, PARTICIPANTS (Continued)

Laura Guglielmo, Assistant Executive Officer

JJ Popowich, Assistant Executive Officer

Steven P. Rice, Chief Counsel

Richard P. Bendall, Chief Audit Executive

Christina Logan, Principal Internal Auditor

Nathan K. Amick, Senior Internal Auditor

George Lunde, Senior Internal Auditor

Kristina Sun, Senior Internal Auditor

Kathryn Ton, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Ted Granger, Interim Chief Financial Officer

Carly Ntoya, Director of Human Resources

Kathy Delino, Interim Chief Information Technology Officer

Summy Voong, Interim Assistant Information Systems Manager

KPMG, LLP

Mark McKeever, Director

Larry Godin, Principal

STAFF, ADVISORS, PARTICIPANTS (Continued)

Plante & Moran, PLLC
Terry Olejnik, Partner
Kyle Cawley, Senior Manager
Jean Young, Partner
Amanda Cronk, Senior Manager

Robert H. Griffin, Audit Committee Consultant

I. CALL TO ORDER

This meeting was called to order by Chair Sanchez at 8:00 a.m.

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of August 18, 2022

Trustee Knox made a motion, Trustee Bernstein seconded, to approve the minutes of the regular meeting of August 18, 2022. The motion passed by the following roll call vote:

Yes: Bernstein, Jones, Knox, Moore, Santos, Sanchez

No: None

Absent: Kelly

III. PUBLIC COMMENT

There were no requests from the public to speak.

VI. CONSENT ITEMS

A. **Approval of the Use of Teleconference Meeting**

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

VI. CONSENT ITEMS (Continued)

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 other public agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days as part of hybrid meetings also in person, so long as the State of Emergency remains in effect, and direct staff to comply with the agenda and public comment requirements of statute. (Memo dated October 31, 2022)

Trustee Knox made a motion, Trustee Jones seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: Bernstein, Jones, Knox, Moore, Santos, Sanchez

No: None

Absent: Kelly

V. NON-CONSENT ITEMS

A. **Approval of KPMG LLP to Perform an Investment Operational Due Diligence Consulting Review**

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive and Kathryn Ton, Senior Internal Auditor: That the Audit Committee approve the engagement of KPMG LLP (KPMG) to perform a consulting review of LACERA's Investment Office's Operational Due Diligence Program and Processes. (Memo dated October 28, 2022)

Mr. Bendall provided a brief presentation. Mr. McKeever, Mr. Godin from KPMG, Mr. Grabel, Mr. Lugo, and Ms. Ton were present and answered questions from the Committee.

Trustee Knox made a motion, Trustee Bernstein seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

V. NON-CONSENT ITEMS (Continued)

Yes: Bernstein, Jones, Knox, Moore, Santos, Sanchez

No: None

Absent: Kelly

B. **One-Year Extension Request for Plante Moran to Perform a System of Operation Controls (SOC-1)**

Recommendation as submitted by Christina Logan, Principal Internal Auditor and Gabriel Tafoya, Senior Internal Auditor: That the Audit Committee review and approve a one-year extension for Plante Moran (PM) to perform a SOC-1 Type 2 (SOC) audit for Fiscal Year Ending (FYE) June 2023. (Memo dated October 21, 2022)

Ms. Logan provided a brief presentation and was present to answer any questions from the Committee.

Trustee Bernstein made a motion, Trustee Jones seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: Bernstein, Jones, Knox, Moore, Santos, Sanchez

No: None

Absent: Kelly

C. **Los Angeles County's Compliance with Requirements for Rehired Retirees - Fiscal Year Ended June 30, 2021**

Recommendation as submitted by George Lunde, Senior Internal Auditor: That the Audit Committee review and discuss the Los Angeles County's Compliance with Requirements for Rehired Retirees - Fiscal Year Ended June 30, 2021 and take the following action(s):

V. NON-CONSENT ITEMS (Continued)

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 November 7, 2022)

Mr. Lunde provided a brief presentation. Mr. Lugo, Mr. Bendall, Ms. Logan were present to answer questions from the Committee.

Trustee Bernstein made a motion, Trustee Moore seconded, to accept and file the report and forward the report as an agenda item to the Board of Retirement and Board of Investments and to the Los Angeles County Executive Office and Human Resources with the recommendation that they consider implementing the recommended actions. The motion passed by the following roll call vote:

Yes: Bernstein, Jones, Knox, Moore, Santos, Sanchez

No: None

Absent: Kelly

D. **BoardVantage Secure Document Access Review**

Recommendation as submitted by George Lunde, Senior Internal Auditor: That the Audit Committee review and discuss the BoardVantage Secure Document Access Review 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 October 28, 2022)

V. NON-CONSENT ITEMS (Continued)

Ms. Logan provided a brief presentation and was present to answer any questions from the Committee.

Trustee Knox made a motion, Trustee Bernstein seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: Bernstein, Jones, Knox, Moore, Santos, Sanchez

No: None

Absent: Kelly

VI. REPORTS

A. **Audited Financial Statements**

Nathan K. Amick, Senior Internal Auditor
(Presentation) (Memo dated November 8, 2022)

Ms. Young and Ms. Cronk of Plante Moran provided a presentation and addressed questions from the Committee. This item was received and filed.

B. **Management's Response to Plante Moran's Comments to Management**

Luis A. Lugo, Deputy Chief Executive Officer
(Memo dated November 1, 2022)

Mr. Lugo and Mr. Bendall were present and addressed questions from the Committee. This item was received and filed.

C. **FYE 2023 Audit Plan Status Report**

Nathan K. Amick, Senior Internal Auditor
(Presentation) (Memo dated November 1, 2022)

Mr. Amick provided a presentation. Mr. Amick, Mr. Bendall, Ms. Logan were present and addressed questions from the Committee. This item was received and filed.

VI. REPORTS (Continued)

D. **Review of Privacy Audit Recommendations – FYE 2022 Update**

Kristina Sun, Senior Internal Auditor

(Memo dated October 25, 2022)

Ms. Sun was present and addressed questions from the Committee. This item was received and filed.

E. **Recommendation Follow-Up Report**

Kristina Sun, Senior Internal Auditor

(Memo dated October 25, 2022)

Ms. Sun was present and addressed questions from the Committee. This item was received and filed.

F. **Recommendation Follow-Up for Sensitive Information Technology Areas**

Christina Logan, Principal Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

(Memo dated October 15, 2022)

Ms. Logan was present and addressed questions from the Committee. This item was received and filed.

G. **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 and addressed questions from the Committee. This item was received and filed.

H. **Internal Audit Staffing Activity Report**

Richard P. Bendall, Chief Audit Executive

Gabriel Tafoya, Senior Internal Auditor

(Verbal Presentation)

Mr. Bendall was present and addressed questions from the Committee. This item was received and filed.

VII. REPORTS (Continued)

I. **Continuous Auditing Program (CAP)**

George Lunde, Senior Internal Auditor

(For Information Purposes Only) (Memo dated November 1, 2022)

This item was received and filed.

J. **Ethics Hotline Status Report**

Kathryn Ton, Senior Internal Auditor

(For Information Purposes Only) (Memo dated October 31, 2022)

This item was received and filed.

VIII. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agendized item at a future meeting.)

Trustee Santos requested that the RFP analysis and due diligence such as Towards Inclusion Diversity and Equity (TIDE) fulfillment be provided in materials moving forward. Trustee Knox requested that an update be provided regarding the engagement between LACERA and the County on the Retiree Rehire enforcement policy and process.

IX. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

There was nothing to report.

X. GOOD OF THE ORDER

(For Information Purposes Only)

The Committee thanked staff for their work.

XI. EXECUTIVE SESSION

A. **Potential Threats to Public Services or Facilities**

(Pursuant to Subdivision (a) of California Government Code Section 54957)

Consultation with: Plante Moran, Terry Olejnik, Engagement Partner, Kyle Cawley, Engagement Senior Manager, LACERA Chief Executive Officer Santos H. Kreimann, Deputy Chief Executive Officer Luis Lugo, Systems Division Interim Chief Information Technology Officer Kathy Delino, Chief Information Security Officer Bob Schlotfeldt, and Other LACERA Staff.

There was nothing to report.

B. Performance Evaluation – Chief Audit Executive Goals Report

(Pursuant to Government Code Section 54957(b)(1))

(FOR AUDIT COMMITTEE ONLY PER COUNTY SALARY ORDINANCE 6.127.040.S.1)

Title: Chief Audit Executive

The Committee met in Executive Session with staff with regards to the Chief Audit Executive's performance evaluation and goals report. There was

There was nothing to report.

XI. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 9:36 a.m.

February 15, 2023

TO: Each Trustee,
Audit Committee

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

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: Approval of the Use of Teleconference Meeting Technology Under AB 361 and Government Code Section 54953(e), including as Part of Hybrid Meetings

RECOMMENDATION

Provided the State of Emergency is still in effect on March 2, 2023, staff recommended 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 other public agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days as part of hybrid meetings also in person, 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.

Pursuant to the action of the Board of Retirement and Board of Investments at the joint meeting on September 23, 2022, starting with the November 2022 Board and Committee meetings, teleconference meetings, if approved, will be agendized as hybrid meetings where Trustees may attend by teleconference or in person in the boardroom at LACERA's offices at 300 N. Lake Avenue, Pasadena, California 91101, with adequate provision being made for public comment via teleconference, in person, and in writing and for public attendance via teleconference and in person. Audit Committee meetings are agendized as meetings of the Board of Retirement and Board of Investments.

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 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 teleconference meetings 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 impacts the safety of in person meetings or state or local officials have imposed or recommended 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; and

(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; or
- (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. Upon making the required findings, the Committee has discretion to hold meetings either entirely by teleconference or as hybrid meetings with individual Trustees and the public able to attend either by teleconference or in person.

So long as the COVID State of Emergency remains in effect, the AB 361 rules under Section 54953(e) remain in effect even after AB 2449, which became law on January 1, 2023 and creates additional new grounds for teleconference attendance at Board and Committee meetings.

///

///

B. Information Supporting the Required Findings and Process if the Audit Committee Determine 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. Over the past year, the Governor actively terminated many emergency provisions. See, e.g., Order No. N-21-21, issued November 10, 2021, Order No. N-04-22, issued February 25, 2022, Order No. N-11-22, issued June 17, 2022. In the press release for the June 17 Order, the Governor's Office stated that, after June 30, 2022, "only 5 percent of the COVID-19 related executive order provisions issued throughout the pandemic will remain in place."

On October 17, 2022, the Governor announced that the COVID State of Emergency will end on February 28, 2023. However, the State of Emergency remains in effect at least until then. The Governor's press release stated that one of the purposes of deferring the end of pandemic until 2023 was to "provid[e] state and local partners the time needed to prepare for this phaseout and set themselves up for success afterwards." Among the transition items reasonably interpreted as included for local agencies such as LACERA is a phaseout of teleconference meetings.

The Los Angeles County Department of Public Health still maintains guidance for employers: "Reduce indoor crowding. A few example strategies to decrease crowding include, but are not limited to: • Host larger meetings outdoors or virtually. • Reduce occupancy and spread-out seating in meeting rooms and other small spaces such as locker rooms, weight rooms, restrooms, and saunas. Ensure good ventilation • Establish procedures to prevent crowding among persons waiting to enter or exit a large event. Limiting attendance, establishing unidirectional foot traffic patterns, reservations, online waiting lists, timed entry or exit, and using staff to help direct traffic and limit access if the area becomes too crowded can help." <http://publichealth.lacounty.gov/acd/ncorona2019/bestpractices/>.

On January 10, 2023, the Board of Supervisors again approved AB 361 findings to permit teleconference meetings given the current Public Health Order. The Board of Supervisors also acted upon the issue at its February 7, 2023 meeting. The Board of Supervisors' website states, "Meetings of the Board of Supervisors are held virtually on Tuesdays at 9:30 a.m., while the Public Health Order is in effect." <https://bos.lacounty.gov/board-meeting-agendas/>. The LACERA Boards are not required to follow the Board of Supervisors' decision with regard to how meetings are conducted, but the County's change in practices is instructive.

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 in certain circumstances also remains posted on the City's COVID web page as a reference. However, as of the date of this memo, the City Council has not renewed its teleconference findings, and the Council has resumed meetings for public in-person participation.

The Centers for Disease Control and Prevention (CDC) recently updated its guidance, but the CDC still advises the public that they can "Prevent the Spread of COVID-19." Among the methods cited by CDC is "Keeping a Safe Distance Helps Stop COVID-19: Stay away from people who are sick. Stay away from people who have COVID-19. Stay away from people with COVID-19 even if they don't feel sick. Stay away from crowds. Stay away from inside places with lots of people." <https://www.cdc.gov/coronavirus/2019-ncov/easy-to-read/prevent-getting-sick/how-covid-spreads.html>.

Under these circumstances, the Committee may reasonably conclude and find that teleconferencing under Section 54953(e) is appropriate for Committee meetings, including on a hybrid basis, during the next 30 days, so long as the State of Emergency remains in effect, because (1) the State of Emergency continues to impact the ability of the Trustees to meet safely in person, or (2) the County and other authorities continue to recommend measures to promote a safe workplace, including physical distancing, as required by the statute. Either finding is sufficient under Section 54953(e) to support continued teleconference meeting.

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. Starting with the November meetings, hybrid in person and teleconference meetings will be implemented in accordance with procedures required by the Brown Act.

Finally, LACERA management recently updated staff work standards in light of changes in transmission rate to again permit hybrid work. Management continues to support hybrid office/telework procedures and continues a balance between hybrid and in office work, in division manager discretion based on business needs. Management will adjust staff working conditions as required based on future changes in COVID transmission and infection rates.

CONCLUSION

Based on the above information, staff recommends that, if the State of Emergency remains in effect on March 2, 2023, 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 other agencies still recommend social distancing such that the Committee shall hold teleconference meetings for the next 30 days as part of hybrid meetings also in person, so long as the State of Emergency remains in effect, and if so, direct staff to comply with the agenda and public comment requirements of the statute.

If the required findings are made, teleconference technology will be used as part of hybrid Audit Committee meetings conducted by teleconference and in person at LACERA's Pasadena offices, so long as permissible under applicable law.

c: Santos H. Kreimann

Jonathan Gabel

Luis Lugo

Richard Bendall

JJ Popowich

Laura Guglielmo


Leisha Collins

Christina Logan

February 1, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Proposed 2023 Committee Meeting Dates**

RECOMMENDATION

The Audit Committee review and approve the proposed 2023 Audit Committee meeting dates.

AUDIT COMMITTEE DATES:

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

Internal Audit reviewed the Board Calendar (Attachment B) to ensure the proposed meeting dates do not currently conflict with any other board scheduled events. We are proposing the Audit Committee meet approximately once a quarter on the following days at 9am.

Day	Date
Thursday	June 1, 2023
Thursday	August 31, 2023
Thursday	December 14, 2023

AUDIT COMMITTEE CALENDAR

On page 3 of this memo, we have attached the Annual Audit Committee Calendar, which is based on the proposed four meetings. Internal Audit developed this calendar to provide trustees on the Committee visibility to what they can expect at each meeting during the year. We have included in the calendar the Committee's annual and reoccurring responsibilities, as defined in the Audit Committee Charter to ensure they are addressed.

Attachments

A: April 2021 Audit Committee Charter

B: Board Calendar

RPB:cl

Proposed 2023 Committee Meeting Dates

February 1, 2023

Page 3 of 3

2023 Annual Audit Committee Calendar							
Documentation	Ref to AC Charter	Frequency	Mar	June	Aug	Dec	
Audit Engagement Reports	VII.A.2.a.	Every	C	X	X	X	
Audit Plan Status Update	VII.A.1.d. & VII.A.2.c-d.	Every	C	X	X	X	
Summary of Hotline Investigations	VII.D.3 & VII.E.2.b.	Every	C	X	X	X	
Recommendation Follow-Up Reports	VII.A.2.b.	Every	C	X	X	X	
Proposed Audit Plan and Budget	VII.A.1.c.	Annually	C				
Annual Risk Assessment	VII.A.1.a.	Annually		X			
Annual Audit Plan	VII.A.1.b.	Annually		X			
Presentation / memo by Financial Auditor detailing proposed scope of work and timing.	VII.B.2	Annually		X			
Internal Audit Charter	VII.A.3.a.	Annually			X		
Internal Audit Annual Performance Report	VII.A.3.b.-c.	Annually			X		
CAE Performance Evaluation	VII.A.4.b.-c.	Annually			X		
Ethics & Values Review	VII.D.1-3.	Annually			X		
Organizational Governance Review	VII.E.	Annually			X		
Compliance Memo from Legal Office	VII.E.4.c.	Annually	C				
Financial Statements, Correspondence, & Presentation	VII.C.1.-4.	Annually				X	
Audit Committee Annual Performance Report	VII.F.1.	Annually	C*			X	
Audit Committee Charter	VII.F.4	Every 3rd year	Approved in 2021. Upcoming review 2024				
Approve the appointment and compensation of the External Financial Auditor	VII.B.1	Every 5th year**	C				
Ensure IA has an external quality assessment performed every five years.	VII.A.3.d.	Every 5th year	Completed in 2022. Upcoming review 2027 or				
Provide an open avenue of communication between IA, all Professional Service Providers, Management, and the Boards.	VII.F.2	Continuous					
Approve the appointment & compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations	VII.B.2	As needed					
Review with Professional Service Providers, including the Financial Auditor, and Mgmt the results of the work performed, any findings & recommendations, Mngmt's responses, and actions taken to implement the audit recommendations.	VII.B.3	As needed					
Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.	VII.A.3.e.	As needed					
Make recommendations to both Boards regarding the appointment, discipline, and/or dismissal, of the CAE, which will be addressed by the Boards in a joint meeting.	VII.A.4.a.	As needed					
Perform other activities related to this Charter as requested by the Boards.	VII.F.3	As needed					
		C = completed, X = pending					
		C* = For Calendar Year 2022					

Audit Committee Charter

April 2021



2021



AUDIT COMMITTEE CHARTER

Table of Contents

I. CHARTER 2

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES 2

III. PRINCIPLES OF THE AUDIT COMMITTEE 2

IV. AUTHORITY 3

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT 3

VI. AUDIT COMMITTEE MEETINGS..... 4

VII. RESPONSIBILITIES 5

VIII. APPROVAL..... 9

AUDIT COMMITTEE CHARTER

I. CHARTER

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

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

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

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

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

ATTACHMENT B

March 2023						
◀ Feb 2023		Apr 2023 ▶				
Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1 BOR	2 Audit Committee	3	4 CALAPRS General Assembly, Monterey, CA
			Pacific Pension Institute (PPI) LA Jolla, CA			
5	6	7	8 BOI	9	10	11
	CII Spring Conference, Washington DC					
CALAPRS General Assembly, Monterey, CA						
12	13	14	15	16	17	18
		AHIP (America's Health Policy and Markets Forum), Washington DC				
19	20	21	22	23	24	25
			PREA Spring Conference, Seattle, WA			
	2023 Infrastructure Investor Global Summit, Berlin, Germany					
26	27 Cesar Chavez Day	28	29	30	31	
			CALAPRS (Advanced Principles of Pension Governance for Trustees, Los Angeles, CA			

June 2023						
◀ May 2023					Jul 2023 ▶	
Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1 Audit Committee	2	3
4	5	6	7 BOR	8	9	10
11	12	13	14 BOI	15	16	17
		AHIP (America's Health Insurance Plans Portland, OR)				
18	19	20	21	22	23	24
25	26	27	28	29	30	

August 2023						
◀ Jul 2023						
Sep 2023 ▶						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2 BOR	3	4	5
6	7	8	9 BOI	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31 Audit Committee		

December 2023						
◀ Nov 2023					Jan 2024 ▶	
Sun	Mon	Tue	Wed	Thu	Fri	Sat
					1	2
3	4	5	6 BOR	7 Hanukkah Begins	8	9
10	11	12	13 BOI	14 Audit Committee	15 Hanukkah Ends	16
17	18	19	20	21	22	23
24	25 Christmas Day	26	27	28	29	30
31						

February 10, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Nathan K. Amick 
Senior Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Selection of LACERA's External Financial Auditor**

RECOMMENDATION

Internal Audit recommends the Audit Committee discuss the merits of the three firms noted below and select a firm to be LACERA's external financial auditor for fiscal years ending (FYE) June 30, 2023 – 2027.

- CliftonLarsonAllen, LLP
- Crowe, LLP
- Plante & Moran, PLLC

DISCUSSION

Government Code Sections 31598 and 31593 require that LACERA prepare annual financial statements and retain the services of a certified public accounting firm to perform an annual audit. The Audit Committee Charter assigns the Audit Committee the responsibility to approve the appointment and compensation of a Financial Auditor hired to perform an independent audit of LACERA's Financial Statements.

LACERA's most recent contract for financial audit services ended in December 2022 with the completion of the audit of FYE June 30, 2022 Financial Statements. At the August 18, 2022 Audit Committee, the Committee authorized the release of a Request for Proposal (RFP) for certified public accounting firms to submit bids to audit LACERA's annual financial statements for fiscal years ending June 30, 2023 – 2027.

In November 2022, we released the RFP and actively began to solicit bids. In January 2023, we received six bids from:

1. Eide Bailly, LLP
2. Crowe, LLP
3. CliftonLarsonAllen (CLA), LLP
4. Moss Adams, LLP
5. Plante & Moran, PLLC
6. RSM, LLP

Internal Audit verified that each of the bidding firms met the required minimum requirements.

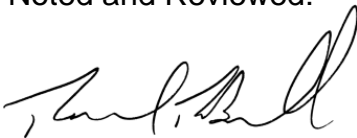
The evaluation team independently reviewed and scored each bid, and then met to discuss scores and selected the three bids to bring to the Audit Committee. The evaluation team selected these bids based on firm experience, the proposed team's experience, audit methodology and proposed fees. We have verified the references for these bids and vetted their IT posture by having LACERA's Information Security Office review their SOC (Systems and Organizational Controls) report or related report.

We have prepared a brief presentation to review our evaluation process and the team's scores for the selected bids. Subsequently, each of the selected firms will be presenting their proposal to the Audit Committee and will be available for questions.

Included in this memo are the following attachments for discussion with the Audit Committee:

- Attachment A – Internal Audit's presentation on the RFP process and bid scoring process.
- Attachment B – CliftonLarsonAllen bid presentation, to be presented in-person to the Committee
- Attachment C – Crowe bid presentation, to be presented in-person to the Committee
- Attachment D – Plante & Moran bid presentation, to be presented in-person to the Committee

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive



ATTACHMENT A

Review and Selection - Financial Auditor

March 2023

Presented by:
Nathan Amick, Senior Internal Auditor

Recommendation

Internal Audit recommends the Audit Committee discuss the merits of the three firms noted below and select a firm to be LACERA's external financial auditor for fiscal years ending June 30, 2023 – 2027.



CliftonLarsonAllen LLP
Irvine, California



Crowe

Crowe LLP
Los Angeles, California



Plante & Moran PLLC
Southfield, Michigan

Background

The Audit Committee Charter assigns the Audit Committee the responsibility to approve the appointment and compensation of the Financial Auditor, hired to perform an independent audit of LACERA's financial statements.

At the August 18, 2022 Audit Committee meeting, the Committee approved the release of the Request for Proposal (RFP) for hiring a Financial Auditor.



RFP Distribution Strategy and Results

To attract as many qualified bids as possible, we sent the RFP to:

1. Other CERL Pension Fund Auditors
2. Top 10 Nationwide CPA Firms
3. Institute of Internal Auditors Diversity Partners

As a result of our strategy, we received the bids from the firms below, all of whom met the minimum qualifications:

- Eide Bailly, LLP
- Crowe, LLP
- CliftonLarsonAllen (CLA), LLP
- Moss Adams, LLP
- Plante Moran, PLLC
- RSM, LLP



Evaluation Team



Laura Guglielmo
Assistant Executive Officer
Executive Office



Ted Granger
Interim Chief Financial Officer
Financial & Accounting Services



Gloria Rios
Senior Accountant
Financial & Accounting Services



Richard Bendall
Chief Audit Executive
Internal Audit



Christina Logan
Principal Internal Auditor
Internal Audit



Nathan Amick
Senior Internal Auditor
Internal Audit

Scoring Criteria

30%

Firm Qualifications and Experience

- Firm history and structure
- Firm qualifications
- Firm experience
- Required reporting
- Diversity Equity and Inclusion
- Conflicts and legal matters

30%

Methodology

- Audit plan and methodology
- Timetable resource allocation

30%

Staff Qualifications and Experience

- Professional and academic qualifications
- Professional experience
- Professional experience relevant to this engagement

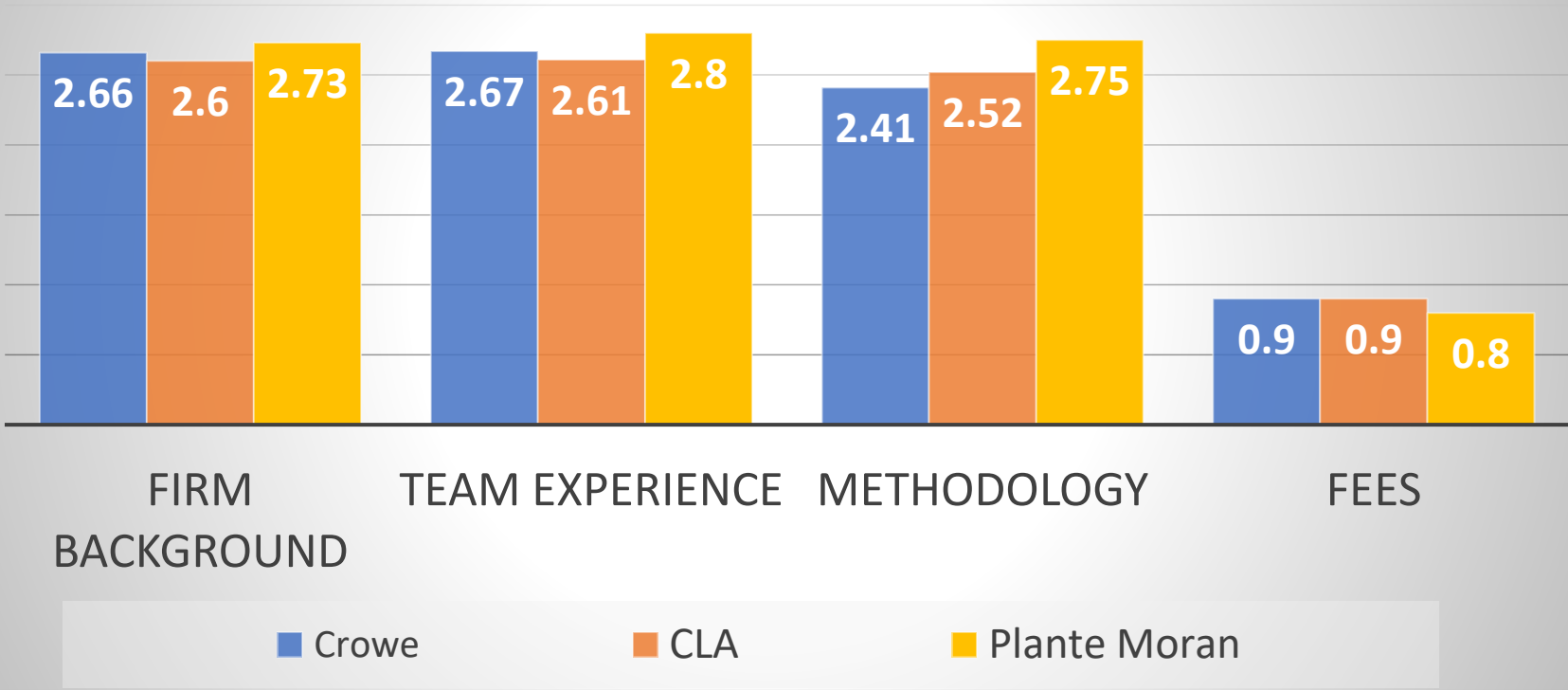
10%

Fees

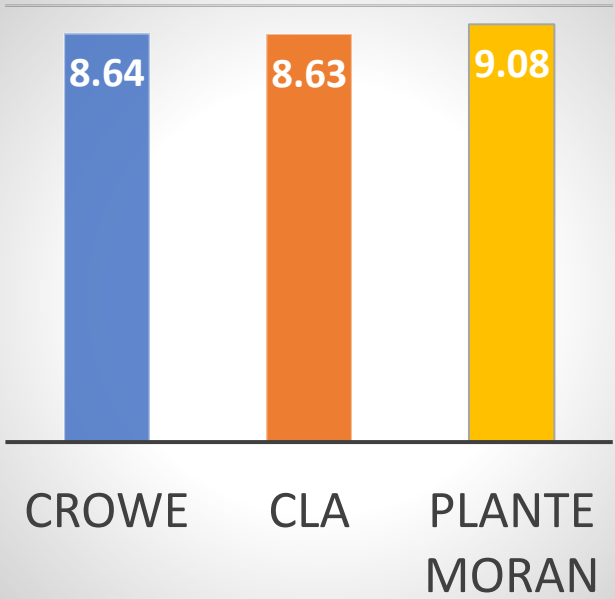
- Fees and hours proposed to complete engagement
- Average hourly rate

Evaluation Scoring

Finalists Averaged Scores



Total Scores



Diversity Equity and Inclusion – An Industry Viewpoint

February 2021 study, “Diversifying Global Accounting Talent: Actionable Solutions for Progress,” was an initiative sponsored by Institute of Management Accountants (IMA), the California Society of CPAs (CalCPA) and the International Federation of Accountants (IFAC).

Per the study:

- Diversity Gap
- Moral and Marketplace
- Progress



Diversity Equity and Inclusion

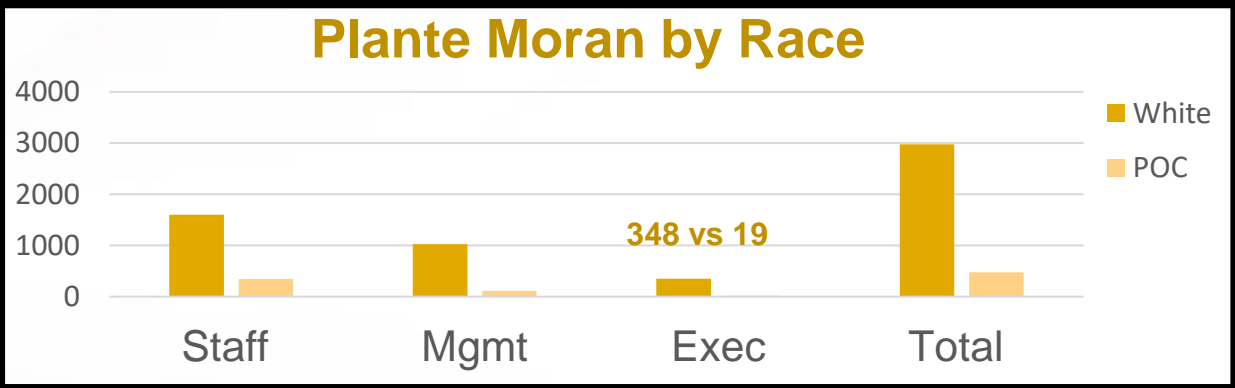
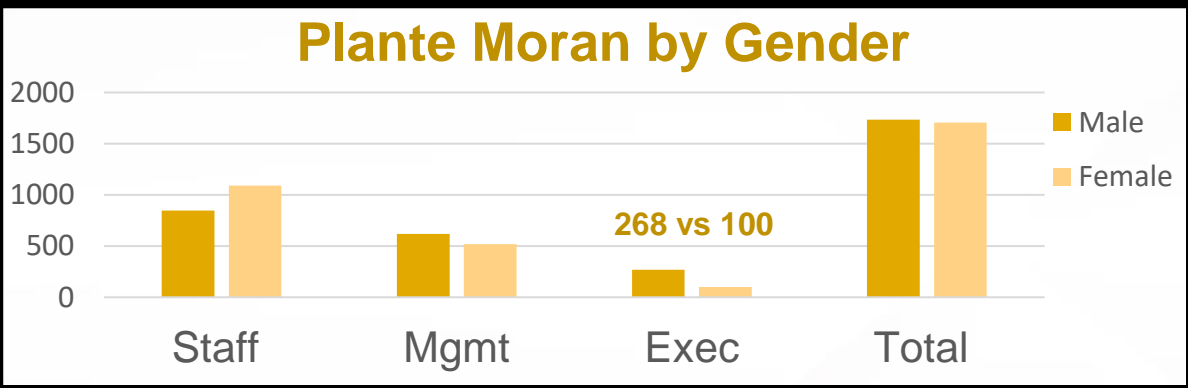
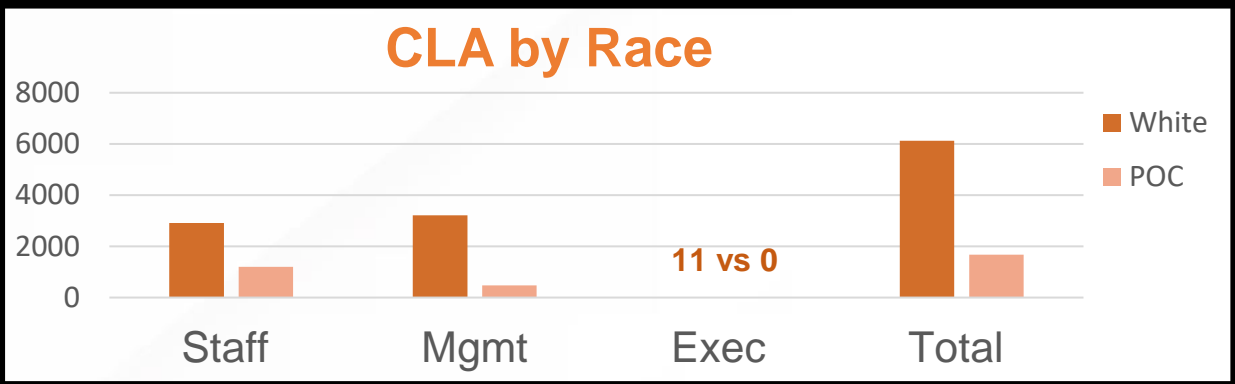
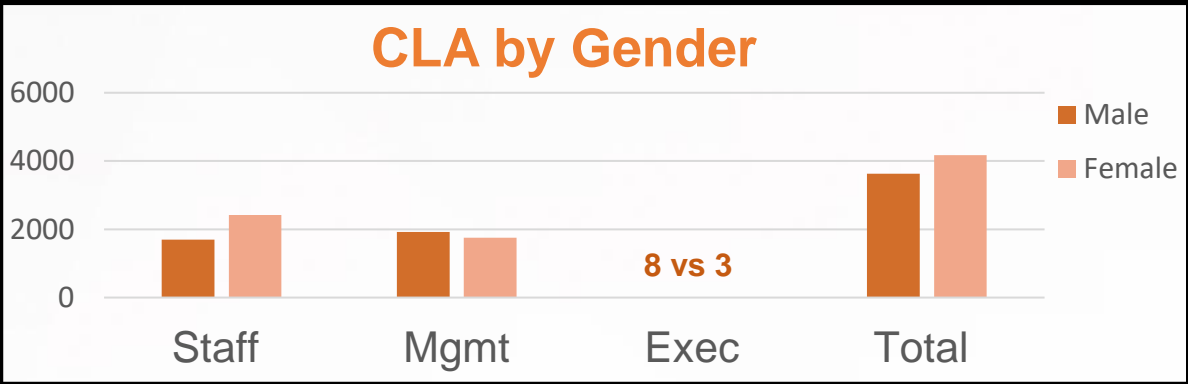
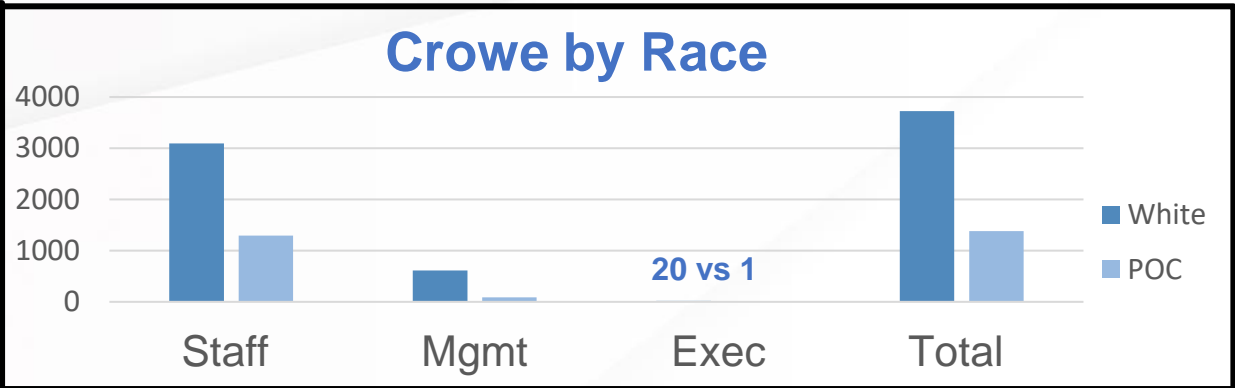
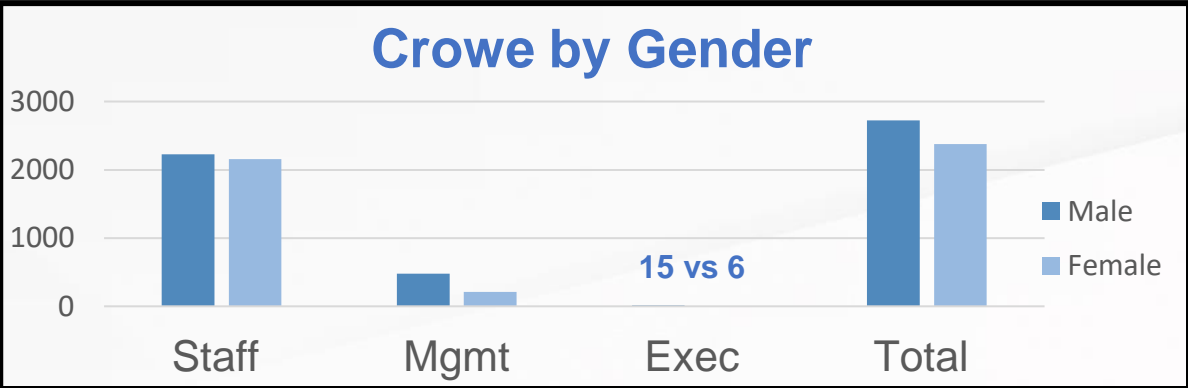
Firm	DEI Questionnaire	DEI Policy	Anti-Harassment Policy	Board/Exec Oversight of DEI
Crowe	YES	YES	YES	YES
CLA	YES	YES	YES	YES
Plante Moran	YES	YES	YES	YES

Based on their proposals, all finalists appear to be committed to DEI as represented by their DEI submission.

- Framework
- Strategy
- Initiatives



Firm Demographics



Comparative Fee Schedule

FIRM	AVERAGE HOURLY RATE	ANNUAL HOURS	AVERAGE ANNUAL COST	TOTAL HOURS 5-YR	TOTAL COST 5-YR
Crowe	\$ 197	1,000	\$197,480	5,000	\$ 987,402
CLA	\$ 181	1,114	\$202,157	5,570	\$ 1,010,785
Plante Moran	\$ 168	1,445	\$242,659	7,225	\$ 1,213,295



CROWE - Other Considerations

FIRM	AVERAGE HOURLY RATE	ANNUAL HOURS	AVERAGE ANNUAL COST	TOTAL HOURS 5-YR	TOTAL COST 5-YR
Crowe	\$197	1,000	\$197,480	5,000	\$987,402

- Extensive public pension fund experience & CERL experience.
- Currently CalSTRS financial auditor.
- The proposed team is on the smaller side and appears to be the same team as CalSTRS team. We would assume CalSTRS has similar timing as LACERA.
- The firms DEI program was the most specific and robust.
- The team did note extensive investment experience but had no dedicated IT Staff.

CLA - Other Considerations

FIRM	AVERAGE HOURLY RATE	ANNUAL HOURS	AVERAGE ANNUAL COST	TOTAL HOURS 5-YR	TOTAL COST 5-YR
CLA	\$181	1,114	\$202,157	5,570	\$1,010,785

- Extensive public pension fund experience & CERL experience.
- Recently Fresno and Kern County financial auditor.
- Proposed team did have a dedicated IT professional.
- The team appears to be less experienced than other finalist teams.
- Per proposal, they are not required to obtain a SOC Type 2 as a service provider, did submit a third-party assessment of their IT security and control environment.

PLANTE MORAN - Other Considerations

FIRM	AVERAGE HOURLY RATE	ANNUAL HOURS	AVERAGE ANNUAL COST	TOTAL HOURS 5-YR	TOTAL COST 5-YR
Plante Moran	\$168	1,445	\$242,659	7,225	\$1,213,295

- LACERA's financial auditor for the past seven years. Comparatively, they would have the most relevant experience.
- International Ethics Standard Boards for Accountants, require a rotation of audit partner in fiscal year 2023-24 if awarded the engagement. Transition plan will begin in 2023.
- Bid the most audit hours including most partner hours.
- Proposal had the highest cost.
- Team did not have a dedicated IT or investments professional.

QUESTIONS

Thank You

We'll get you there.



Los Angeles County Employees Retirement Association

Audit Services Interview

March 2, 2023

CPAs | CONSULTANTS | WEALTH ADVISORS

CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAGlobal.com/disclaimer](https://claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. ©2022 CliftonLarsonAllen LLP

Agenda



Engagement Team



Who We are Overview



Auditor Transition Plan



Work Plan and Methodology



Why Choose CLA?



Your Engagement Team

						
Chris Rogers, CPA <i>Engagement Principal</i>	Heather Plitt, CPA <i>Quality Assurance</i>	Brittany Smith, CPA, CIA <i>Engagement Manager</i>	James P. Kreiser, CISA, CRMA, CFSA <i>IT Principal</i>	Michael S. Nyman, CPA, CISA, CISSP, CITP, CRISC <i>IT Director</i>	Stephen Coverstone, CPA <i>Senior</i>	Connor Wing, CPA <i>Senior</i>
 <i>Supporting CLA Family Members</i>						



Who We Are

Our Purpose

CLA exists to create opportunities — for our clients, our people, and our communities.

Our Promise

We promise to know you and help you.

Our Family Culture

We're one family, working together to create opportunities.

Our Strategic Advantages

Deep industry specialization
Seamless, integrated capabilities
Premier resource for private business and owners
Inspired careers

Driven by Our Values



Curious

We care, we listen, we get to know you



Collaborative

We help you seamlessly, bringing innovative teams to the table



Transparent

We communicate clearly and authentically



Inclusive

We embrace all voices and create opportunities for you in an energetic and inspiring environment



Reliable

We respond in hours, not days; we follow through, protect our client data, and produce quality results



Firm Overview

7,500+

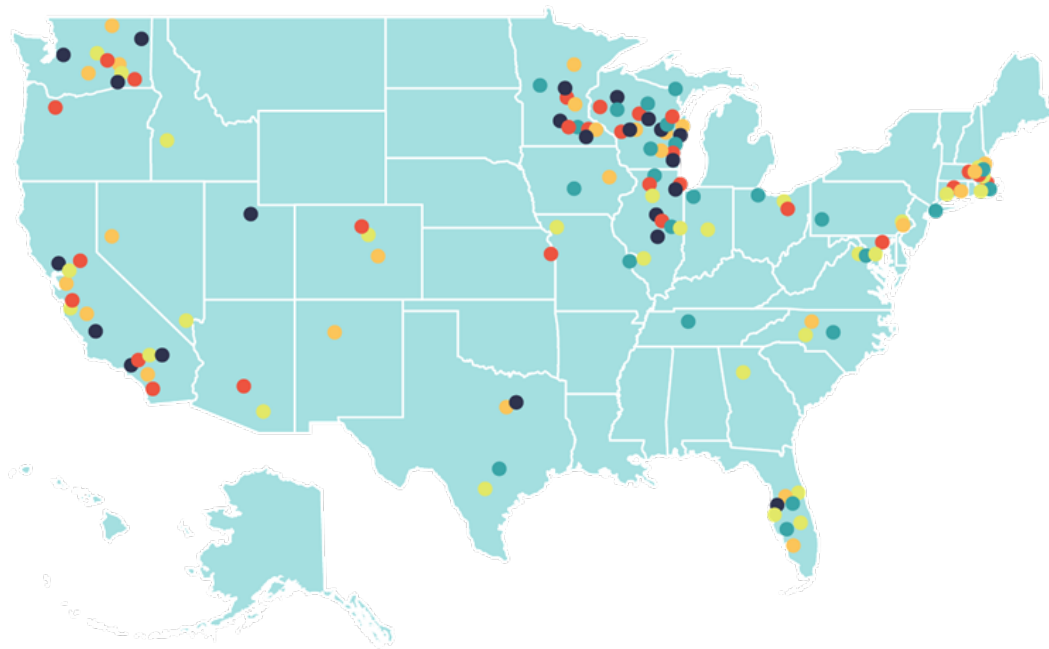
PEOPLE

125+

U.S. LOCATIONS

AN INDEPENDENT
NETWORK MEMBER OF

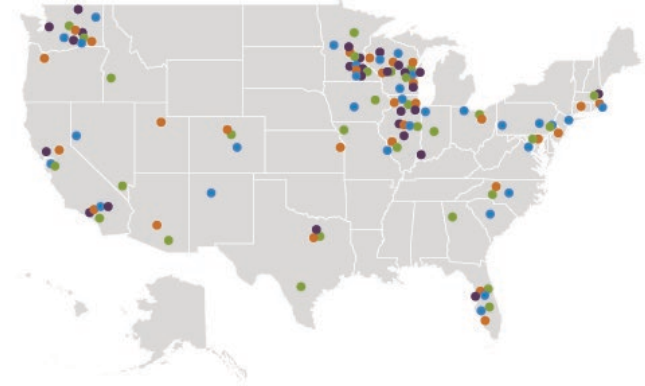
CLA Global



At the beginning of 2022, CLA was certified as a Great Place to Work® based on employee feedback and workplace experience.



National Government Practice



National Government Pension Experience (Sample)

Arizona State
Retirement System

State Retirement
& Pension System
of Maryland

Employees'
Retirement System
of Texas

Texas Municipal
Retirement System

Seattle City
Employees'
Retirement System

Public Employees'
Retirement
Association of
Colorado

Minnesota Public
Employees'
Retirement System

North Dakota
Public Employees
Retirement System

California Government Audit Experience

Sample Government Retirement Systems

- Fresno County Employees' Retirement Association
- California Department of HR Savings Plan
- CalSavers

Sample Cities and Counties

- California Housing Authority
- City of Santa Barbara
- City of Pasadena
- City of Newport Beach
- City of Irvine
- City of Orange
- San Bernadino County
- San Luis Obispo County



Auditor Transition Plan



Experienced Industry
Specialized Team



Constant
communication



Preparation



Leveraging review of
prior year workpapers



Intensive involvement
of Principals and
Managers



Investing in our
relationship



Communication and Commitments



CLA believes **timely and consistent communication** is the foundation of a successful business relationship

We respond to all emails and phone calls within **24 hours**



With CLA, you receive a **year-round commitment**





We commit to **meeting all deadlines**



We commit to **continuity of staff**



Seamless Assurance Advantage





A different approach

SAA is unlike any conventional audit process. SAA does not depend on physical location. It reduces the time our professionals spend on site, creates fewer disruptions, enables more efficient use of resources (yours and ours), and allows for more impactful interactions with your people.



Insights through analytics

CLA uses strategic data analysis to examine whole data sets to gain a deeper understanding of your organization. Insights that were once impossible can now come into focus to help you measure performance, enhance strategic decision making, and understand your competitive opportunities.



Effective technology

CLA embraces technologies that help solve client problems and create a seamless experience. Assurance Information Exchange (AIE) is a web-based application developed by CLA to digitally request and obtain audit documents through a secure and efficient online portal.





Technology

- Assurance Information Exchange
- IDEA Analytics
- Microsoft Teams



← SECURE, INTERACTIVE REQUEST LISTS



← ANALYTICS AND INSIGHTS



← IMPACTFUL INTERACTION



Audit Methodology



- Custom audit programs specific to Government Retirement Plans
- Data analytics
- Risk-based audit
- Continual communication
- IT specialists



Data Analytics

- Government Pension specific analytics
- Performed over 100% of the population
- Insights and results are incorporated into substantive audit procedures and discussed with management



Information Technology (IT) Approach



- ❖ Evaluate and test IT general controls, as applicable, for significant financial applications, supporting databases, supporting infrastructure/network
- ❖ Test application-level controls as directed based on audit approach. Reduce substantive testing if operating effectively
- ❖ Assess risks related to items such as security, confidentiality, application and system changes, and/or IT vendor implications
- ❖ Identify areas for improved security and IT controls and provide any leading practice IT recommendations



Diversity, Equity, and Inclusion

Our DEI work engages the entire CLA family, from interns to our leader, Jen Leary, who signed the CEO Action Pledge, the largest CEO-driven business commitment to advance diversity and inclusion within the workplace. Today, every leader and every local office is responsible to implement and maintain a proactive DEI plan.

- **Employee Engagement** - We foster a true sense of inclusion and belonging for our CLA family members with opportunities such as learning events, virtual belonging communities, and coaching connections.
- **Operations** - We operate with a lens of inclusion, from our event planning to our policies and our supplier diversity program.
- **Leadership** - We commit to lead by example, building mentorship and sponsorship opportunities, so that our pipelines can be filled with diverse candidates.
- **Recruiting** - Whether on college campuses or hiring experienced professionals, we're building intentionality into our talent acquisition plans.
- **Community and Client Impact** - We create opportunities for our CLA family to give time and financial support to DEI initiatives, whether through volunteer paid time off, nominations to our CLA Foundation, or cultivating new client and prospect relationships that reflect the communities we serve.



CLA's DEI in Action

National Association of Black Accountants (NABA)

- Corporate sponsorship – first of its kind in our industry
- Purpose is to accelerate recruiting of black individuals, increase diversity, expand talent pool and improve representation of black community in profession

Community Engagement

- Unify work and missions of DEI and CLA Foundation – focused on advancing education, employment and entrepreneurship

CLA Foundation

- Since 2015 inception, awarded \$5 million to diverse organizations across the country
- In 2020, grants included 44% to organizations led by people of color, 59% had a BIPOC focus and 76% had a poverty focus

Supplier Diversity Program

- Overarching goal is to be representative of the communities we serve
- Committed to doing business with diverse supplier base (<https://www.claconnect.com/who-we-are/supplier-diversity-program>)
- Currently include 12 categories in our SDP



Why Choose CLA?

Year-round commitment to
you

Access to one of the
country's largest and most
knowledgeable pools of
resources in the government
pension industry

At the forefront of change in
a constantly changing
environment

Client-friendly Seamless
Assurance Advantage

Fresh Perspective





CLA is here to serve you!



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. ©2022 CliftonLarsonAllen LLP

Chris Rogers, CPA
Managing Principal of Industry
chris.rogers@CLAconnect.com
781-402-6314

Brittany Smith, CPA, CIA
Manager
brittany.smith@CLAconnect.com
425-250-6023



CLAconnect.com



CPAs | CONSULTANTS | WEALTH ADVISORS

CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global.

See [CLAglobal.com/disclaimer](https://claglobal.com/disclaimer). Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

©2022 CliftonLarsonAllen LLP



Smart decisions. Lasting value.™

Proposal to Provide Audit Services to Los Angeles County Employees Retirement Association

Presentation to the Audit Committee

March 2, 2023

Proposed Engagement Team



About Crowe

80⁺
Years

5,000⁺
Professionals

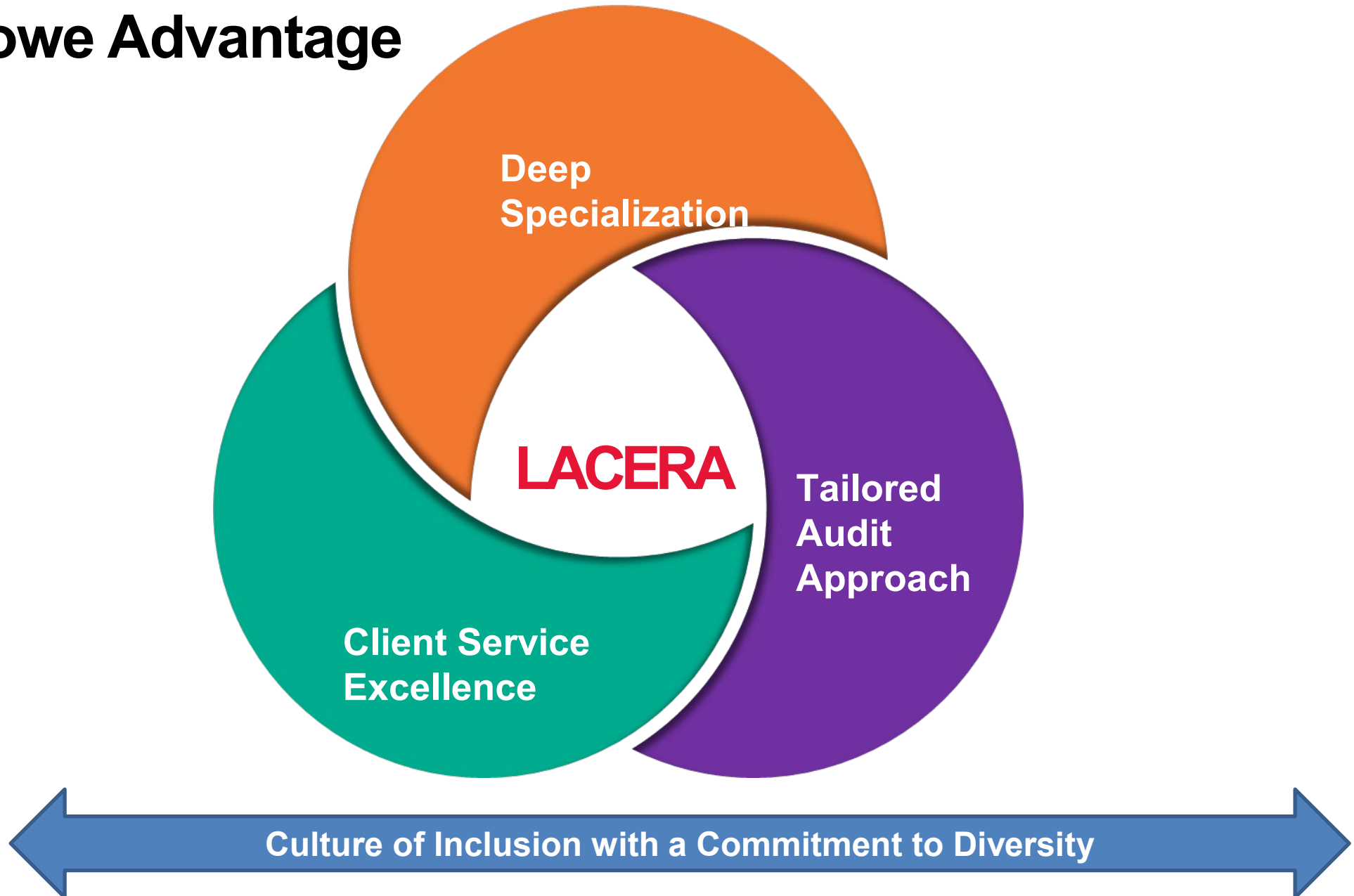


#9

2021 Accounting
Today Top 100
Firms list



The Crowe Advantage



Deep specialization

Fast Facts about the Crowe audit team:

- ▶ Audit 2 of the 5 largest PERS in the nation, 3 of the largest 15
- ▶ Audit more than \$1 trillion in complex investments annually
- ▶ More than 1,200 benefit plans audited annually

CALSTRS



We share our knowledge with our clients

- ▶ Crowe holds national and state level leadership positions with standard setters allowing our clients to be informed first regarding new changes in accounting pronouncements and compliance



1,000+

Public
sector
clients



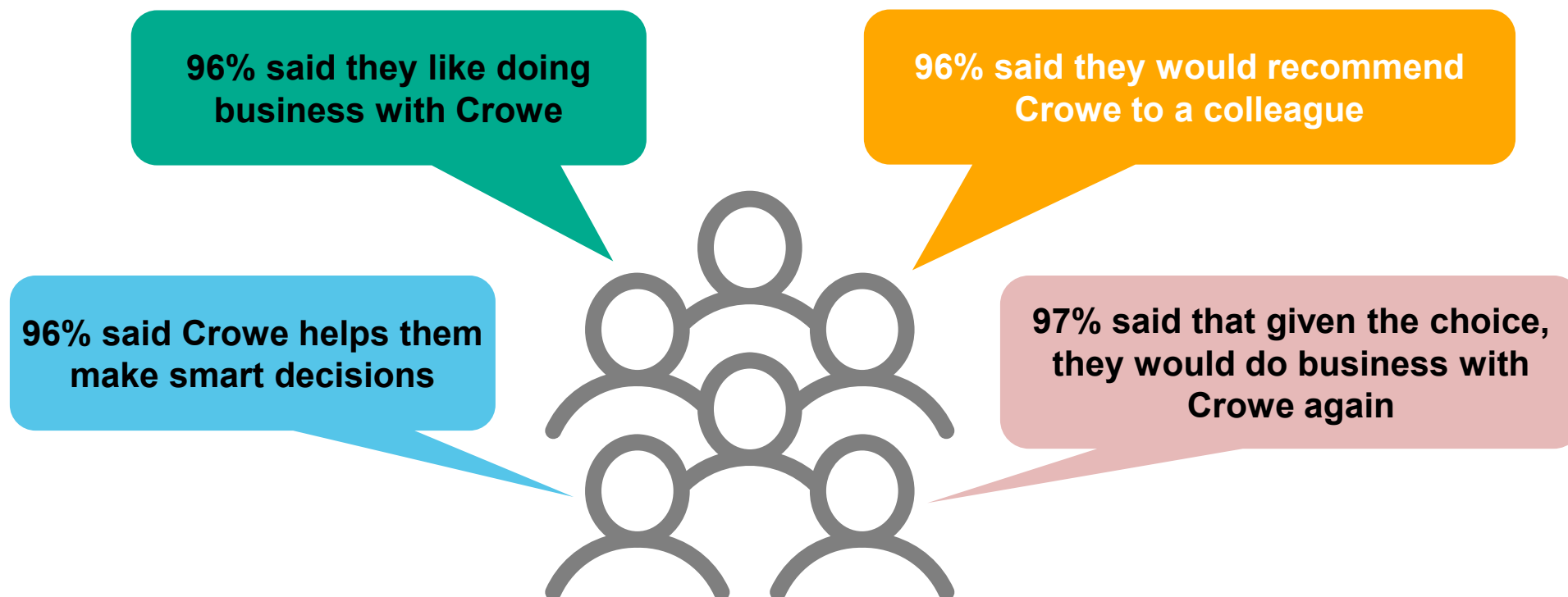
250+

Industry
focused
Professionals

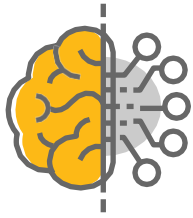
Exceptional client experience

We are committed to ensuring that our clients receive high-quality services, with an emphasis on providing exceptional client service to exceed your expectations.

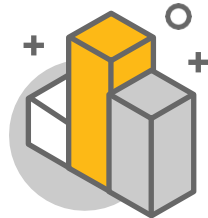
Client engagement survey results. Crowe uses a best-in-class experience management platform to monitor the experiences we deliver to clients. In the most recent fiscal year:



Efficient client transition



Staffed with **industry experts** so your staff does not have to “train” us on how your business operates



Focus on utilizing Exchange in order to allow for **real-time engagement management** and progress from both Crowe and client perspective



Implementation of “**audit calendars**” at the beginning of the audit processes to ensure deadlines are mutually agreed upon



Heavy **senior level team involvement** to ensure issues are dealt with in a proactive manner and not last minute



Focused on **continued improvement** and hearing your feedback on improvement areas

- ▶ Invest time designing audit approaches, tools and methodologies that optimize available resources and minimize disruption;
- ▶ Deliver services that are timely, accurate and informative to you and your stakeholders;
- ▶ Deliver what we promise – on time, on budget, and with the highest quality; and
- ▶ Develop a collaborative relationship with our clients to ensure an effective and efficient audit.

Tailored audit approach



Experience with Complex Investments

Relevant Experience

- Investment assets subject to audit at Crowe top \$1 Trillion annually through our deep specialization in various industries
 - Public Employee Retirement Systems
 - Private Foundations
 - Private Equity Groups
 - Insurance Companies
- These institutional investors have complex, diversified investment portfolios similar to LACERA

Specialized Personnel

- Our size and breadth of clients allows Crowe to have specialized team members that focus only on auditing alternative investment structures, giving them a:
 - Team that work exclusively on the evaluation of appraisals for properties from across the country
 - Team that works exclusively in auditing the valuation of private equity investments, providing important industry insights and access to industry pricing information not publicly available

Valuation Resources

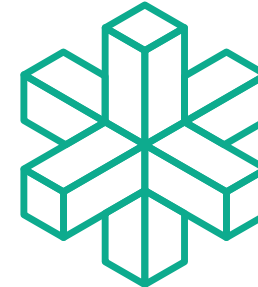
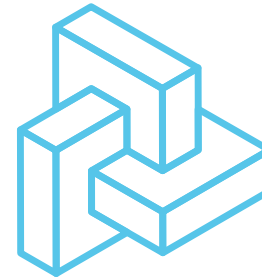
- Crowe has an internal Pricing Desk, utilizing a Bloomberg Terminal
- Crowe has a long-standing relationship with Harvest Investments
 - Full-service 3rd party pricing desk with more than 30 years of experience
 - Specialize in pricing equities, derivatives, fixed income and NAV alternatives based on recent trading, modeling and access to pricing from multiple pricing sources





Shaping your better tomorrow. Together. Today.

Our values reflect what we hold important as both a firm and as individuals.



CARETRUSTCOURAGESTEWARDSHIP

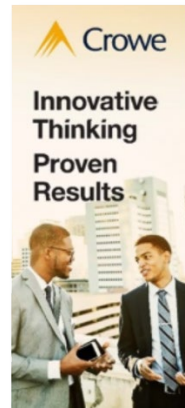
This core purpose and our core values – care, trust, courage, and stewardship – guide us in exercising professional skepticism, objectivity, and being free of conflicts of interest. They guide our people in acting with the utmost integrity and professionalism in each interaction and provide a solid foundation for the firm.

A culture of inclusion

Diversity Equity & Inclusion (DE&I) is one of our key

Crowe fosters an inclusive work environment where respect, trust and integrity are valued. Robust leadership led a firm wide “call to action” and commitment. All people are free to contribute in ways that enable them to reach their full potential.

Crowe’s commitment to DE&I is further evidenced in the many programs and outreach initiatives. Open to everyone, the firm sponsors five Business Resource Groups (BRGs):



Be *you* and crush it!

Build, promote and sustain an inclusive work environment that inspires our people to be the best the best every day.

Women Leading at Crowe (WL@C)

Our Women Leading@ Crowe programming provides career and leadership development support for all women at the firm. WL@C includes three tiers of Connect, all women in the firm; Grow, High-talent, high-potential women at the senior manager level; and Inspire, for female leaders at the partner and director levels.



Crowe and LACERA working together

- ▶ **Expertise** with large public employee retirement systems is unmatched.
- ▶ Deep **specialization** with complex investment portfolios.
- ▶ Strong **value driven culture** comprised of professionals who are committed to building value for our clients in an environment that maintains integrity, trust, diversity, and mutual respect.
- ▶ Significant senior level involvement with a **hands-on** approach.
- ▶ Tested **technology-driven approaches** to deliver audit services to achieve long-term success.
- ▶ A **continuous risk-based services philosophy** to collaborate with management throughout the year, enabling us to learn changes in real-time and adjust our audit approach.



Thank you

Jen Aras, CPA

Partner

916.492.5119

Jen.Aras@crowe.com

Hamzeh Qattan, CPA

Manager

214.263.0953

Hamzeh.Qattan@crowe.com

"Crowe" is the brand name under which the member firms of Crowe Global operate and provide professional services, and those firms together form the Crowe Global network of independent audit, tax, and consulting firms. "Crowe" may be used to refer to individual firms, to several such firms, or to all firms within the Crowe Global network. The Crowe Horwath Global Risk Consulting entities, Crowe Healthcare Risk Consulting LLC, and our affiliate in Grand Cayman are subsidiaries of Crowe LLP. Crowe LLP is an Indiana limited liability partnership and the U.S. member firm of Crowe Global. Services to clients are provided by the individual member firms of Crowe Global, but Crowe Global itself is a Swiss entity that does not provide services to clients. Each member firm is a separate legal entity responsible only for its own acts and omissions and not those of any other Crowe Global network firm or other party. Visit www.crowe.com/disclosure for more information about Crowe LLP, its subsidiaries, and Crowe Global.

The information in this document is not – and is not intended to be – audit, tax, accounting, advisory, risk, performance, consulting, business, financial, investment, legal, or other professional advice. Some firm services may not be available to attest clients. The information is general in nature, based on existing authorities, and is subject to change. The information is not a substitute for professional advice or services, and you should consult a qualified professional adviser before taking any action based on the information. Crowe is not responsible for any loss incurred by any person who relies on the information discussed in this document. © 2023 Crowe LLP.

plante moran | Audit. Tax. Consulting.
Wealth Management.

March 2, 2023

LACERA + Plante Moran = A winning combination!
Audit services presentation



Plante Moran LACERA team



Jean Young, CPA

5 years serving LACERA
Engagement Partner



Kristin Hunt, CPA

First year serving LACERA
Colleague Partner



Michelle Watterworth, CPA

6 years serving LACERA
Technical Leader



Amanda Cronk, CPA

4 years serving LACERA
Audit Senior Manager



Sean Norman, CPA

3 years serving LACERA
Audit Senior



Nate Savage

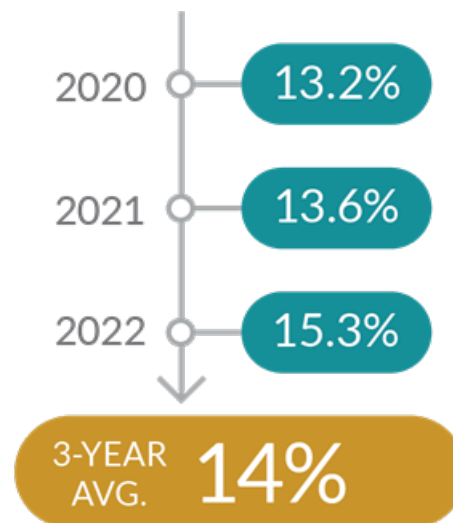
2 years serving LACERA
Audit Staff



Zori Parker

First year serving LACERA
Audit Staff

*The below turnover rates are for the last three fiscal years ended June 30.



Consistent team

Our team returns to your engagement each year which creates efficiencies, builds trust, and allows us to develop a deep understanding of LACERA so that we can provide quality service, and be your trusted advisor beyond your engagement. Low turnover = continuity of staff. This means our team is familiar with LACERA and can hit the ground running year after year – reducing demand for LACERA time.



More Partner Involvement

- **Colleague partner approach**

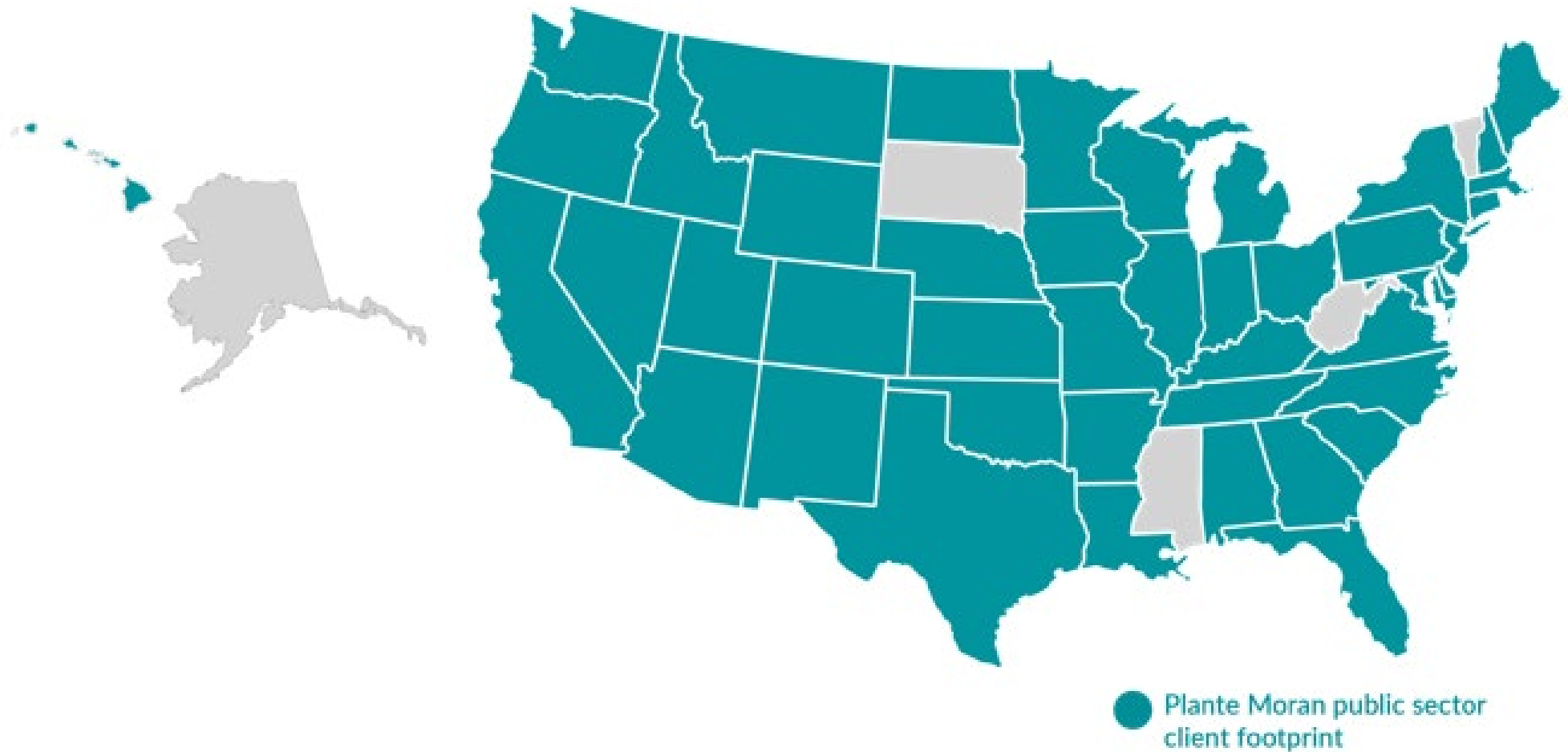
- Adding Kristin as colleague will provide a **fresh perspective** to LACERA, **while retaining the knowledge** of LACERA that the existing team provides
- Sets stage for seamless partner rotation in year 2
- Ensures availability at the partner level to LACERA at any time
- Receive more expert, well-rounded thinking
- Results in efficiencies, teamwork, thinking experience, and solutions to develop fresh perspectives and practical advice in serving you

- **Technical Partner**

- Dedicated member of the professional standards team with deep knowledge about LACERA
- Additional resource available directly to LACERA at any time
- Consult on technical accounting and auditing matters
- Performs the technical review of the engagement



National public sector footprint





Unparalleled expertise and involvement

Unparalleled level of expertise

- Partners with combined 80 years of deep technical expertise
- Knowledge and expertise ensures our team and LACERA team are up to date on accounting, auditing and industry matters



National technical leadership

- Chair of AICPA State and Local Government Expert Panel
- GASB, P2F2, GFOA



How that benefits LACERA

- National technical experts integrated within your engagement team to ensure “no surprises”
- Real-time identification and resolution of issues
- High technical quality of audit and deliverables
- Educational offerings and tools help you stay on top



Government Finance Officers Association



Our commitment to DEI

Some ways we live by our principles:

- We facilitate **Core diversity, equity, and inclusion training** to build cultural awareness and establish belonging throughout the firm.
- Our **Diversity, Equity, and Inclusion Council** comprises our Women in Leadership (WIL) program, WorkFlex Committee, and Affinity Network.
- Our **TRACK Internship Program** introduces multicultural college freshmen and sophomores to the public accounting profession through partner shadowing, mentoring, and client engagement.
- Our **Diversity, Equity, and Inclusion Fellowship** is a three-year commitment for staff to assist with the development and implementation of firmwide diversity, equity, and inclusion initiatives.
- Our **staff resource groups** help build a sense of belonging and inclusion throughout the firm.



Read more and access our **2023 Diversity, Equity, and Inclusion Annual Report** at plantemoran.com/explore-our-thinking/info/global/diversity



Our Risk-focused Audit Approach

Investment, benefit payment, and census testing

- Evaluation of internal controls related to these areas
- **Investment Control testing** – test effectiveness of LACERA’s internal controls to get the benefit of LACERA’s implemented controls and focus on riskier, hard to value investments. This **allows us to reduce our substantive testing of existence and valuation of investments at year end**
- Use stratified populations based on analytics and other control testing
- Tailored testing of based on stratification and risks





More than a compliance activity

Our commitment:

- Provide fresh insights beyond the audit – a few examples our recent thought leadership:
 - [GASB accounting standard update: Fall 2022](#)
 - [GASB 101, Compensated Absences: What's the big deal?](#)
 - [Seven-point cybersecurity assessment: Identify your organization's digital risks](#)
- Draw upon our vast PERS knowledge to share industry best practices
- Holistic view – **we think BIG PICTURE!**
- Keep a continuous improvement mindset

We are deeply committed to our client's success.



Why we are the best partner for your success

LACERA

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION



Deep experience with
Public Employees
Retirement Systems
accounting and actuarial
information



Providing continuity of
our team with the benefit
of a fresh perspective



Ensuring uninterrupted
service and added value
beyond compliance



Conclusion & Q&A

We are excited about the opportunity to continue to partner with LACERA and would be honored to serve as LACERA's independent auditors.

*Thank you for the
opportunity to present.*


Kristin Hunt, CPA
Colleague Partner
419-842-6110
kristin.hunt@plantemoran.com


Amanda Cronk, CPA
Senior Manager
810-766-6045
amanda.cronk@plantemoran.com

February 2, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Christina Logan 
Principal Internal Auditor

Kimberly D. Hines 
Senior Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Request for Proposal for a System and Organization Controls (SOC) Audit**

RECOMMENDATION

Internal Audit recommends that the Audit Committee authorize staff to release a Request for Proposal (RFP) to select a qualified certified public accounting firm to perform a System and Organization Controls 1 Type 2 (SOC) audit of LACERA's Other Post-Employment Benefits (OPEB) program for fiscal years ending June 30, 2024 – 2028, with an option to extend for up to two years.

BACKGROUND

LACERA administers the Los Angeles County (County) medical and dental retiree health benefits program. In April 1982, the County adopted an ordinance pursuant to the County Employees Retirement Law of 1937 (CERL) that provided for a retiree healthcare benefits program which is also referred to as the Other Post-Employment Benefits Program (OPEB Program) offering a variety of medical and dental/ vision healthcare plans for retired members and their eligible dependents. In that same year, the County and LACERA entered into an agreement whereby LACERA would administer the OPEB Program subject to the terms and conditions of the Agreement.

In October 2017, the County requested that LACERA's OPEB Plan change its structure from a cost sharing multiple employer plan to an agent multiple employer plan beginning in Fiscal Year 2018-2019. This change allows participating employers to continue to pool their assets for investment purposes in LACERA's OPEB Trust, but LACERA will now maintain separate accounting records for each employer's pay-as-you-go costs. This change allows LACERA

Request for Proposal for a Service Organization Controls (SOC) Audit

February 2, 2023

Page 2 of 2

to identify financial activities attributable to the employers' distinct retired population.

As a result of the OPEB plan restructure, and in accordance with the American Institute of Certified Public Accountants (AICPA), LACERA is seeking to hire a qualified audit firm to perform a SOC audit of LACERA's OPEB program. The SOC audit is intended to demonstrate to the plan sponsors and their auditors that LACERA has effective controls in place over the OPEB program.

RFP PROCESS

We are seeking firms with extensive experience performing SOC audits. An evaluation committee consisting of LACERA staff from Internal Audit, Retiree Healthcare, Information Security, and Systems will evaluate the proposals. LACERA's evaluation committee will perform an assessment of each proposal based on the criteria outlined in the RFP. Upon completion of the evaluation process, LACERA staff will recommend a firm for approval or finalists for selection and approval by the Audit Committee.

The selected firm will perform an audit with the objective of expressing an opinion on the fairness of the presentation of LACERA's description of its OPEB program and the suitability of the design and operating effectiveness of the controls in place.


CONCLUSION

We recommend that the Audit Committee authorize staff to release a RFP to select a qualified certified public accounting firm to perform a SOC audit of LACERA's OPEB program for fiscal years ending June 30, 2024 – 2028, with an option to extend for up to two years.

Attachments

- A. Minimum Qualifications Certification
- B. Request for Proposal – SOC Auditor (Presentation)

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

CL:kdh

**MINIMUM QUALIFICATIONS CERTIFICATION
(TO BE SUBMITTED ON RESPONDENT'S LETTERHEAD)**

All Respondents must sign and return this attachment, along with written evidence of how you meet each qualification. The undersigned hereby certifies that the Respondent submitting this response fulfills the minimum qualifications outlined below, as well as the requirements contained in the RFP.

Minimum Qualifications*	Yes	No
The firm must have an established office located within the United States.		
The firm must be a professional public accounting firm and have at least five (5) years of experience performing SOC 1 Type II or equivalent types of engagements for public pension plans, employee benefit plans or other governmental agencies.		
The Engagement Partner and Manager must have extensive knowledge and a minimum of five (5) years of experience conducting SOC 1 Type II audits and preparing associated reports. The engagement supervisor must have at least three (3) years of relevant experience.		

* LACERA reserves the right to grant exceptions to the minimum qualifications with appropriate explanation and in our sole discretion.

The undersigned hereby certifies that they are an individual authorized to bind the Firm contractually, and said signature authorizes verification of this information.

Authorized Signature

Date

Name and Title (please print)

Name of Firm



ATTACHMENT B

Request for Proposal

System and Organization Controls (SOC) Audit

Other Post-Employment Benefits Program

Presented by:

Christina Logan, Principal Internal Auditor
Kimberly Hines, Senior Internal Auditor

Recommendation

Internal Audit recommends that the Audit Committee approve the release of a Request for Proposal (RFP) to select a qualified firm to perform a System and Organization Controls 1 Type 2 (SOC) audit of LACERA's Other Post-Employment Benefits (OPEB) program.

LACERA is seeking a certified public accounting firm to review the design and key controls of LACERA's OPEB program. LACERA is expecting to enter into an agreement for a five-year period to audit Fiscal Years Ending June 30, 2024 – 2028, with an option to extend the contract for up to two years.

Key Elements of the RFP



Background

In October 2017, Los Angeles County requested LACERA to change its OPEB plan structure from a cost sharing multiple employer plan to an agent multiple employer plan. The County requested this new reporting structure to separate itself from the other plan sponsors to better manage its own retiree healthcare costs.

As a result of the OPEB plan restructure, LACERA is required to provide the sponsors and their auditors with sufficient audit evidence that LACERA has effective controls over its OPEB program, which we do through the SOC audit.



Scope of Work

The selected Auditor will provide the following services:

- Perform an audit and express an opinion on the fair presentation of LACERA's description of its OPEB program and the suitability of the design and operating effectiveness of the controls in place.
- The engagement shall be performed in accordance with attestation standards as set by the American Institute of Certified Public Accountants.

Minimum Qualifications

Requirements

- Established office in the United States.
- Professional CPA firm providing audit and other attestation services.
- The firm must have at least five (5) years of experience performing SOC 1 Type II or equivalent types of engagements for public pension plans, employee benefit plans or other governmental agencies.
- The Engagement Partner and Manager must have extensive knowledge and a minimum of five (5) years of experience conducting SOC 1 Type II audits and preparing associated reports.
- The engagement supervisor must have at least three (3) years of relevant experience.



Planning the Request for Proposal



Internal Audit worked with key stakeholders, including Retiree Healthcare, Information Security Office, the Systems Division and the Legal Office to plan and develop the RFP.

Proposed Evaluation Team



Richard Bendall
Chief Audit Executive
Internal Audit



Cassandra Smith
Director Retiree Healthcare
Retiree Healthcare



Christina Logan
Principal Internal Auditor
Internal Audit



Kimberly Hines
Senior Internal Auditor
Internal Audit



Summy Voong
Interim Assistant Information Systems
Manager
Systems Division



Matthew Behrens
Interim Information Security Officer
Information Security

Scoring Criteria

25%

Firm Qualifications and Experience

- Firm experience performing SOC 1 Type II audits for similar organizations
- Firm references align with knowledge and experience
- Firm demonstrates their approach to diversity, equity, and inclusion in the workplace

30%

Methodology

- Audit plan and methodology
- Timetable resource allocation
- Sample reports demonstrate knowledge and experience

10%

Overall RFP

- Adherence to instructions
- Overall presentation

25%

Team Qualifications and Experience

- Demonstrated experience meets or exceeds minimum requirements
- Professional capability, demonstrated competence, and experience of team

10%

Fees

- Fees and hours proposed to complete engagement
- Average hourly rate


RFP Timeline and RFP Process

RFP Steps	February 2023					
	March 2023					
	April 2023					
	May 2023					
	June 2023					
	July 2023					
Design RFP						
Seek Committee approval						
Finalize RFP						
Release RFP						
Questions & Responses						
RFP Due Date						
Evaluate RFP Submissions						
Recommend Finalist(s) to AC						
Finalize contract						
Commencement of work						

February 13, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Internal Audit Proposed Fiscal Year 2023-2024 Budget Request**

RECOMMENDATION

The Audit Committee approve the Proposed Internal Audit Fiscal Year 2023-2024 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* 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 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 and Audit Committee Charter, staff prepared the attached documents for Committee review in approving the budget request.

- **Attachment A** - Proposed Internal Audit Fiscal Year (FY) 2023-2024 Budget Request (Budget) and,
- **Attachment B** - Draft Fiscal Year 2023-2024 Internal Audit Plan

Upon Committee approval the Internal Audit Budget will be included in LACERA's Administrative Budget for Board approval.

BUDGET REQUEST HIGHLIGHTS

Salaries and Employee Benefits (S&EB)

Due to the manual nature of the current budget development process, staff could not provide final FY 2023-2024 S&EB proposed budget numbers by the cutoff for this meeting's mailing.

However, we are not requesting any additional staffing or other discretionary changes for the year. The only anticipated changes to the S&EB numbers included in our draft Budget Request will be non-discretionary increases such as cost of living adjustments, salary step increases and other non-discretionary benefit cost increases.

Services and Supplies (S&S)

Our Services and Supplies (S&S) budget request for Fiscal Year 2023-2024 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. Of this, \$150,000 to \$200,000 is anticipated to be used for the external financial audit. The remaining \$400,000 will be used to perform external operational audits including IT audits, investment audits, and other consulting engagements. We plan to continue leveraging the use of our Audit Committee approved pool of external audit firms to assist us in completing our risk-based Audit Plan.

DRAFT FISCAL YEAR 2023-2024 INTERNAL AUDIT PLAN

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 2023-2024 Internal Audit Plan (Attachment B).

This year, we divided the Internal Audit Plan (Plan) into two subsections, as further discussed below.

A. Enterprise Risk Management (ERM) Development Section

We anticipate dedicating approximately twenty percent of our staffing resources to initiating a plan during Fiscal Year 2023-2024 for developing a formal ERM Program at LACERA. This is in relation to one of the key strategic goals that resulted from the recent Strategic Planning effort. Whereas the Legal Office will be heading up the implementation of a formal Compliance program, it is the hope that Internal Audit will champion the development of a formal ERM program. We do not believe that this will detract from Internal Audit's ability to address risks in the organization through our traditional audit focus. Rather it will allow us to address many of the foundational risk issues in the organization that we have identified in our past audit and consulting engagements.

B. Traditional Audit Plan Section

This section includes work on assurance, consulting and advisory, as well as Internal Audit's administrative projects planned for the upcoming Fiscal Year. We have populated the plan at this point with those projects that reoccur annually, or that we know are due to be performed, such as the actuarial consultant and actuarial audit RFP, as well as any projects that we know are being carried forward from the current plan.

Staff will complete the annual risk assessment process and provide the final Internal Audit Plan to the Committee for approval at the June 2023 meeting. We do not anticipate that any changes we make to finalize the Plan will affect our budget. However, should that be necessary, we would prepare a budget adjustment request to accompany the Internal Audit Plan for the Audit Committee's approval for inclusion in the organization's mid-year budget request process.

CONCLUSION

The Audit Committee approve the Proposed Internal Audit Fiscal Year 2023-2024 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

Attachments:

- A. Proposed FY 2023-2024 Internal Audit Budget Request
- B. Draft FY 2023-2024 Internal Audit Plan



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
- 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. 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 an RFP for a new financial services firm
- Oversaw ongoing actuarial audit activities
- Oversaw real estate advisor compliance and operational audits
- Continued to operate effectively as a hybrid audit team
- Completed an external quality assessment (EQA) review and received the highest rating
- Partnered with various internal stakeholders to address recommendations like improving physical safety by requiring key card access, ensuring new hires receive Information Security Awareness training during their orientation, and closed a number of sensitive IT recommendations
- Continue to participate in organizational initiatives such as strategic planning, policy committee, IT Coordination Council, and other advisory projects
- Participate on development projects such as case management, accounts payable automation and others, from an independent audit perspective

To improve efficiency and effectiveness of the Internal Audit function, we are continuing to focus on three primary goals: 1) Develop and Execute a Risk-Based Annual Audit Plan, 2) Continue to Improve Internal Audit's Presence and Value with Stakeholders, and 3) Continue to Enhance Internal Audit's Competence and Efficiencies.

STAFFING

We have 11 budgeted positions in Internal Audit all of which are currently filled. One of those positions, a Senior Internal Auditor, has been on loan to the Systems Division.

One of our Internal Audit goals is to ensure that each staff participates and receives 40 hours of continuing education. 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). For FY 2023-24, we plan to use a hybrid approach; staff will attend both virtual and in-person training and conferences, including sessions from

the Institute for Internal Auditors (IIA), Association of Public Pension Fund Auditors (APPFA), Certified Fraud Examiners, and other specialty training.

The Institute of Internal Auditors (IIA) Quality Services presented their external quality assessment (EQA) of Internal Audit to the Audit Committee at the March 2022 meeting. Staff development and training includes focus on some of the recommendations by the EQA auditors. These include:

- Enhancing the audit and workpaper documentation processes
- Integrating IT audit considerations into all audit projects
- Improving the timeliness of audits and supervisory review

We are continuing to supplement staff knowledge and experience by leveraging our audit pool and external professional services providers, especially in areas such as investments and information technology.

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 is 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, investment audits, and other external audits as needed to address the Audit Plan.

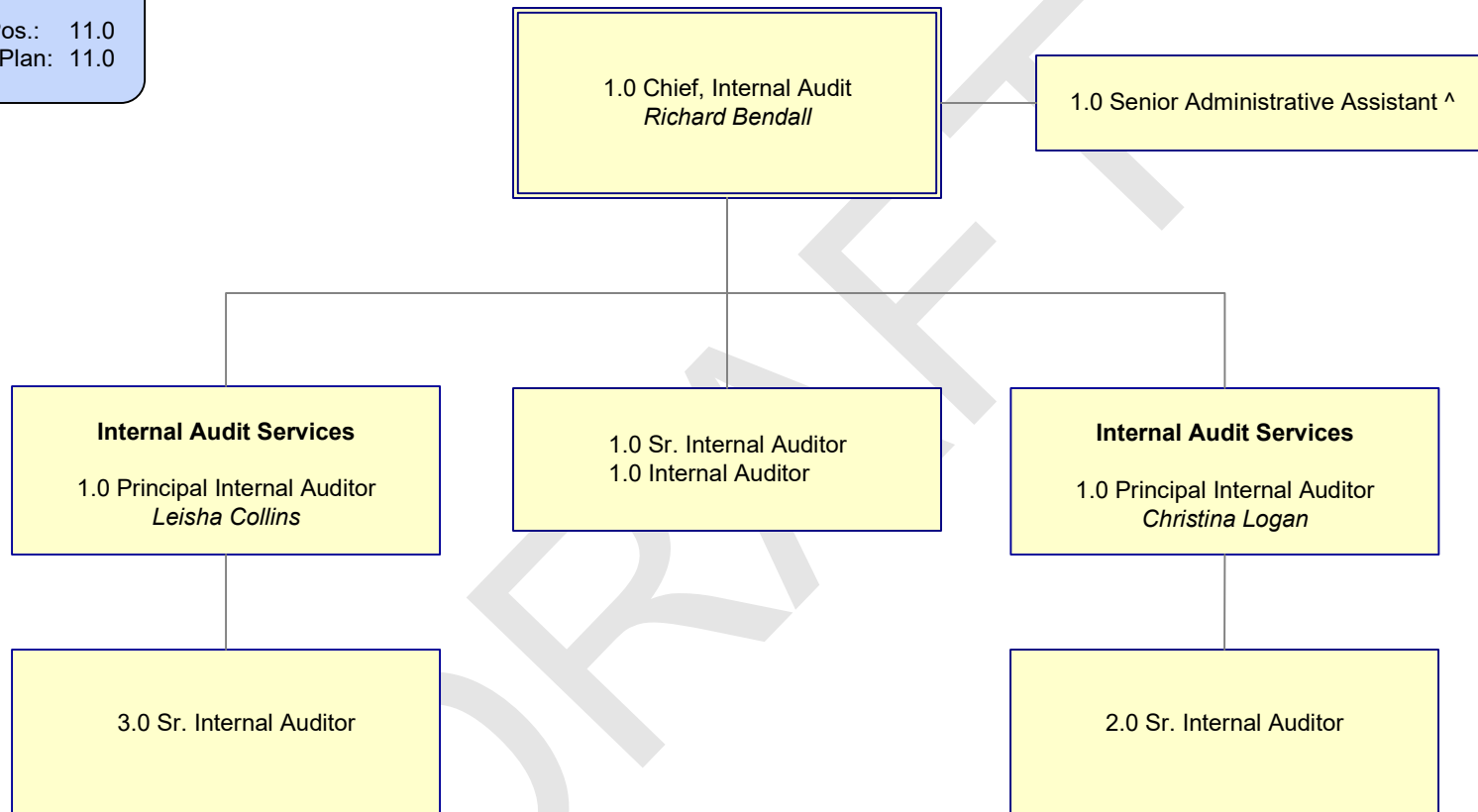
Our total S&S budget has remained relatively unchanged, decreasing by \$300, from \$724,500 for FY 2022-2023 to \$724,200 for FY 2023-2024.

INTERNAL AUDIT

FISCAL YEAR 2023-2024

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

2023-2024 Bud. Pos.: 11.0
2023-2024 Hiring Plan: 11.0



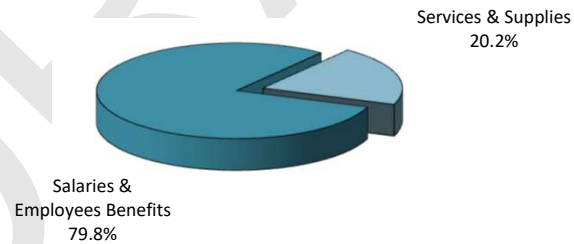
^ Position upgrade from Senior Secretary to Senior Administrative Assistant as a result of classification study (Board of Supervisors approved on October 18, 2022).

LACERA
FISCAL YEAR 2023-2024
BUDGET SUMMARY

INTERNAL AUDIT

	PROPOSED BUDGET 2023-2024	CURRENT YEAR 2022-2023			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2022-2023 BUDGET	
		YTD		PROJECTION	OVER/(UNDER)			
		BUDGET	(01-31-23)		BUDGET	% CHANGE	\$ CHANGE	% CHANGE
Salaries & Employees Benefits	\$2,866,131	\$2,743,995	\$1,100,032	\$2,600,800	(\$143,195)	-5.2%	\$122,136	4.5%
Services & Supplies	724,200	724,500	151,216	714,600	(\$9,900)	-1.4%	(300)	0.0%
OPERATING BUDGET	\$3,590,331	\$3,468,495	\$1,251,248	\$3,315,400	(\$153,095)	-4.4%	\$121,836	3.5%

2023 - 2024 PROPOSED BUDGET



*All amounts rounded to the nearest dollar.

LACERA

FISCAL YEAR 2023-2024

SALARIES AND EMPLOYEE BENEFITS SUMMARY

INTERNAL AUDIT

	PROPOSED BUDGET 2023-2024	CURRENT YEAR 2022-2023			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2022-2023 BUDGET	
		YTD		PROJECTION	OVER/(UNDER)		\$ CHANGE	% CHANGE
		BUDGET	(01-31-23)		BUDGET	% CHANGE		
Total LACERA Salaries	\$1,660,916	\$1,590,417	\$671,538	\$1,500,500	(\$89,917)	-5.7%	\$70,499	4.4%
Total Agency Temp Salaries	0	0	0	0	0	0.0%	0	0.0%
Employee Benefits (Variable)	1,040,206	1,003,252	352,014	945,600	(57,652)	-5.7%	36,954	3.7%
Employee Benefits (Other)	103,358	93,962	41,033	92,100	(1,862)	-2.0%	9,396	10.0%
OPEB Contribution	54,851	49,864	34,818	59,600	9,736	19.5%	4,987	10.0%
Stipends	0	0	0	0	0	0.0%	0	0.0%
Overtime	5,300	5,000	629	3,000	(2,000)	-40.0%	300	6.0%
Bilingual Bonus	0	0	0	0	0	0.0%	0	0.0%
Sick Leave Buyback	0	0	0	0	0	0.0%	0	0.0%
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	\$2,866,131	\$2,743,995	\$1,100,032	\$2,600,800	(\$143,195)	-5.2%	\$122,136	4.5%
Salary Differential	-	-	-	-	-	-	-	-
TOTAL S&EB	\$2,866,131	\$2,743,995	\$1,100,032	\$2,600,800	(\$143,195)	-5.2%	\$122,136	4.5%

*All amounts rounded to the nearest dollar.

Note: All YTD Salaries and Employee Benefits totals are as of 01/15/23, with the exception of Agency Temp Salaries, which are as of 01/31/23.

LACERA
FISCAL YEAR 2023-2024
SALARIES

INTERNAL AUDIT

2023-2024 BUDGET

FILLED POSITIONS		# POS.	SCHEDULE	ACTUAL MO. RATE	ANNUAL AMOUNT			
00774A	CHIEF, INTERNAL AUDIT	1	LS12	17,116	205,394			
00762A	PRINCIPAL INTERNAL AUDITOR	2	117H	25,982	311,788			
00763A	SENIOR INTERNAL AUDITOR	6	111E	66,944	803,326			
00764A	INTERNAL AUDITOR	1	105B	11,256	135,075			
00439A	SENIOR ADMINISTRATIVE ASSISTANT	1	093A	6,657	79,884			
POSITIONS		11			1,535,467			
VACANT POSITIONS		# POS.	SCHEDULE	1ST STEP MO. RATE	ANNUAL AMOUNT	FILLED AT 12 MONTHS	FILLED AT 9 MONTHS	FILLED AT 6 MONTHS
POSITIONS		0			0			
TOTAL POSITIONS		11						
GROSS SALARIES					1,535,467			
ANTICIPATED MOU SALARY INCREASE**					46,064			
ANTICIPATED STEP AND/OR MERIT SALARY INCREASE					6,162			
BONUS					73,223			
120-DAY RETIREE(S)					0			
TOTAL SALARIES					1,660,916			

MAPP Tier I and Tier II positions are shown at actual salaries as of 01/01/23.
 Represented/Non-Represented positions are shown at actual salaries as of 01/01/23.
 Represented positions shown in blue.
 Vacancies are shown at the 1st Step.
 *All amounts rounded to the nearest dollar.
 ** Gross salaries are multiplied by 3% to calculate anticipated MOU increase.

LACERA

FISCAL YEAR 2023-2024

SERVICES & SUPPLIES ACCOUNT SUMMARY

INTERNAL AUDIT

ACCOUNT CLASSIFICATION	PROPOSED BUDGET 2023-2024	CURRENT YEAR 2022-2023			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2022-2023 BUDGET	
		YTD			OVER/(UNDER)		\$ CHANGE	% CHANGE
		BUDGET	(01-31-23)	PROJECTION	BUDGET	% CHANGE		
TRANSPORTATION & TRAVEL	\$17,000	\$17,000	\$167	\$11,800	(\$5,200)	-30.6%	\$0	0.0%
OFFICE SUPPLIES & EQUIPMENT	1,200	1,500	315	800	(700)	-46.7%	(300)	-20.0%
PROFESSIONAL & SPEC. SRVCS.	675,000	675,000	144,416	672,000	(3,000)	-0.4%	0	0.0%
EDUCATIONAL EXPENSES	30,500	30,500	6,320	29,500	(1,000)	-3.3%	0	0.0%
MISCELLANEOUS	500	500	0	500	0	0.0%	0	0.0%
TOTAL	\$724,200	\$724,500	\$151,216	\$714,600	(\$9,900)	-1.4%	(\$300)	-0.04%

*All amounts rounded to the nearest dollar.

DRAFT FY 2024 INTERNAL AUDIT PLAN

ENTERPRISE RISK MANAGEMENT (ERM) PLAN

20 Percent

ERM TASKS

1	ERM Charter	Program
2	Internal Control Training	Training
3	Others TBD	

AUDIT PLAN



80 Percent

	DIVISION	AUDIT/PROJECT NAME	PROJECT TYPE
EXECUTIVE/LEGAL/ORGANIZATIONAL			
1	Exec Office	Organizational Ethics/Culture Review	Audit
2	Exec Office	Org Cash / Check Mgmt Review	Audit
3	Exec Office	LA County Rehired Retiree	Audit
4	Exec Office	Board and Staff Travel	Audit
5	Exec Office	Others TBD	
ADMINISTRATION - Admin Services, HR Systems			
6	Admin Services	Procurement of Goods	Audit
7	HR	LACERA Rehired Retiree	Audit
8	Systems	Oversight of SOC Audits FY 23 & 24	Oversight
		Others TBD	
INVESTMENTS & FASD			
9	FASD	Census Data	Audit
10	FASD	CEO Credit Card	Audit
11	FASD	Oversight of Financial Audit FY 23 & 24	Oversight
12	Investments	RFP - Actuarial Services	Oversight
13	Investments	Oversight of Actuarial Audit FY 23 & 24	Oversight
14	Investments	Oversight THC Financial Audits - FY 23 & 24	Oversight
		Others TBD	
OPERATIONS - Benefits, DRS, RHC, Member Services			
15	Benefits	Acct Settlement Collections (Overpayments)	Audit
16	Benefits	Account Integrity Unit	Audit
17	Benefits	LAC Payroll Audit	Audit
18	Mbr Services	Member Communciations (Risk & Controls Rvw)	Audit
		Others TBD	
INTERNAL AUDIT OPERATIONS			
19	Internal Audit	Reco Follow-Up - Org + Administrative	Other Projects
20	Internal Audit	Reco Follow-Up - Systems	Other Projects
21	Internal Audit	Professional Development / CPE	Other Projects
22	Internal Audit	QAIP	Other Projects
23	Internal Audit	AC Support	Other Projects
24	Internal Audit	Risk Assessment	Other Projects
25	Internal Audit	TeamMate	Other Projects

January 28, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive
Christina Logan 
Principal Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Fiscal Year 2023 Internal Audit Plan Amendments**

RECOMMENDATION

The Audit Committee review and approve amendments to Internal Audit's Fiscal Year (FY) 2023 Audit Plan.

BACKGROUND

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, Standard 2010, "the Chief Audit Executive (CAE) must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals. This requirement is also stated in the Audit Committee Charter (Charter). In alignment with the Standards and the Charter, the Audit Committee approved the FY 2023 Audit Plan (Audit Plan) at the August 2022 Committee meeting and staff provided an update at the November meeting.

The Standards and the Charter also require the CAE to communicate the Audit Plan and any subsequent significant changes to the Audit Plan to Executive Management and the Audit Committee. In accordance with the Standards and Charter, staff is proposing amendments to the Audit Plan.

The changes in the two tables below are based on emergent risks resulting in the two projects added to the FY 2023 Audit Plan and resource constraints resulting in the six projects deleted from the FY 2023 Audit Plan. We believe the net reduction of four projects from the FY 2023 Audit Plan is reasonable considering that during the fiscal year, two of the management team,

the CAE and one of the Principal Internal Auditors were out of the office for a combined total of eight months. Despite these challenges we have made significant progress to date. We believe the revisions result in a more achievable, risk-based FY 2023 Audit Plan.

Refer to Attachments A and B for the Audit Plan with proposed Amendments.

Proposed changes to the Audit Plan are as follows:

Additions	Audit Assignment	Justification
Financial Audit Controls Review	Internal	To understand, document and test the financial controls that the external auditor considers and tests in their annual audit.
Implementation of Case Management	Internal	To participate in case management implementation meetings and provide input on internal controls during development.

Deletions	Audit Assignment	Justification
Organization Check Management Review	Internal	Deferred for consideration of inclusion on the FY 2024 Plan
Census Data Audit	Internal	Deferred for consideration of inclusion on the FY 2024 Plan
Account Settlement Collections (Overpayments)	Internal	Deferred for consideration of inclusion on the FY 2024 Plan
Governance Risk and Control (GRC) – Account Integrity Unit	Internal	Deferred for consideration of inclusion on the FY 2024 Plan
LAC Payroll Audit – Scope Assessment	Internal	Deferred for consideration of inclusion on the FY 2024 Plan
Member Communications (Risk and Controls Review)	Internal	Deferred for consideration of inclusion on the FY 2024 Plan

Attachments

- A. Amended FY 2022 Audit Plan (Clean)
- B. Amended FY 2022 Audit Plan (Red-Lined)

ATTACHMENT A

AMENDED FY 2023 AUDIT PLAN - SORTED BY DIVISION

	DIVISION	AUDIT/PROJECTS	PROJECT	STATUS/STAGE
	EXECUTIVE OFFICE/ORGANIZATIONAL			
1	Exec Office	LA County 960 Rehired Retiree Audit FYE 22	Audit	Draft report
2	Exec Office	Document Retention	Audit	Q4
3	Exec Office	Organization Governance Ethics Follow-Up	Advisory	Q4
4	Exec Office	Review of Privacy Audit Recommendations	Advisory	Completed
	ADMINISTRATION			
5	Admin Services	Procurement of Services - Contract Operation	Audit	Completed
6	Admin Services	Inventory Asset Management	Audit	Q4
7	HR	LACERA 960 Rehired Retiree FYE 22	Audit	Fieldwork
8	Info Sec	Third-Party Data Security	Audit	Draft report
9	Systems	Termination of Access	Audit	Q4
10	Systems	Privileged Access	CAP	Q4
11	Systems	IT Risk Assessment	Ext Audit	Q4
12	Systems	SOC Audits FY 22 & 23	Oversight	Continuous & Current
13	Systems	RFP SOC	Oversight	Draft RFP
	FASD & INVESTMENTS			
14	FASD	Wire Transfers Audit - State Street	Audit	Fieldwork
15	Investments	Wire Transfers Audit- B of A (possible FY 24)	Audit	Q3
16	FASD	Organizational Credit Card Review	Audit	Fieldwork
17	FASD	CEO Credit Card Review	Audit	Completed
18	FASD	SS Bank - (limited scope)	CAP	Continuous & Current
19	FASD	Financial Audit RFP	Oversight	In progress
20	FASD	Financial Audit FY 22 & 23	Oversight	Continuous & Current
21	FASD	Duplicate Vendor Payments	CAP	Completed
22	FASD	Financial Audit Controls Review	Assurance	Added
23	Investments	Investments Due Diligence Consulting Rvw	Ext Audit	Fieldwork
24	Investments	Actuarial Audit FY 22 & 23	Oversight	Continuous & Current
25	Investments	THC Financial Audits - FY 22 & 23	Oversight	Continuous & Current
	MEMBER OPERATIONS GROUP (MOG)			
26	Benefits	Death Claims Calc & Documentation	Audit	Q4
27	Benefits	Replacement Plan 415B	Audit	Fieldwork
28	Benefits	Felony Forfeiture	Audit	Q4
29	Benefits	Duplicate Member Special Payment (Limited Scope)	CAP	Completed
30	Benefits	New Payees (limited scope)	CAP	Continuous & Current
31	Benefits	SSNVS	CAP	Q4
32	MOG	Implementation of Case Management	Assurance	Add (Q3)
33	DRS	Disability Process Review	Audit	Fieldwork
	INTERNAL AUDIT ADMINISTRATION			
34	Internal Audit	Reco Follow-Up - Org + Administrative	Other Projects	Continuous & Current
35	Internal Audit	Reco Follow-Up - Systems	Other Projects	Continuous & Current
36	Internal Audit	Professional Development / CPE	Other Projects	Continuous & Current
37	Internal Audit	QAIP	Other Projects	Continuous & Current
38	Internal Audit	AC Support	Other Projects	Continuous & Current
39	Internal Audit	Risk Assessment	Other Projects	Q4
40	Internal Audit	TeamMate	Other Projects	Continuous & Current

AMENDED FY 2023 AUDIT PLAN - SORTED BY DIVISION (SHOWING CHANGES)

	DIVISION	AUDIT/PROJECTS	PROJECT	STATUS
	EXECUTIVE OFFICE / ORGANIZATIONAL			
1	Exec Office	Org Check Mgmt Review (Rollover)	Audit	Remove
1	Exec Office	LA County 960 Rehired Retiree Audit	Audit	In Progress
2	Exec Office	Document Retention	Audit	Q4
3	Exec Office	Organization Governance Ethics Follow-Up	Advisory	Q4
4	Exec Office	Review of Privacy Audit Recommendations	Advisory	Completed
	ADMINISTRATION			
5	Admin Services	Procurement of Services - Contract Operation	Audit	Completed
6	Admin Services	Inventory Asset Management	Audit	Q4
7	HR	LACERA 960 Rehired Retiree FY 2022	Audits	In Progress
8	Info Sec	Third-Party Data Security	Audits	In Progress
9	Systems	Termination of Access	Audit	Q4
10	Systems	Privileged Access	Audit	Q4
11	Systems	IT Risk Assessment	Ext Audit	Q4
12	Systems	SOC Audits FY 22 & 23	Oversight	Continuous & Current
13	Systems	RFP SOC	Oversight	In Progress
	FASD & INVESTMENTS			
14	FASD	Wire Transfers Audit - State Street	Audit	In Progress
15	Investments	Wire Transfers Audit- B of A (possible FY 24)	Audit	Q3
16	FASD	Census Data Audit	Audit	Remove
16	FASD	Organizational Credit Card Review	Audit	In Progress
17	FASD	CEO Credit Card Review	Audit	Completed
18	FASD	SS Bank - (limited scope)	CAP	Continuous & Current
19	FASD	RFP Financial Audit	Oversight	In Progress
20	FASD	Financial Audit FY 22 & 23	Oversight	Continuous & Current
21	FASD	Duplicate Vendor Payments	CAP	Completed
22	FASD	Financial Audit Controls Review	Assurance	Add (Q3)
23	Investments	Investments Due Diligence Consulting Rvw	Ext Audit	In Progress
24	Investments	Actuarial Audit FY 22 & 23	Oversight	Continuous & Current
25	Investments	Oversight THC Financial Audits - FY 22 & 23	Oversight	Continuous & Current
	MEMBER OPERATIONS GROUP (MOG)			
26	Benefits	Acct Settlement Collections (Overpayments)	Audit	Remove
27	Benefits	GRC - Account Integrity Unit	Audit	Remove
26	Benefits	Death Claims Calc & Documentation	Audit	Q4
27	Benefits	Replacement Plan 415B	Audit	In Progress
28	Benefits	Felony Forfeiture	Audit	Q4
29	Benefits	Duplicate Member Special Payment	CAP	Completed
30	Benefits	New Payees (limited scope)	CAP	Continuous & Current
31	Benefits	SSNVS	CAP	Q4
32	Benefits	LAC Payroll Audit (Scope Assmt)	Other Assurance	Remove
33	Mbr Services	Member Communications (Risk & Controls Rvw)	Audit	Remove
32	MOG	Implementation of Case Management	Advisory	Add (Q3)
33	DRS	Disability Process Review	Audits	In Progress
	INTERNAL AUDIT ADMINISTRATION			
34	Internal Audit	Reco Follow-Up - Org + Administrative	Other Projects	Continuous & Current
35	Internal Audit	Reco Follow-Up - Systems	Other Projects	Continuous & Current
36	Internal Audit	Professional Development / CPE	Other Projects	Continuous & Current
37	Internal Audit	QAIP	Other Projects	Continuous & Current
38	Internal Audit	AC Support	Other Projects	Continuous & Current
39	Internal Audit	Risk Assessment	Other Projects	Q3
40	Internal Audit	TeamMate	Other Projects	Continuous & Current



Fiscal Year 2023 Internal Audit Plan Amendments

Nathan Amick, Senior Internal Auditor

2nd Quarter Engagements (Per the November 2022 Audit Committee Meeting)



Audit Engagement Title	Engagement Type	Audit Engagement Overview
Contract Operations	Audit	Focusing on the procurement process and organizational compliance with the policy when services are procured.
Third-Party Data Security	Audit	Audit of LACERA's process for ensuring confidential data sent is kept secure.
Disability Process	Audit	Audit of LACERA's processing of disability retirement requests.
LACERA Rehired Retirees	Audit	Audit of LACERA's rehired retirees to ensure compliance with PEPRA.
LA County Rehired Retirees	Audit	Audit of LA County's rehired retirees to ensure compliance with PEPRA.
CEO Credit Card	Audit	Audit of LACERA's Credit Card Expenditures
State Street Bank	Limited Scope	Testing of authorization to State Street Bank's system.
New Payees	Limited Scope	Test of all new payees added to retirement payroll
Investments Due Diligence	Consulting Review	Consulting engagement to review the Investment Office due diligence operations and processes.
SOC Audit RFP	Advisory	Managing the relationship with the auditors for the annual "Systems & Organizational Controls" (SOC) audit.
Financial Audit RFP	Advisory	Managing the RFP process for the selection of LACERA's next external financial auditor

2nd Quarter: Completed and Ongoing Audit Engagements & Projects



Completed Audit Engagements/Projects	Audit Assignment	Report
Contract Operations	Internal Audit	December 23, 2022
CEO Credit Card	Internal Audit	February 10, 2023
Continuous Audit Engagements/Projects	Audit Assignment	Report
New Payees*	Internal Audit	n/a
State Street Bank*	Internal Audit	n/a
Oversight SOC Audit FY 22-23*	Internal Audit	n/a
Oversight Financial Audit FY 22-23*	Internal Audit	n/a
Oversight Actuarial*	Milliman	n/a
Oversight THC Audits*	THC Audit Pool	n/a

* These projects are perpetual, and are planned to be completed June 30, 2023

In Progress Audit and Pending Engagements & Projects



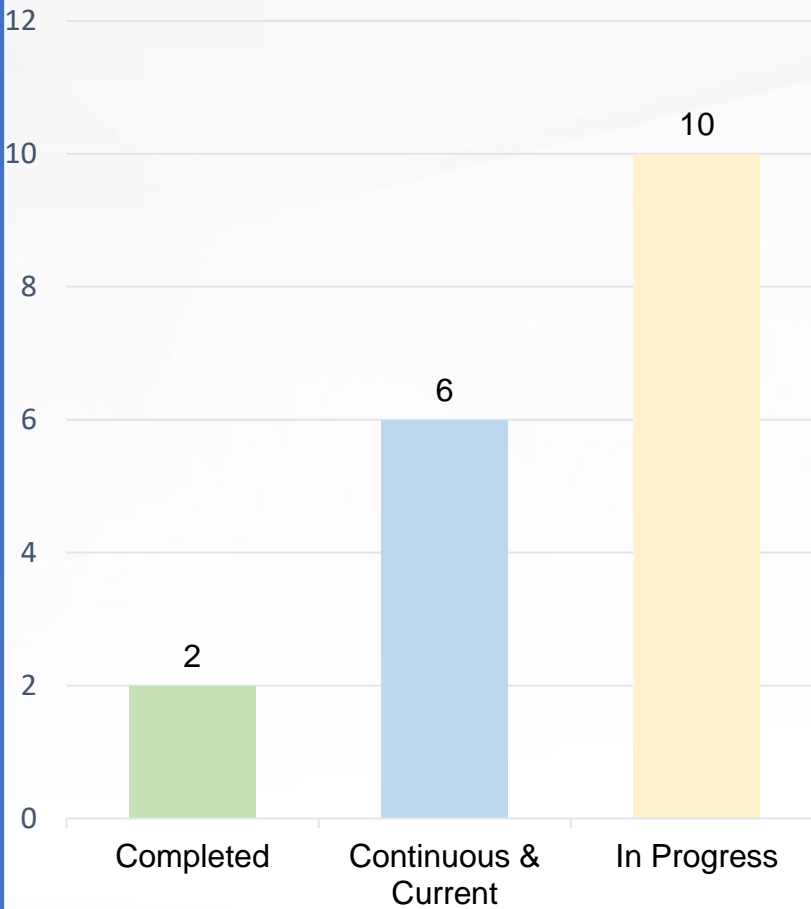
In Progress - Engagement/Project	Audit Assignment	Estimated Completion	Planning Scope	Prelim Audit Work	Audit Field Work	Draft Report	Exit Meeting
Los Angeles County Rehired Retirees	Internal Audit	March 2023					
LACERA Rehired Retirees	Internal Audit	March 2023					
Third-Party Data Security	Internal Audit	March 2023					
Wire Transfers	Internal Audit	March 2023					
State Street Bank**	Internal Audit	March 2023					
Organization-wide Credit Card Review	Internal Audit	April 2023					
Replacement Plan 415B	Internal Audit	April 2023					
Disability Process	Internal Audit	April 2023					
Investments' Operational Due Diligence	KPMG	May 2023					
Financial Auditor RFP	Internal Audit	March 2023	n/a	n/a	n/a	n/a	n/a
SOC Audit RFP	Internal Audit	June 2023	n/a	n/a	n/a	n/a	n/a

** Due to proximity the State Street Bank testing and reporting will be incorporated into the Wire Transfers audit

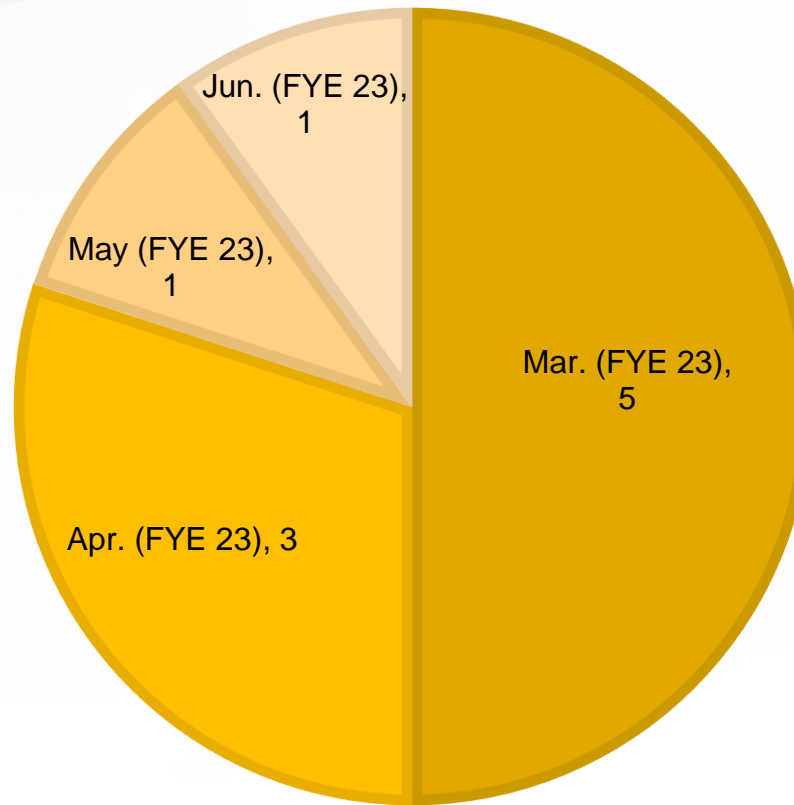
2nd Quarter Audit Plan Dashboard



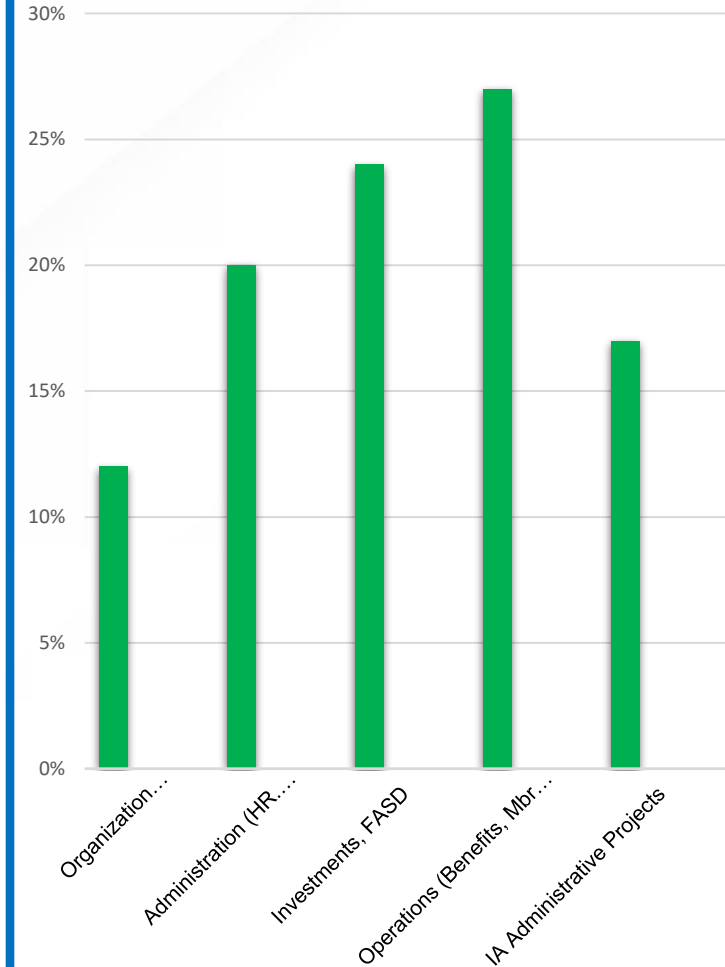
Status 2nd Qtr. Audits and Projects on
FYE 2023 Audit Plan



The majority of the 10 In Progress Projects will
be completed in March and April of 2023.



Audit Plan Coverage Allocated
Throughout Organization



Progress Implementing IA Recommendations



23 Recommendations were issued from our External Quality Assessment in March 2022

- 6 recommendations were previously implemented
- 1 recommendation was implemented during the 2nd quarter of FY23
 - Organizational chart now shows CAE reports to the Audit Committee functionally and the CEO administratively
- 16 recommendations remain open
 - Prioritized 8 foundational recommendations. Target December 2023
 - Remaining 8 recommendations relate to strategic planning. Target Post-Foundational



Foundational Recommendations Milestones

- Ensure more timely review - Ongoing
- Better define engagement planning – Target April 2023
- Standardize workpapers – Target May 2023
- Revise Operational Manual – Target June 2023
- Ensure QC on audits – Target December 2023



Status of Significant IA Administrative Projects (reported as continuous/current per Audit Plan)

Engagement Title	Overview
Quality Assurance Improvement Program (QAIP)	The QAIP includes ongoing improvement of IA's performance through internal assessments, client surveys, and communication of results to key stakeholders. The team also has monthly QAIP meetings to discuss and learn more about key IIA practice guides and other improvement efforts.
Professional Development / CPE	Annual self-assessment, developing self-development program, and allocating for 40 hours of annual training per staff.
Audit Committee support	Preparation of Audit Committee materials and attendance at meetings.
Risk Assessment	Internal Audit has a continuous risk assessment process which includes updating Audit Universe, Risk Assessments, and develop Audit Plan.
External Quality Assessment (EQA) Recommendations	Internal Audit continues to implement action plans to address recommendations from EQA and provides periodical updates to Audit Committee.
TeamMate	Ongoing implementation of TeamMate tools and applications for improved efficiency and effectiveness of audit work and reporting.
Recommendation Follow-Up	Ongoing follow-up recommendation status and reporting to the Audit Committee.

Summary of Significant Advisory Work



Engagement Title	Overview
Policy Committee	Working on sub-committee to create a project charter for a policy management solution, includes researching Knowledge Management vs. Policy Management solutions, presenting to ITCC.
Strategic Planning	Working on a sub-committee to define Risk and Compliance steps and timelines, and Fiduciary Responsibility steps and timelines.
Member Services Voice Authentication Project	Participate in meetings on the development and implementation of adding a voice authentication component to the Member Services call center.
Implementation of Automated Accounts Payable	Participate in the internal stakeholder team meetings on the development and implementation of an automated Accounts Payable solution.
Implementation of Case Management	Participate in the internal stakeholder team meetings on the development and implementation of the Case Management System application. Currently focus is on the business processes of disability retirement services and disability litigation.
Social Engineering Awareness Training	Provide social engineering awareness training to call center specialists in the Member Services Division and the Retiree Healthcare Division as part of the organization's effort to increase privacy training.

Questions



February 8, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Audit Committee Annual Report to the Boards**

RECOMMENDATION

The Audit Committee provide suggested revisions and/or approve the issuance of the Audit Committee Annual Report to the boards and direct staff to issue the report to the boards at their respective April 2023 meetings.

BACKGROUND

Attached please find the draft of the Audit Committee Annual Report from the Audit Committee to the boards. This is a report that provides the boards with a summary of key responsibilities performed by or overseen by the calendar year 2022 Audit Committee, mapped to the Audit Committee Calendar (Calendar).

The Calendar itemizes the key responsibilities of the Audit Committee as included in the Audit Committee Charter (Charter), as well as the frequency and timing for the expected completion of each responsibility.

Please note, this annual communication to the boards is a best practice communication that was included in the Calendar. The Chief Audit Executive (CAE), Internal Audit and the Audit Committee also provide ongoing communications, as necessary, to the boards as required by the Institute of Internal Audit (IIA) Standards.

All Audit Committee meetings are placed on the agendas as regular meetings of the Audit Committee and Board of Retirement (BOR) and Board of Investments (BOI) of LACERA. As a result, trustees on both boards who are not on the Audit Committee may attend and participate in meetings of the Audit Committee, although they may not vote on any matter discussed at the meeting. Audit Committee materials, except for closed session materials related to the CAE's performance, are provided to all trustees, including those on the BOR and BOI that are not

members of the Audit Committee. Matters raised during Audit Committee meetings where the boards have not provided the Committee with the authority in the Audit Committee Charter, are forwarded to one or both boards for further action.

Attachment


RPB



March 2, 2023

TO: Each Trustee
Board of Retirement
Board of investments

FROM: NAME OF CHAIR
Audit Committee Chair

Richard P. Bendall 
Chief Audit Executive

FOR: April 5, 2023 Board of Retirement Meeting
April 12, 2023 Board of Investments Meeting

SUBJECT: **2022 Audit Committee Annual Report**

This is the annual report of the Audit Committee to the boards, included as a best practice in the Audit Committee Charter.

The Audit Committee supports the boards in assessing the risks facing LACERA, including assessing the governance risk and control framework, reviewing the system of internal controls and overseeing the operations of the internal audit function.

The work performed by the Committee in this regard is defined in the Audit Committee Charter which establishes the authority and responsibilities of the Committee. The purpose of the Audit Committee as defined in the Charter 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

The Committees responsibilities in each of these areas is detailed in the **attached** document extracted from the Audit Committee calendar. The Audit Committee's efforts and actions are further highlighted under each of these five key areas of responsibility below.

A. Internal Audit Activity

- a. Approved the Revised Internal Audit Charter
- b. Oversaw the completion of the Fiscal Year Ended June 30, 2022 Audit Plan. Audits completed during the year included:
 - i. Organizational Governance Review
 - ii. Employee Bonus Audit
 - iii. Penetration & Social Engineering Audit
 - iv. Governance, Risk & Controls in Retiree Healthcare
 - v. Audits of LA County and LACERA's Rehired Retirees (960-hour)

- c. Approved the Fiscal Year ending June 30, 2023 Audit Plan
 - d. Oversaw Plante Moran's completion of the SOC1 over the OPEB program.
 - e. Oversaw the completion of an External Quality Assessment (EQA) of Internal Audit.
 - f. Oversaw the work of Internal Audit and evaluated the CAE's performance.
- B. Professional Service Provider Activity
 - a. Approved the release of an RFP to perform a search for an external financial auditor.
 - b. Extended the contract of the SOC auditor, Plante Moran for an additional year, through Fiscal Year ending June 30, 2023.
 - c. Approved the hiring of three audit firms from Internal Audit's pool of external providers to perform audits in the areas of organizational governance, IT penetration and social engineering, and a review of Human Resources' Hiring and Recruiting Processes.
- C. Financial Reporting Process
 - a. Oversaw Plante Moran's financial audit and issuance of an unqualified opinion on LACERA's annual financial statement audit.
- D. Values and Ethics, and
 - a. Oversaw reports from Internal Audit on their Ethics Hotline reports
- E. Organizational Governance
 - a. Weaver & Tidwell performed an assessment of LACERA's maturity in the following key organizational governance areas:
 - i. Ethics and values
 - ii. Risk management
 - iii. Detection and prevention of fraud
 - iv. System of internal control
 - v. System of compliance

Attachment

RPB:rb

ATTACHMENT

2022 Audit Committee Charter Responsibilities			
Documentation	Ref to *AC Charter	Frequency	Comments
Audit Engagement Reports	VII.A.2.a.	Every Meeting	See summary of reports reviewed and approved by the AC during calendar year 2022 in cover memo.
Audit Plan Status Update	VII.A.1.d. & VII.A.2.c-d.	Every Meeting	At each meeting, the AC reviewed the Audit Plan Status Update report.
Summary of Hotline Investigations	VII.D.3 & VII.E.2.b.	Every Meeting	At each meeting, the AC reviewed the Summary of Hotline Investigations report.
Recommendation Follow-Up Reports	VII.A.2.b.	Every Meeting	AC reviewed the Recommendation Follow-Up Reports at the February, May, August and November AC meetings.
Proposed Audit Plan and Budget	VII.A.1.c.	Annually	AC reviewed and approved the Proposed Audit Plan and Budget at the February and March meetings.
Annual Risk Assessment	VII.A.1.a.	Annually	In May, Trustees, including those on the AC, provided feedback on current risks for the Annual Risk Assessment.
Annual Audit Plan	VII.A.1.b.	Annually	AC reviewed and approved the FY 2023 Annual Audit Plan at the August meeting.
Presentation / memo by Financial Auditor detailing proposed scope of work and timing.	VII.B.2	Annually	Plante Moran, LACERA's external auditor, presented to the AC its proposed scope of work and timing at the August meeting.
Internal Audit Charter	VII.A.3.a.	Annually	AC reviewed and approved IA's Charter at the August 2021 meeting. Staff reviewed the Charter in June 2022 and no changes were proposed.
Internal Audit Annual Performance Report	VII.A.3.b.-c.	Annually	*IA presented its Annual Performance Report at the August 2022 meeting.
CAE Performance Evaluation	VII.A.4.b.-c.	Annually	CAE presented his self-evaluation with CEO comments to AC at the November 2022 meeting. 3 AC members submitted evaluations to LACERA's Director of HR.
Ethics & Values Review	VII.D.1-3.	Annually	Weaver presented their organizational governance assessment which included an assessment of LACERA's maturity in regard to ethics.
Organizational Governance Review	VII.E.	Annually	
Compliance Memo from Legal Office	VII.E.4.c.	Annually	Executive Management and Legal presented an assessment of LACERA's status in regard to compliance at the February 2022 AC meeting.
Financial Statements, Correspondence, & Presentation	VII.C.1.-4.	Annually	Plante Moran presented the Financial Statements, Correspondence, and related reports to the AC at the November 2022 meeting.
Audit Committee Annual Performance Report	VII.G.1.	Annually	We are recommending at the March 2023 AC meeting that the AC take its Annual Performance Report to the Boards at their April 2023 meetings.
Audit Committee Charter	VII.F.4	Every 3rd year	The Boards approved the AC Charter in July 2021.
Approve the appointment and compensation of the External Financial Auditor	VII.B.1	Every 5th year**	AC approved the issuance of an RFP at the November 2022 meeting and will receive presentations from three staff selected finalists at the AC's March 2023 meeting for the purpose of selecting a firm and awarding a contract.
Ensure IA has an external quality assessment performed every five years.	VII.A.3.d.	Every 5th year	External Quality Assessment (EQA) Auditor, The Institute of Internal Auditors (IIA) Quality Services presented their report to the AC at the March 2022 meeting.

2022 Audit Committee Charter Responsibilities			
Documentation	Ref to *AC Charter	Frequency	Comments
Provide an open avenue of communication between IA, all Professional Service Providers, Management, and the Boards.	VII.F.2	Continuous	Continuous
Approve the appointment & compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations	VII.B.2	As needed	AC approved the performance of three audits from Internal Audit's audit pool. The AC also approved the hiring of KPMG to perform an operational due diligence (ODD) review of LACERA's Investment Office at the November 2022 meeting at the conclusion of an RFP process.
Review with Professional Service Providers, including the Financial Auditor, and Mgmt the results of the work performed, any findings & recommendations, Mngmt's responses, and actions taken to implement the audit recommendations.	VII.B.3	As needed	AC reviewed the SOC-1 report and the Financial Statement Audit at the November 2022 meeting. Internal Audit and external service providers also presented reports at each AC meeting during the year. The AC reviews the status of audit recommendation implementation at each meeting.
Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.	VII.A.3.e.	As needed	—
Make recommendations to both Boards regarding the appointment, discipline, and/or dismissal, of the CAE, which will be addressed by the Boards in a joint meeting.	VII.A.4.a.	As needed	—
Perform other activities related to this Charter as requested by the Boards.	VII.F.3	As needed	—

***Legend**

AC = Audit Committee

IA = Internal Audit

PM = Plante Moran, LACERA's financial auditors



February 1, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Kathryn Ton 
Senior Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Contract Operations Audit Report**

RECOMMENDATION

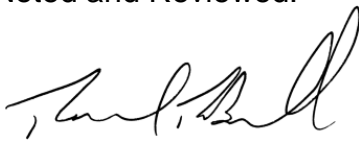
In accordance with your current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the following engagement report to take the following action(s):

1. Accept and file report,
2. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings, and/or
4. Provide further instruction to staff.

ENGAGEMENT REPORT

- a. Contract Operations Audit Report
Kathryn Ton, Senior Internal Auditor
(Report Issued: December 23, 2022)

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

KT



INTERNAL AUDIT DIVISION

**CONTRACT OPERATIONS AUDIT REPORT
Project No. 2023 10**

December 23, 2022

REVIEW PERFORMED BY:
Kathryn Ton, CPA, CFE

AUDIT REPORT

Audit Name:	Contract Operations Audit Report
Responsible Division:	Administrative Services
Audit Rating*:	Opportunities for Improvement
Prior Audit Rating*:	N/A
Prior Report Date:	N/A

BACKGROUND

We reviewed LACERA's oversight process for ensuring consistent contract establishment, ongoing monitoring and due diligence, and timely closeout of professional service contracts, defined together as "Contract Operations." This audit was part of the Fiscal Year Ending (FYE) 2022-23 Audit Plan.

The Administrative Services Contract Unit (Contract Unit) establishes policies, procedures, and controls to protect LACERA from contract risks, including legal, data security, financial, and insurance risks. The Contract Management System (CMS) houses LACERA's contracts and provides systematic controls to support Contract Administrators to ensure compliance during the lifecycle of a contract. Good management practices and oversight over contracts are necessary to ensure compliance with LACERA's policies and procedures. The Contract Unit has two staff members dedicated to overseeing contract administration.

The procurement of administrative professional services and contract operations are a shared responsibility between the Contract Unit and LACERA's divisional Contract Administrators and include:

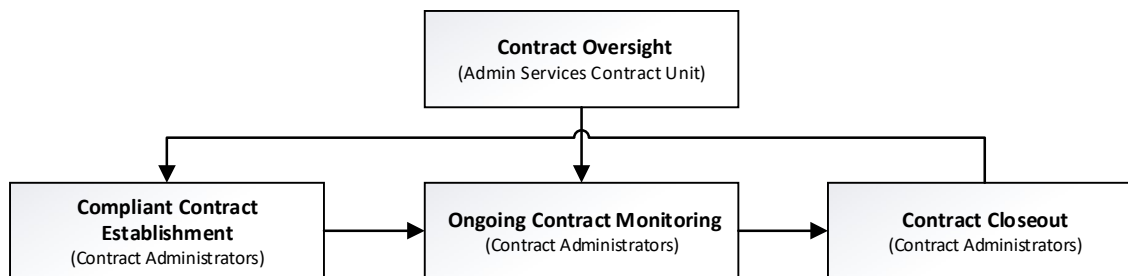
Procurement of services. Contract Administrators are responsible for the solicitation, evaluation selection, and negotiation of contracts with vendors. As of September 2022, LACERA has 13 Contract Administrators who oversee 65 current professional service contracts. The scope of this review does not include the procurement process but rather focuses on Contract Operations.

Contract Operations consists of three important sub-areas within the contract life cycle. These are:

- **Compliant Contract Establishment.** The Contract Administrators work with key stakeholders to ensure that they develop the contracts to comply with LACERA's policies and procedures. Once a contract has been finalized, the Contract Administrator completes a contract transmittal form and submits all contract administration files to the Contract Unit for input to the CMS.
- **Active/Ongoing Contract Monitoring.** The Contract Unit uses the CMS to support the Contract Administrators to ensure that the vendor continues to meet its contractual obligations. Additionally, the Contract Unit is a control in the payment process and ensures that LACERA is paying only vendors with valid contracts.
- **Contract Dissolution and Closeout.** To initiate the closeout process, the Contract Administrator determines that the vendor has satisfactorily performed its contractual obligations. The Contract Administrator completes the contract closeout form and returns it to the Contract Unit. Once received, the Contract Unit reviews and updates the CMS accordingly so that contract administration files are closed out in a timely manner.

*See Appendix 1 for Audit Rating

The diagram below shows the parties responsible for contract operations.



Good contract management software can improve business efficiency and ensure compliance. In September 2022, LACERA contracted with Cobblestone Corporation for an Enterprise Contract Lifecycle Management System (ECLM). LACERA has also been working with Emburse's Certify to streamline the procurement and accounts payable functions. Once implemented, the robustness of the ECLM and Certify systems will automate the many manual processes LACERA currently has in place, saving staff time and increasing efficiencies and visibility in the contract administration process.

AUDIT OBJECTIVE & SCOPE

Based on Internal Audit's engagement risk assessment, we focused this engagement on assessing contract operations for professional service contracts. We felt this was a key risk area with the upcoming migration to a new contract management system. We will review the process for procurement of services in a future audit.

The objectives for this audit were to assess:

1. Compliance with LACERA's policies for RFPs and sole-source/single-source contracts as it relates to the Legal Office's review for content and form, Systems' review for security audit reports, and Contract Unit's review for delegated signature authority, insurance coverage, and supporting documents.

The criteria to determine compliance was based on:

- 2019 Policy for Purchasing Goods and Services (Policy)
 - 2020 Purchasing and Contract Administration Manual (Manual) and
 - 2022 Contract Compliance Procedures (Procedures).
2. The completeness and correctness of the contract data in the Contract Management System.
 3. The Contract Unit's oversight over professional service contracts to ensure compliance and adequate payment.

The audit scope covered professional service contracts that were started, active, or closed out during LACERA's fiscal year from July 2021 to June 2022.

The review did not include employment, disability physician, or investment-related contracts maintained outside of the Contract Management System. Human Resources separately manages employment contracts, due to their sensitive and confidential nature. Similarly, Disability Services manages contracts for the panel physicians, hearing officers, and outside disability counsel. The Investment Office manages investment-related contracts in compliance with their separate Procurement Policy for Investment-Related Services.

The audit was performed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

AUDIT RATING & SUMMARY OF FINDINGS

Overall, the Contract Unit has adequate controls to ensure oversight over contract operations and support Contract Administrators in their role. In addition, Contract Administrators are generally compliant with the 2019 Policy and 2020 Manual. However, we did identify opportunities for improvement as LACERA transitions from the Contract Management System to the ECLM system. In particular, the Contract Unit and Contract Administrators should take a more active role in reviewing and updating the data in the Contract Management System so that all information captured is consistent, current, correct, and complete.

Summary of Findings

Finding#	Page	Description of Finding	Risk Rating**
F1	5	2019 Policy and 2020 Manual are past review dates	Medium
F2	6	Data errors found in the Contract Management System (CMS)	Medium
F3	7	Minimal training provided to Contract Administrators	Medium

Each of the above findings are detailed in the following pages, including our Recommendations and Management Action Plans.

We would like to thank the Administrative Services Division and Contract Administrators for their cooperation with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: December 23, 2022

REPORT DISTRIBUTION

2022 Audit Committee	Santos H. Kreimann, CEO	Roberta Van Nortrick, Interim Admin Services Division Manager
Robert H. Griffin, Audit Committee Consultant	Luis Lugo, DCEO	J.J. Popowich, AEO
Steven Rice, Chief Legal Counsel	Laura Guglielmo, AEO	Internal Audit Group

FINDING #1

2019 Policy and 2020 Manual are past review dates	Risk Rating**
	Medium

OBSERVATION

The Policy for Purchasing Goods and Services was last updated in November 2019 and requires Board approval biennially. Given that this is a Board approved Policy, the Administrative Services Division should have taken the item to the Board of Retirement during the review cycle to reflect compliance. The Board may have changes even if staff do not. Similarly, the Purchasing and Contract Administration Manual was last updated in February 2020 and requires an annual review. Both documents are past their review dates. During the exit meeting, we highlighted areas that the Contract Unit should consider when updating the 2019 Policy and 2020 Manual based on our observations and survey of Contract Administrators. For example, identifying required data fields and providing context between a general service and professional service contract can prevent Contract Administrators from mislabeling a contract. In addition, explaining what a security audit report (SOC) is and the different levels of risk can help determine whether a SOC report is required from the vendor.

RISK

Outdated policies can leave an organization at risk for inconsistent practices. Clear and comprehensive policies are crucial for establishing and achieving contract objectives and ensuring that the contracting process is successful.

RECOMMENDATION

Administrative Services Division Management should review and update the 2019 Policy for Purchasing Goods and Services and 2020 Purchasing and Contract Administration Manual accordingly.

MANAGEMENT'S RESPONSE

Management agrees with the finding and recommendation.

There have been no changes related to the 2019 Policy for Purchasing Goods and Services and the 2020 Purchasing and Contract Administration Manual. These documents will be updated throughout the process of the implementation of the Enterprise Lifecycle Contract Management (ECLM) system. These documents will be rolled out to the organization in conjunction with the ECLM system with a targeted goal of completion by the end of calendar year 2023. We will also include staff training with this rollout.

TARGET COMPLETION DATE

December 31, 2023

FINDING #2

** See Appendix 2 for Findings' Risk Rating

Data errors found in the Contract Management System (CMS)	Risk Rating**
	Medium

OBSERVATION

Internal Audit sampled 25% of LACERA's professional service contracts from FYE 2021-2022. We sampled 100% of new contracts since these contracts were subject to the 2019 Policy and 2020 Manual. The table below breaks down the number of professional service contracts sampled by type.

Contract Type	Sample Size	Population Size
New	12	12
Active	5	53
Expired	5	20
Total Current Contracts	17	65

We found the sampled contracts to be generally compliant with LACERA's Policy, Procedure, or Manual. No material issues were found in the signatory and review levels, execution, or closeout of service contracts.

Rather, the issues identified relate to the correctness and completeness of the CMS data. We surveyed Contract Administrators and they found errors in the CMS data related to the total contract value, evergreen status, and mis-recording of a single payment. Secondary administrators and total contract values were also inadvertently left blank on several sampled contracts when they should have been required fields.

RISK

Incorrect or incomplete information can make a database unreliable.

RECOMMENDATION

The Contract Unit should work with Contract Administrators to ensure that the CMS data is consistent, current, correct, and complete.

MANAGEMENT'S RESPONSE

Management agrees with the finding and recommendation.

The Contract Unit is in the process of updating all the contract metadata and making certain fields required as we implement the ECLM. The Contract Administrators and Division Managers were provided with the list of corresponding contracts and supporting metadata for their review and updates. The Contract Unit will complete the database cleanup by the end of January 2023. The Contract Unit will implement and perform a quarterly review of the system to ensure data integrity.

TARGET COMPLETION DATE

January 17, 2023

FINDING #3

** See Appendix 2 for Findings' Risk Rating

Minimal training provided to Contract Administrators	Risk Rating**
	Medium

OBSERVATION

To assess whether the Contract Unit is adequately and effectively monitoring service contracts, we had the Contract Unit complete a self-evaluation of its current operations. In the area of general training for Contract Administrators, the Contract Unit rated themselves a '3' when given the choice of 1-Proactive, 2-Active or 3-Reactive. Internal Audit agrees with this assessment given that only 77% (10/13) of Contract Administrators overseeing professional service contracts have received training on the Policy, Manual, Procedures, and CMS.

The Contract Unit last conducted Contract Administrator training in December 2020 and has not provided new or routine training to administrators since then. We understand that the Contract Unit has limited resources to conduct Contract Administrator training. However, it is a best practice for Contract Administrators to receive annual training. We recognize that the Contract Unit is developing a contract resources page on LACERA Connect which will contain policies, training videos, and other resources for Contract Administrators.

RISK

There is a higher likelihood of deficiencies and inconsistencies in the contract administration process without adequate preparation and training. Organizations should take an active approach in training Contract Administrators to avoid operational inefficiencies and unnecessary rework.

RECOMMENDATION

We recommend the Contract Unit develop a training framework:

- 3a. Provide training to Contract Administrators when the Policy is updated every two years, or if the process changes significantly.
- 3b. Provide an overview of the contract administration process through its Contract Resources page on LACERA Connect.

MANAGEMENT'S RESPONSE

Management agrees with the finding and recommendation. The Contract Compliance Unit will implement and enforce an annual Contract Administrator training program. The training program will include the following:

- New Contract Administrator orientation and training
- Annual training for all Contract Administrators
- Contract compliance resources made available to the Contract Administrators on LACERA Connect.

The Contract Unit will conduct contract compliance training for the Contract Administrators by the end of February 2023. The training will take place on the Zoom platform so that the

** See Appendix 2 for Findings' Risk Rating

information is recorded and uploaded to LACERA Connect for future reference.

Additionally, after the implementation of the ECLM, staff will have access to various training resource videos and documents that provide instructions on how to use the system as well as live training will also be provided on the use of the new system.

TARGET COMPLETION DATE

January 26, 2023

APPENDIX 1

AUDIT RATING SCALE

Internal Audit issues three standard audit report evaluations as defined below:

Satisfactory

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

Opportunities for Improvement

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

Unsatisfactory

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks and the impact may be substantial in size or nature or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.

APPENDIX 2 FINDING'S RISK RATING SCALE

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance, or reputational impact that the issue identified could have on LACERA.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<p>Large financial impact to LACERA or members</p> <p>Actions not aligned with fiduciary responsibilities</p>	<p>Missing or inadequate key internal controls</p> <p>Not adequate to identify fraud, noncompliance or misappropriation</p>	<p>Non-compliance with applicable Federal or state laws or LACERA's policies</p>	<p>High probability for external audit issues and/or negative public perception</p>	<p>Important critical business process identified by Exec Office</p> <p>Requires immediate attention</p>
Medium	<p>Moderate financial risk to LACERA or members</p> <p>Actions could be better aligned with fiduciary responsibilities</p>	<p>Partial key internal controls</p> <p>Not adequate to identify noncompliance or misappropriation in timely manner</p>	<p>Inconsistent compliance with applicable Federal or state laws or LACERA's policies</p>	<p>Potential for external audit issues and/or negative public perception</p>	<p>Relatively important</p> <p>May or may not require immediate attention</p>
Low	<p>Low financial impact to LACERA or members</p>	<p>Internal controls in place but not consistently efficient/effective</p> <p>Implementing / enhancing controls could prevent future problems</p>	<p>General compliance with applicable Federal or state laws or LACERA's policies, but some minor discrepancies exist</p>	<p>Low probability for external audit issues and/or negative public perception</p>	<p>Lower significance</p> <p>Does not require immediate attention</p>



Contract Operations Audit Report

December 2022

Kathryn Ton, Senior Internal Auditor

Summary of Engagement



Responsible Division:	Administrative Services
Type of Engagement:	Assurance
Audit Rating:	Opportunities for Improvement

Type of Engagements

Assurance: Provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA.

Consulting: Collaborate with Management to provide a formal assessment and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Advisory: Provide Management with informal advice.

Background, Objectives, Scope



Background

We reviewed LACERA's oversight process for ensuring consistent contract establishment, ongoing monitoring and due diligence, and timely closeout of professional service contracts, defined together as "Contract Operations."

Objectives

The objectives for this audit were to assess:

- Compliance with LACERA's policies for RFPs and sole-source/single-source contracts as it relates to the Legal Office's review for content and form, Systems' review for security audit reports, and Contract Unit's review for delegated signature authority, insurance coverage, and supporting documents.
- The completeness and correctness of the contract data in the Contract Management System.
- The Contract Unit's oversight over professional service contracts to ensure compliance and adequate payment.

Scope

- The audit scope covered professional service contracts that were started, active, or closed during LACERA's fiscal year from July 2021 to June 2022.
- The review did not include employment, disability physician, or investment-related contracts maintained outside of the Contract Management System.

Summary of Findings



Finding #	Title of Finding	Rating
1	<p>Issue: 2019 Policy for Purchasing Goods and Services (Policy) and 2020 Purchasing and Contract Administration Manual (Manual) are past review dates.</p> <p>Management response: Agreed – There have been no changes related to the 2019 Policy and the 2020 Manual. These documents will be updated throughout the process of the implementation of the Enterprise Lifecycle Contract Management (ECLM) system. These documents will be rolled out to the organization in conjunction with the ECLM system with a targeted goal of completion by the end of calendar year 2023. We will also include staff training with this rollout.</p>	Medium
2	<p>Issue: Data errors found in the Contract Management System.</p> <p>Management response: Agreed – The Contract Unit is in the process of updating all the contract metadata and making certain fields required as we implement the ECLM. The Contract Administrators and Division Managers were provided with the list of corresponding contracts and supporting metadata for their review and updates. The Contract Unit will complete the database cleanup by the end of January 2023. The Contract Unit will implement and perform a quarterly review of the system to ensure data integrity.</p>	Medium

Summary of Findings



Finding #	Title of Finding	Rating
3	<p>Issue: Minimal training provided to Contract Administrators.</p> <p>Management response: Agreed – The Contract Compliance Unit will implement and enforce an annual Contract Administrator training program. The training program will include the following:</p> <ul style="list-style-type: none">• New Contract Administrator orientation and training• Annual training for all Contract Administrators• Contract compliance resources made available to the Contract Administrators on LACERA Connect <p>The Contract Unit will conduct contract compliance training for the Contract Administrators by the end of February 2023. The training will take place on the Zoom platform so that the information is recorded and uploaded to LACERA Connect for future reference. Additionally, after the implementation of the ECLM, staff will have access to various training resource videos and documents that provide instructions on how to use the system as well as live training will also be provided on the use of the new system.</p>	Medium

Thank You!



Internal Audit

Questions?


kton@lacera.com



February 10, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Gabriel Tafoya 
Senior Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Review of Chief Executive Officer's Credit Card Expenditures**

RECOMMENDATION

In accordance with your current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the following engagement report to take the following action(s):

1. Accept and file report,
2. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings, and/or
4. Provide further instruction to staff.

ENGAGEMENT REPORT

- a. Review of Chief Executive Officer's Credit Card Expenditures
Gabriel Tafoya, Senior Internal Auditor
(Report Issued: February 10, 2023)

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

RB:gt



INTERNAL AUDIT DIVISION

**Review of Chief Executive Officer's Credit Card
Expenditures**

February 10, 2023

REVIEW PERFORMED BY:
Gabriel Tafoya, CISA

AUDIT REPORT

Audit Name:	Review of Chief Executive Officer's Credit Card Expenditures
Responsible Division:	Executive Office and Financial & Accounting Services Division
Audit Rating*:	Satisfactory
Prior Audit Rating*:	Satisfactory
Prior Report Date:	October 11, 2021

BACKGROUND

LACERA maintains a Corporate Credit Card (Corporate Card) Program (Program) to facilitate the purchase of items described and permitted within its Corporate Credit Card Policy (Policy) which was last updated in 2019.

Cardholders are responsible for ensuring:

- Purchases are compliant with the Policy
- The corporate card is kept secure
- Required documentation is maintained to substantiate the purchase
- Monthly reconciliation is complete and submitted timely
- Monthly sign-off in the Bank of America Online Works System (BofA Works) is complete and submitted timely

The cardholder's manager is responsible for verifying that all charges are legitimate and conform to the Policy and approving the charges in BofA Works.

The Financial & Accounting Services Division (FASD) is responsible for administering the Program, including providing a high-level review of expenditures and coding the expenditures to the general ledger.

Since the Chief Executive Officer's (CEO) corporate card expenditures are not reviewed and approved by a manager, Internal Audit has established an annual compliance audit of the CEO's expenditures to ensure compliance with the Policy. This is the second compliance audit. The first was performed in FY 2020-2021.

AUDIT OBJECTIVE & SCOPE

After preliminary research and analysis, including an engagement-level risk assessment, the objective(s) of this audit were to assess the CEO's compliance with the Policy.

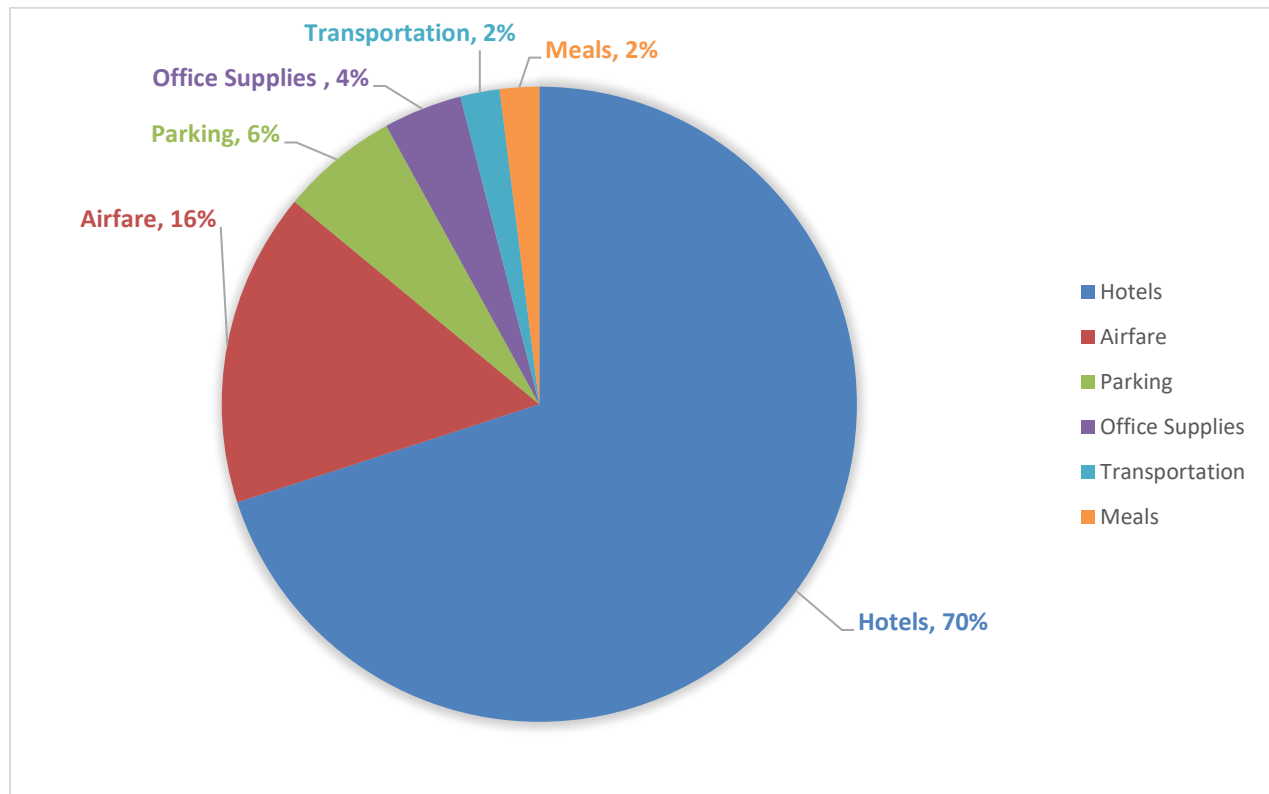
Engagement scope included 100% of all CEO credit transactions occurring between July 1, 2021 – June 30, 2022.

*See Appendix 1 for Audit Rating

RESULTS

The CEO's 23 expenditures totaled \$4,711.93 for the fiscal year 2021 - 2022. The matrix below shows the percentage of spending by category, and that the highest expenditure category was for hotels.

Percentage of Spending by Category



Through our testing and analysis of 23 expenditures for the audit period, we determined that all CEO expenditures were compliant with the Policy. There were no areas identified for improvement.

This review was performed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

AUDIT RATING AND SUMMARY OF FINDINGS

Based on the testing performed, compliance with the Policy for the CEO's credit card expenditures is satisfactory. We found all the charges were reasonable and conformed to the Policy, and the documentation adhered to the Policy requirements. No exceptions were noted; therefore, no findings were issued.

We thank the Executive Office and the FASD staff for their cooperation and assistance with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: February 10, 2023

REPORT DISTRIBUTION

2023 Audit Committee	Santos H. Kreimann, CEO	Luis Lugo, Deputy CEO
2023 Financial Audit Team	J.J. Popowich, AEO	
Robert H. Griffin, Audit Committee Consultant	Laura Guglielmo, AEO	
Internal Audit Group	Steven Rice, Chief Legal Counsel	

APPENDIX 1 AUDIT RATING SCALE

Internal Audit issues three standard audit report evaluations as defined below:

Satisfactory

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

Opportunities for Improvement

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

Unsatisfactory

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks and the impact may be substantial in size or nature or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.



Review of Chief Executive Officer's Credit Card Expenditures

February 10, 2023

Gabriel Tafoya, Senior Internal Auditor

Summary of Engagement



Responsible Division:	Executive Office and Financial & Accounting Services Division
Type of Engagement:	Assurance
Audit Rating:	Satisfactory

Type of Engagements

Assurance: Provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA.

Consulting: Collaborate with Management to provide a formal assessment and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Advisory: Provide Management with informal advice.

Background, Objective, Scope



Background

Since the Chief Executive Officer's (CEO) corporate card expenditures are not reviewed and approved by a manager, Internal Audit has established an annual compliance audit of the CEO's expenditures to ensure compliance with the Corporate Credit Card Policy.

Objective

The objective for this audit was to assess compliance with the Corporate Credit Card Policy.

Scope

Engagement scope included 100% of all CEO credit card transactions occurring between July 1, 2021 – June 30, 2022.



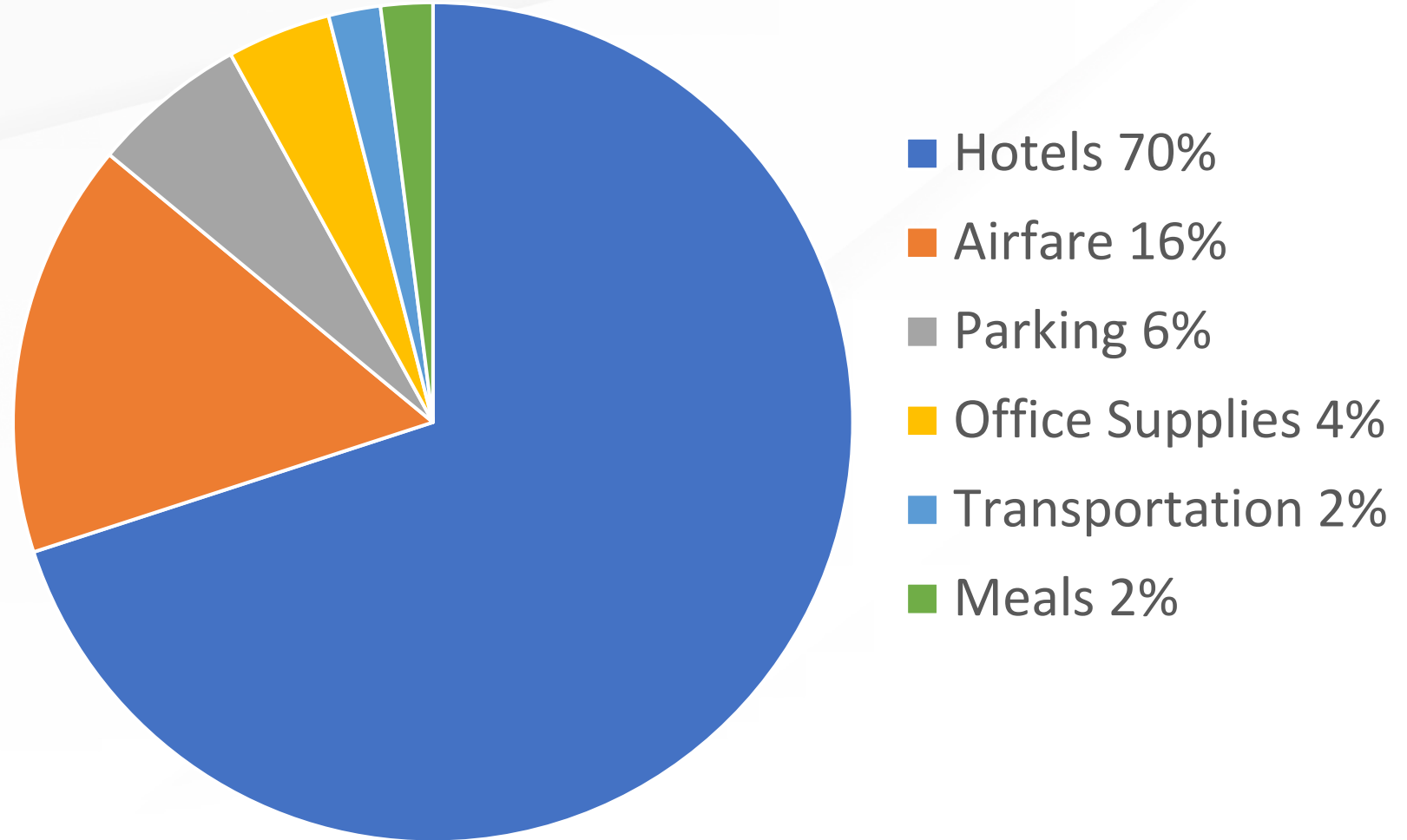
Results



Based on our testing:

- All CEO expenditures, in the amount of \$4,711.93, were compliant with the Policy,
- All charges were reasonable and conformed to the Policy, and
- All documentation adhered to the Policy requirements.

There were no areas identified for improvement.



Thank You!



Internal Audit

Questions?
gtafoya@lacera.com



February 7, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Christina Logan 
Principal Internal Auditor

Gabriel Tafoya 
Senior Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **2023 Audit Committee Orientation**

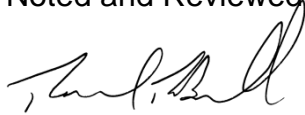
The attached presentation provides each member with information about the Audit Committee and Internal Audit, and an overview of the professional standards that internal auditors adhere to.

In conjunction with the presentation, we have attached the current versions of LACERA's Audit Committee and Internal Audit Charters (Attachment A and B). Both charters were last reviewed and approved in 2021. Additionally, LACERA's Internal Audit division follows the International Standards for the Professional Practice of Internal Auditing (*Standards*) promulgated by the Institute of Internal Auditors (IIA). The IIA's *Standards* provide a framework for performing and promoting internal audit activities. Attachment C is the current version of the *Standards*.

Attachments:

- A. LACERA Audit Committee Charter 2021
- B. LACERA Internal Audit Charter 2021
- C. IIA's International Standards for the Professional Practice of Internal Auditing 2017

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

CL:gt

Audit Committee Charter

April 2021



2021

AUDIT COMMITTEE CHARTER

Table of Contents

I.	CHARTER	2
II.	PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES.....	2
III.	PRINCIPLES OF THE AUDIT COMMITTEE	2
IV.	AUTHORITY	3
V.	AUDIT COMMITTEE COMPOSITION AND CONSULTANT.....	3
VI.	AUDIT COMMITTEE MEETINGS	4
VII.	RESPONSIBILITIES	5
VIII.	APPROVAL.....	9

AUDIT COMMITTEE CHARTER

I. CHARTER

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

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

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

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

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

INTERNAL AUDIT SERVICES

August 2021



2021

INTERNAL AUDIT CHARTER

I. PURPOSE AND MISSION.....	3
II. ROLE.....	3
III. OBJECTIVES.....	3
IV. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING	4
V. ORGANIZATION	4
VI. AUTHORITY	4
VII. INDEPENDENCE AND OBJECTIVITY.....	4
VIII. SCOPE OF INTERNAL AUDIT ACTIVITIES.....	5
IX. ACCOUNTABILITY.....	6
X. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM	7
XI. APPROVAL.....	8

INTERNAL AUDIT CHARTER

I. PURPOSE AND MISSION

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

II. ROLE

The internal audit activity was established by the Audit Committee. Internal Audit's responsibilities are defined by the Audit Committee as part of the Audit Committee's oversight role.

III. OBJECTIVES

A. Assurance Objectives

The goal of assurance services is to provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA. Assurance services include audits and continuous process testing to assess if the organization's assets are adequately safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws and LACERA policies. Assurance services also include the independent assessment of the organization's risk awareness, reliability, and integrity of the organization's data and the achievement of LACERA's goals and objectives.

B. Consulting Objectives

The objective of consulting services is to provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility. Internal Audit will participate as consultants in the assessment and review of controls, policies, procedures, and systems, both manual and electronic. In addition, opportunities for improving management controls, and LACERA's image may be identified during audits; and these will be communicated to the appropriate level of Management.

C. Advisory Objectives

The objective of advisory services is to provide informal advice to Management. Having Internal Audit consult at the beginning of a project, aids management in identifying and managing risks effectively, and designing adequate internal controls. Examples of advisory services include participating in various committees in ex-officio capacity;

providing routine advice on policies, establishing controls, providing training and risk management tools, and facilitating meetings.

IV. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, *the International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The CAE will report periodically to executive management and the Audit Committee regarding Internal Audit's conformance to the Code of Ethics and the *Standards*.

Additionally, Internal Audit will obtain guidance from the professional standards and practices of other, relevant professional organizations, including but not limited to, the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Associate of Certified Fraud Examiners, and the Association of Public Pension Fund Auditors.

V. ORGANIZATION

The Chief Audit Executive (CAE) reports functionally to the Audit Committee of the Board of Investments and Board of Retirement, and administratively to the Chief Executive Officer. This reporting structure provides for Internal Audit's independence and objectivity as required by professional standards.

The Audit Committee's roles and responsibilities are defined in the Audit Committee Charter.

VI. AUTHORITY

Internal Audit, with strict accountability for confidentiality, and safeguarding of records and information, is authorized full, free, and unrestricted access to any and all of LACERA's hard copy and electronic records, data maintained within IT systems or databases, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities.

The CAE will have unrestricted access to, and communicate directly with the Audit Committee and Boards, subject to the requirements of the Ralph M. Brown Act (Government Code Section 54950, et seq.).

VII. INDEPENDENCE AND OBJECTIVITY

Internal Audit will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal Audit will be diligent in monitoring its own potential conflicts of interest in performing its Mission, Objectives, and Responsibility under this Charter. Where a conflict is identified, the Audit Committee will be advised, and a determination will be made by the Committee as to whether to proceed and procure an independent outside auditor. Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment.

Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The CAE will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit division. The CAE will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

VIII. SCOPE OF INTERNAL AUDIT ACTIVITIES

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of LACERA's governance, risk management, and control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.

A. LACERA's Operations

1. Assess that management has established processes and systems that are operating within the highest fiduciary standards and are directed toward the requirements defined in the Federal and state laws, regulations, and LACERA policies and procedures.
2. Evaluate the efficiency and effectiveness of processes and resources deployed.
3. Review the reliability and integrity of financial and operational information, and the means used to identify, measure, classify, and report such information.

B. Values & Ethics

1. Assess LACERA's processes for promoting appropriate ethics and values within the organization.

2. Review Management's process for communicating and monitoring compliance with LACERA's Code of Ethical Conduct for all stakeholders.

C. Organizational Governance

1. Risk Management
 - a. Assess business risks and effectiveness of mitigating control mechanisms.
 - b. Assess Management's implementation and maintenance of an appropriate enterprise wide risk management process.
2. Fraud
 - a. Assess LACERA's processes for preventing and detecting fraud.
 - b. Oversee LACERA's Ethics Hotline process.
3. System of Internal Controls
 - a. Review Management's established system of internal control to ascertain whether it is functioning as designed.
4. System of Compliance
 - a. Review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.

D. Other Responsibilities

1. Evaluate the quality of performance of Professional Service Providers, including the Financial Auditor, and the degree of coordination with Internal Audit.
2. Evaluate specific operations at the request of the Audit Committee, Boards, or Management, as appropriate.

IX. ACCOUNTABILITY

The CAE, in the discharge of his/her duties, shall be accountable to Management and the Audit Committee to:

- A. Select, train, develop, and retain a competent Internal Audit staff that collectively has the abilities, knowledge, skills, experience, and professional certifications to meet the requirements of this Charter. Report to the Audit Committee significant changes in Internal Audit personnel.
- B. Annually develop a flexible audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, the Audit Committee, or the Boards. Submit the annual Audit Plan and significant interim changes to Executive Management and the Audit Committee for review and approval.

- C. Annually provide a proposed budget that corresponds to the annual Audit Plan.
- D. Issue reports to Management and the Audit Committee, at the conclusion of each Internal Audit engagement. The written reports will include Management's responses, and if applicable, Management's timetable for implementing recommendations or corrective actions.
- E. Establish and maintain a follow-up system to monitor the disposition of results communicated to Management and ensure Management actions have been effectively implemented or that Executive Management has accepted the risk of not taking action.
- F. Annually provide an assessment on Management's process for communicating and monitoring compliance with LACERA's Ethical Code of Conduct for all stakeholders.
- G. Annually provide an assessment on the adequacy and effectiveness of LACERA's organizational governance, including risk management, fraud, system of controls, and system of compliance.
- H. Provide a summary of all cases reported to the Ethics Hotline at each Audit Committee meeting.
- I. Report significant issues related to the processes for controlling the activities of LACERA and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- J. Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.

X. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the division's activities. The program will include an evaluation of the division's conformance with the Definition of Internal Auditing and the Standards, and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of Internal Audit's activity and identifies opportunities for improvement.

The CAE will communicate to Executive Management and the Audit Committee on the Internal Audit division's quality assurance and improvement program, including the results of internal assessments and external assessments which are conducted at least once every five years by a qualified, independent assessor.

**XI. APPROVAL**

This Internal Audit Charter ("IA Charter") was reviewed and adopted by the Audit Committee on August 26, 2021 . This IA Charter is thereby effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

APPROVED AND ADOPTED BY:

<i>Signature on File</i>	<i>09/15/21</i>	<i>Signature on File</i>	<i>09/15/21</i>
_____ Joseph Kelly <i>Chair, Audit Committee</i>	_____ Date	_____ Santos H. Kreimann <i>Chief Executive Officer</i>	_____ Date
<i>Signature on File</i>	<i>09/15/21</i>		
_____ Richard Bendall <i>Chief Audit Executive</i>	_____ Date		



International Professional
Practices Framework

Supplemental Guidance

Model Internal Audit Activity Charter

The Model Internal Audit Activity Charter is designed to illustrate common practices typically set out in an internal audit activity charter. The generic nature of this draft is intended to encourage customization.

The document may not reflect all legal or regulatory requirements that exist in the every jurisdiction. Additionally, stakeholder expectations may influence the inclusion or deletion of certain practices.

In drafting an internal audit activity charter, the chief audit executive should exercise care to customize the charter, including replacing bracketed, blue text with language that accurately reflects the user's situation.



Purpose and Mission

The purpose of [name of organization]'s internal audit [department/activity] is to provide independent, objective assurance and consulting services designed to add value and improve [name of organization]'s operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit [department/activity] helps [name of organization] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit [department/activity] will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The chief audit executive will report periodically to senior management and the [board/audit committee/supervisory committee] regarding the internal audit [department/activity]'s conformance to the Code of Ethics and the *Standards*.

Authority

The chief audit executive will report functionally to the [board/audit committee/supervisory committee] and administratively (i.e., day-to-day operations) to the [chief executive officer]. To establish, maintain, and assure that [name of organization]'s internal audit [department/activity] has sufficient authority to fulfill its duties, the [board/audit committee/supervisory committee] will:

- Approve the internal audit [department/activity]'s charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit [department/activity]'s budget and resource plan.
- Receive communications from the chief audit executive on the internal audit [department/activity]'s performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the chief audit executive.
- Approve the remuneration of the chief audit executive.
- Make appropriate inquiries of management and the chief audit executive to determine whether there is inappropriate scope or resource limitations.



The chief audit executive will have unrestricted access to, and communicate and interact directly with, the [board/audit committee/supervisory committee], including in private meetings without management present.

The [board/audit committee/supervisory committee] authorizes the internal audit [department/activity] to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of [name of organization], as well as other specialized services from within or outside [name of organization], in order to complete the engagement.

Independence and Objectivity

The chief audit executive will ensure that the internal audit [department/activity] remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for [name of organization] or its affiliates.
- Initiating or approving transactions external to the internal audit [activity/department].



- Directing the activities of any [name of organization] employee not employed by the internal audit [department/activity], except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The chief audit executive will confirm to the [board/audit committee/supervisory committee], at least annually, the organizational independence of the internal audit [department/activity].

The chief audit executive will disclose to the [board/audit committee/supervisory committee] any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the [board/audit committee/supervisory committee], management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for [name of organization]. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of [name of organization]'s strategic objectives are appropriately identified and managed.
- The actions of [name of organization]'s officers, directors, employees, and contractors are in compliance with [name of organization]'s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.



- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact [name of organization].
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The chief audit executive will report periodically to senior management and the [board/audit committee/supervisory committee] regarding:

- The internal audit [department/activity]'s purpose, authority, and responsibility.
- The internal audit [department/activity]'s plan and performance relative to its plan.
- The internal audit [department/activity]'s conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the [board/audit committee/supervisory committee].
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to [name of organization].

The chief audit executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit [department/activity] may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit [department/activity] does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The chief audit executive has the responsibility to:

- Submit, at least annually, to senior management and the [board/audit committee/supervisory committee] a risk-based internal audit plan for review and approval.



- Communicate to senior management and the [board/audit committee/supervisory committee] the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in [name of organization]'s business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the [board/audit committee/supervisory committee] any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the [board/audit committee/supervisory committee] any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit [department/activity] collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact [name of organization] are considered and communicated to senior management and the [board/audit committee/supervisory committee] as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit [department/activity].
- Ensure adherence to [name of organization]'s relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the [board/audit committee/supervisory committee].
- Ensure conformance of the internal audit [department/activity] with the *Standards*, with the following qualifications:
 - If the internal audit [department/activity] is prohibited by law or regulation from conformance with certain parts of the *Standards*, the chief audit executive will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.
 - If the *Standards* are used in conjunction with requirements issued by [other authoritative bodies], the chief audit executive will ensure that the internal audit [department/activity] conforms with the *Standards*, even if the internal audit [department/activity] also conforms with the more restrictive requirements of [other authoritative bodies].



Quality Assurance and Improvement Program

The internal audit [department/activity] will maintain a quality assurance and improvement program that covers all aspects of the internal audit [department/activity]. The program will include an evaluation of the internal audit [department/activity]'s conformance with the *Standards* and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit [department/activity] and identify opportunities for improvement.

The chief audit executive will communicate to senior management and the [board/audit committee/supervisory committee] on the internal audit [department/activity]'s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside [name of organization].



Approval/Signatures

Chief Audit Executive

Date

[Board/Audit Committee/Supervisory Committee] Chair

Date

[Chief Executive Officer]

Date



About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla., USA. For more information, visit www.globaliia.org.

About Supplemental Guidance

Supplemental Guidance is part of The IIA's International Professional Practices Framework (IPPF) and provides additional recommended (nonmandatory) guidance for conducting internal audit activities. While supporting the *International Standards for the Professional Practice of Internal Auditing*, Supplemental Guidance is not intended to directly link to achievement of conformance with the *Standards*. It is intended instead to address topical areas, as well as sector-specific issues, and it includes detailed processes and procedures. This guidance is endorsed by The IIA through formal review and approval processes.

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.

Copyright

Copyright©2017 The Institute of Internal Auditors, Inc. All rights reserved. For permission to reproduce, please contact guidance@theiia.org.

March 17



2023 Audit Committee Orientation

Christina Logan, Principal Internal Auditor
Gabriel Tafoya, Senior Internal Auditor



- Audit Committee
- Internal Audit
- Institute of Internal Auditors (IIA) Framework and Standards

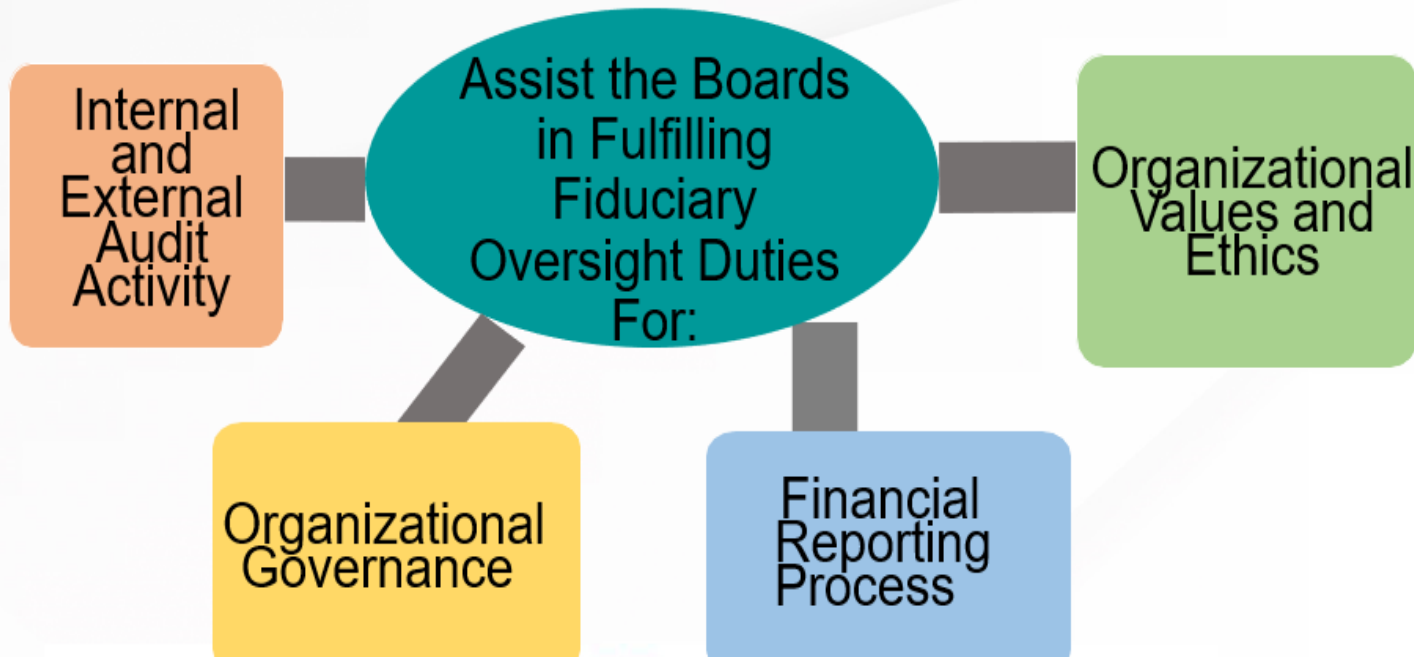


In these times of rapid change and increased uncertainty, the need for the oversight role that audit committees play is as critical as ever. The most effective audit committees are engaged, executing their responsibilities with diligence, and this engagement significantly enhances the financial reporting output.

—Sagar Teotia, SEC Chief Accountant



Purpose of the Audit Committee



Committee Authority includes:

- Oversee work of Internal and External Audit activity
- Select, oversee, and compensate External Financial Auditor
- Conduct or authorize investigation
- Unrestricted access to management, staff, and relevant information

Principles of the Audit Committee



The Audit Committee will conduct itself in accordance with LACERA's Code of Ethical Conduct and core principles from the Institute of Internal Auditors (IIA) Code of Ethics.

Integrity

Independence
& Objectivity

Confidentiality

Competency

Professional
Standards

IIA's Key Definition



- The IIA defines the **board** as “the highest-level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization’s activities and hold senior management accountable.
- The word “board” in the IIA *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an **audit committee**).



Audit Committee Charter



The Audit Committee 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.

Audit Committee Charter

- Defines the audit committee's purpose, authority, and responsibility
- Establishes the audit committee's responsibility and fiduciary oversight duties
 - Internal audit activity
 - Professional service provider activity
 - Financial reporting process
 - Values and ethics
 - Organizational governance

Review & Approval of Charter

- Reviewed at least every three years
- Last reviewed by the Committee on 4/23/2021
- Last approved by the BOR on 7/7/2021
- Last approved by the BOI on 7/14/2021
- Next review is in 2024

Audit Committee Consultant



The Audit Committee hires an Audit Committee Consultant as the technical and financial expert to advise the Committee on audit and financial matters.

Requirements for a Consultant

- Advanced degree and related certifications
- Prior experience advising Audit Committees
- Specific knowledge of '37 Act Pension Systems
- Broad knowledge of public pension and investment practices and emerging trends
- Knowledge of financial regulatory sources (GASB, GAAP, GAAS, etc.)
- Strong sense of corporate governance

Current Consultant

Robert Griffin, Managing Partner at William Adley

- Approved by the Audit Committee in December 2020
- Contract expires December 2023

Overview - Internal Audit Division



Mission:

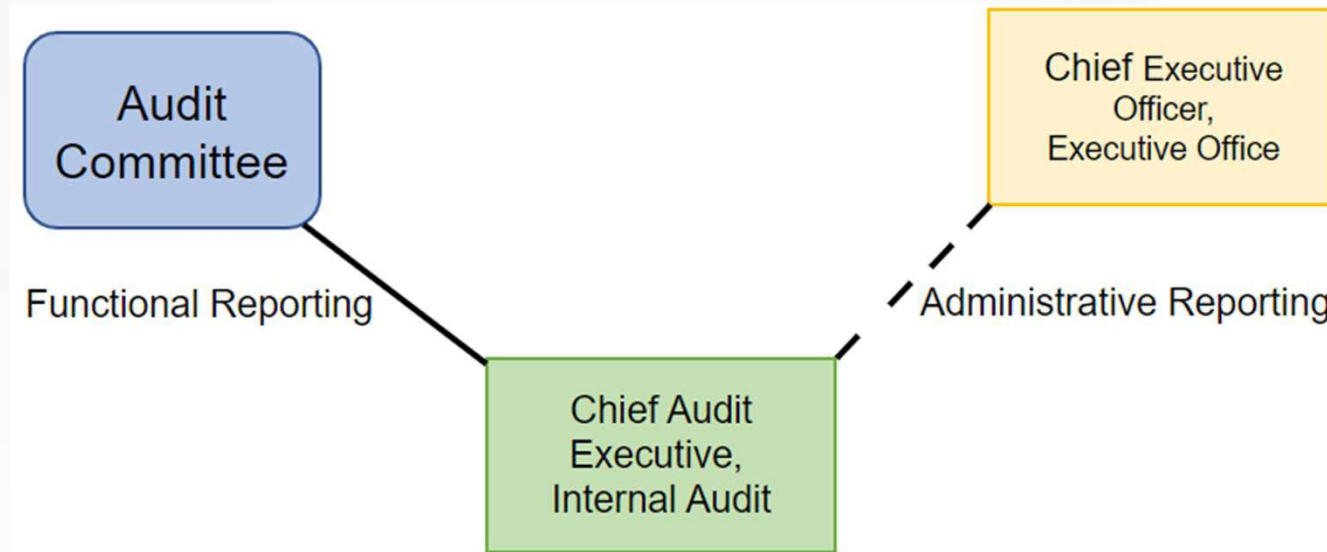
Enhance and protect LACERA's organizational values by providing risk-based and objective assurance, advice, and insight.

Purpose:

Provide independent and objective assurance, consulting, and advisory services that are designed to add value and improve LACERA's operations.

- **Assurance / Audit Engagements** - Provide an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for LACERA.
- **Consulting Engagements** - Work with Management to define the scope and objective of a formal assessment and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.
- **Advisory Engagements** - Provide informal advice to Management.

IA's Organizational Independence



Internal Audit reports functionally to the Audit Committee to ensure Management cannot unduly influence the nature or scope of audit work. Meetings are held to keep the Audit Committee abreast of Internal Audit's work, and risks and issues.

Internal Audit reports administratively to the Chief Executive Officer.

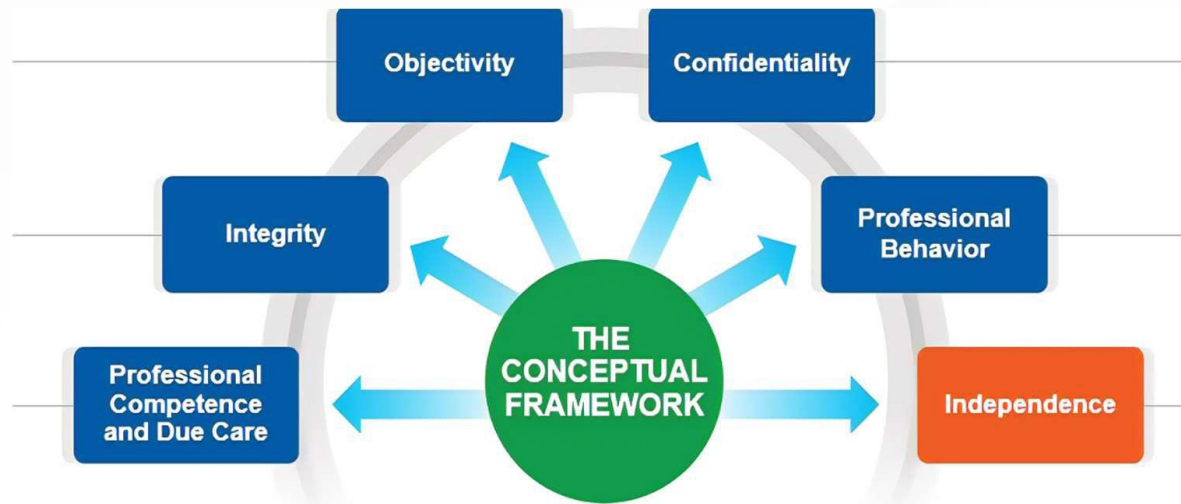
Key Take-Away: Internal Audit's is independent of operations.

Key Principles of Internal Audit



Internal Audit and its staff will conduct itself in accordance with LACERA's Code of Ethical Conduct and core principles from the Institute of Internal Auditors (IIA) Code of Ethics.

Annually, Internal Audit staff are required to attend a two-hour IIA Ethics course and acknowledge the IIA's Standards regarding Independence & Objectivity, Proficiency & Due Care, and the Code of Ethics. This was last completed in December 2022 with no exceptions.



Internal Audit Charter



The IIA *Standards* 1000 and 1010 requires an internal audit charter to define the purpose, authority, and responsibility of internal audit activity and to recognize the mandatory guidance in the audit charter.

Internal Audit Charter

- Defines the internal audit activity's purpose, authority, and responsibility
- Establishes the internal audit activity's position within the organization
- Defines the nature of the chief audit executive's functional reporting relationship with the board
- Defines the scope of internal audit activities

Review & Approval

- Reviewed annually by staff and present changes to Committee when necessary
- Last reviewed by Audit Staff in 2022 – No Changes Made

International Professional Practices Framework (IPPF)



The **International Professional Practices Framework (IPPF)** is the conceptual framework that organizes authoritative guidance promulgated by the IIA.

The **IPPF** covers the following internal auditing areas:

- **Mandatory Guidance**
 - Definition of Internal Auditing
 - Core Principles for the Professional Practice of Internal Auditing
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing (*Standards*)
- **Recommended Guidance**
 - Implementation Guidance
 - Supplemental Guidance



Attribute Standards



Attribute Standards address the characteristics of organizations and parties performing internal audit activities.

- 1000 – Purpose, Authority, and Responsibility
- 1100 – Independence and Objectivity
- 1200 – Proficiency and Due Professional Care
- 1300 – Quality Assurance and Improvement Program

Performance Standards



Performance *Standards* describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated.

- 2000 – Managing the Internal Auditing Activity
- 2100 – Nature of Work
- 2200 – Engagement Planning
- 2300 – Performing the Engagement
- 2400 – Communicating Results
- 2500 – Monitoring Progress
- 2600 – Communicating the Acceptance of Risk

Resources for Internal Auditors



- Association of Public Pension Fund Auditors (APPFA)
- American Institute of Certified Public Accountants (AICPA)
- Association of Certified Fraud Examiners (ACFE)
- Information Systems Audit and Control Association (ISACA)
- Committee of Sponsoring Organizations of the Treadway Commission (COSO)



Questions or Comments



February 15, 2023

TO: Each Trustee,
Audit Committee

FROM: Santos H. Kreimann, ^{SHK}
Chief Executive Officer

Luis A. Lugo ^{LP}
Deputy Chief Executive Officer

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: Management's Compliance Report

As required in Section VII.E.4 of the 2021 Audit Committee Charter, management is providing this memo to summarize management's compliance efforts in calendar year 2022. Management last provided this report to the Audit Committee in February 2022.

Strategic Planning as Risk Assessment

As presented in last year's Compliance Report, LACERA's management team benchmarks the continuous improvement of LACERA's compliance and risk management programs against The Institute of Internal Auditor's (IIA) Three Lines Model. Under the model, the IIA's *Guidelines for the Compliance Function*, state:

For the effective and appropriate execution of the compliance role, including the prioritization of tasks and use of resources, the compliance function should assume a risk-based approach. Risk assessments are a prerequisite for a compliance program that is tailored to the organization. Risk assessments reveal those activities and areas that require policies and procedures. In certain areas, such a risk assessment process is mandatory. [Emphasis added.]

While management has not yet conducted a formal enterprise risk assessment, important steps in this direction have been taken. Specifically, management believes that the ongoing strategic planning effort that began ten months ago – and will culminate with presentations to both Boards at the Board of Retirement offsite and subsequent Board of Retirement approval of the final plan – has been an important risk assessment exercise. Through steps that involved staff at all levels of the organization, the strategic planning process identified the major risks that exist and must be addressed to carry LACERA forward into the future, including the fund's compliance risk in developing, maintaining, training, and enforcing adequate systems of control with respect to applicable laws, regulations, policies, and procedures.

///

The proposed strategic plan focuses on the following risk areas to build a strong organizational foundation for the future: Mission/Vision/Values; Member Journey; Talent Management/DEI; Fiscal Durability; Technology; and Compliance and Enterprise Risk Management (ERM). These goals support each other. In particular, the first five support the Compliance and ERM goal because they identify risk areas that require compliance and risk management efforts.

Policy Development

The Policy Committee is a powerful new compliance tool to bring representatives of management and key divisions throughout LACERA together monthly to review and comment on new operational policies before they are presented to the Board, in the case of Board policies, or approved by the CEO, in the case of administrative staff policies. This approach furthers compliance by facilitating discussion and achieving understanding and buy-in by LACERA management and divisions. Since its inception in 2022, the following policies and topics were reviewed and discussed by the committee:

1. Policy Committee Charter
2. Policy on Policies, Procedures, and Charters
3. LACERA End-User Information Policies
4. LACERA Bonus Policy
5. Staff Privacy and Confidentiality Policy
6. Retirement Election Submission Policy
7. Post Retirement Employment Policy
8. Policy Repository Project Charter and Due Diligence

Other Compliance Areas

- Management focused on completing recommendation follow-ups from Internal Audit findings finalized and presented to and accepted by the Audit Committee. As recently recognized by the Audit Committee, LACERA has made substantial progress in improving recommendation follow up and reducing the aging of uncompleted recommendations.
- The development of an e-filing system for Form 700 Statements of Economic Interest will make it easier to comply with this important conflict and ethics compliance requirement.
- The Human Resources Division and the Legal Division made significant strides in the development of a new Compliance and Ethics Officer classification and the salary for that position. This classification and salary will be presented to the Boards for approval in the coming months, followed by submission to the County Board of Supervisors. When selected, the Compliance and Ethics Officer will be the staff leader of LACERA's compliance and ethics efforts.

Conclusion

Management welcomes the input of the Audit Committee with respect to LACERA's risk management and compliance process.

c: Jonathan Grabel
JJ Popowich
Laura Guglielmo
Steven P. Rice
Richard Bendall
Leisha Collins
Christina Logan
MAC Team

February 10, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Kristina Sun **KS**
Senior Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up Report**

Background

The Institute of Internal Auditors' (IIA) Performance Standard 2500 requires the Chief Audit Executive (CAE) to establish and maintain a follow-up process to monitor and ensure recommendations have been effectively implemented or that executive management has accepted the risk of not addressing the underlying finding of the recommendation.

Internal Audit's Follow-Up Process

During the audit process, Internal Audit may identify findings or make recommendations to address risks or improve a process. The responsible division manager and the Executive Office review the findings and recommendations. Subsequently, the division manager provides responses indicating how and when planned improvements will be made. The final audit report includes the audit findings, recommendations, management's responses, and targeted completion date. Internal Audit tracks recommendations through TeamMate+, our audit management software, and regularly follows up with Management. Internal Audit is responsible for 1) ensuring that Management's action plans have been effectively implemented, or 2) ensuring that Management remains aware of the risks that they accept by not taking action in a timely manner. On a quarterly basis, Internal Audit reports the status of all outstanding audit recommendations to the Audit Committee.

Recommendations are classified based on the responsible party's progress:

- **On Track** – The responsible party began implementing the recommendation and currently on track to meet the target implementation due date. Management has the option to extend the target implementation due date with the Executive Office's approval.

- **At Risk / Behind Schedule** – The responsible party has not made enough progress to implement the recommendation by the target implementation due date.
- **Implemented** – The responsible party provided documentation and the Internal Auditor verified the satisfactory implementation of the audit recommendation.
- **Overdue** – The responsible party has failed to implement the recommendation by the target implementation due date and has not completed the extension request.
- **Pending Internal Audit's Verification** – The responsible party has implemented the recommendations but has not been verified by Internal Audit. Internal Audit does not close out a recommendation without completing internal verification procedures.

Monitoring and Reporting for Fiscal Year 2023

As result of the audit and consulting projects completed in the recent months, Internal Audit is tracking both audit recommendations and long-term strategic recommendations. Audit recommendations are focused on improving internal controls while strategic recommendations are centered on organizational risks that may impact LACERA in the future.

The reporting period is October 1, 2022 through January 15, 2023. Audit reports and recommendations released after January 15, 2023 will be included in the next quarterly reporting to the Audit Committee. All of the outstanding audit recommendations are current and have not exceeded beyond the original target implementation dates set by management.

	# of Audit Recommendations	# of Strategic Recommendations
Beginning Balance as of 7/1/2022	11	6
+ New Findings	5	13
- Accepts Risk	0	0
- Implemented Findings	-1	0
Ending Balance as of 9/30/2022	15	19
+ New Findings	8	0
- Accepts Risk	0	0
- Implemented Findings	0	0
- Pending Internal Audit's Verification	-9	0
Ending Balance as of 1/15/2023	14	19

Included in this memo are the following attachments for the Audit Committee to review:

- Attachment A – Progress highlights of outstanding audit recommendations and long-term strategic recommendations for the period from October 1, 2022 through January 15, 2023.
- Attachment B – Details of the outstanding audit recommendations as of January 15, 2023.
- Attachment C – Details of the outstanding long-term strategic recommendations as of January 15, 2023.

Staff from the respective divisions will be present at the March 2, 2023 Audit Committee meeting to address any questions.

Noted and Reviewed:

A handwritten signature in black ink, appearing to read 'Richard P. Bendall', written over a horizontal line.

Richard P. Bendall
Chief Audit Executive

KS



ATTACHMENT A

Recommendation Follow-Up Progress As Of January 15, 2023

March 2023 Audit Committee Meeting

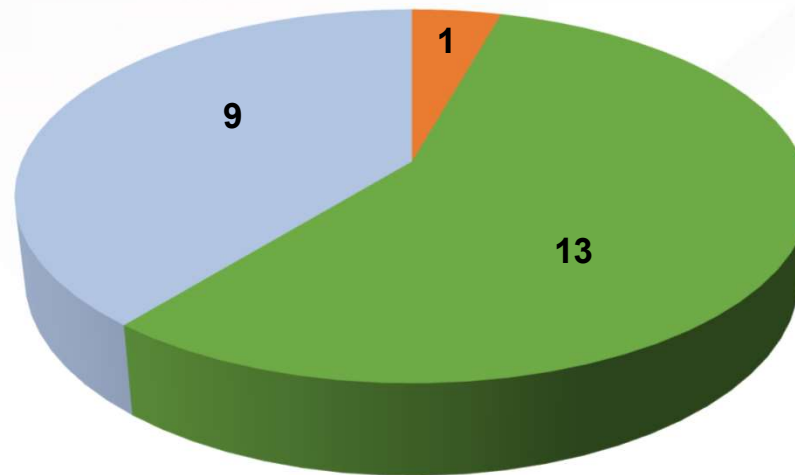
Kristina Sun, Senior Internal Auditor

Status of Open Audit Recommendations



Outstanding audit recommendations are classified based on the responsible party's progress and assigned categories based on the fundamental intent of the recommendation. The reporting period is October 1, 2022 through January 15, 2023. Audit reports and recommendations released after January 15, 2023 will be included in the next quarterly reporting to the Audit Committee. All the outstanding audit recommendations are current and have not exceeded beyond the original target implementation dates set by management.

Status of Outstanding Audit Recommendations
as of January 15, 2023



At Risk On Track Pending IA's Verification

Status of Open Audit Recommendations



Audit recommendations address operational risks and focus on improving internal controls. These recommendations are directed towards specific divisions within the organization. In some cases, implementation requires extensive coordination between multiple divisions. Figure below illustrates the outstanding audit recommendations as of January 15, 2023.

Open Recommendations By Divisions

Division	At Risk	On Track	Pending IA's Verification
Administrative Services	0	1	2
Executive Office	0	2	0
Financial Accounting & Services	1	0	0
Human Resources	0	4	7
Investments	0	1	0
Retiree Healthcare	0	2	0
Systems and Executive Office	0	3	0
Total	1	13	9

Status of Open Strategic Recommendations



Strategic recommendations cover the broader operating risks and control gaps that require attentions from the Executive Office. Due to the nature of these recommendations, Executive Office is currently evaluating them during the current strategic planning efforts. An update will be provided at the June 2023 Audit Committee meeting.

Related COSO Activity	Project Name	Total
Forecasting/Budget	Risk and Control Assessment – Retiree Healthcare Division[2022-33]	1
General IT Controls	Risk and Control Assessment – Retiree Healthcare Division[2022-33]	1
Internal and External Reporting	Organizational Governance Review [2022-01]	1
Organizational Tone	Organizational Governance Review [2022-01]	3
	Quality Assurance Operations Review [2021-48]	1
Performance Measures	Organizational Governance Review [2022-01]	1
	Quality Assurance Operations Review [2021-48]	1
Policies/Procedure Development & Maintenance	Organizational Governance Review [2022-01]	1
Resource Capacity	Risk and Control Assessment – Retiree Healthcare Division[2022-33]	1
Risk Assessment	Organizational Governance Review [2022-01]	1
Training and Development & Talent Management	Comprehensive Review of Human Resources Recruiting Process [2022-13]	4
	Organizational Governance Review [2022-01]	2
	Risk and Control Assessment – Retiree Healthcare Division[2022-33]	1
Grand Total		19

OPERATIONAL RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 15, 2023

Project Name	Risk Rating	Recommendation	Management Response	Target Implementation Due Date	Quarterly Status Update
Project #	Finding				
Report Date					
Audit Rating					
Administrative Services Division					
Contract Operations 2023 10 December 23, 2022 Opportunities for Improvement	Medium Finding #1 - 2019 Policy and 2020 Manual are past review dates	Administrative Services Division Management should review and update the 2019 Policy for Purchasing Goods and Services and 2020 Purchasing and Contract Administration Manual accordingly.	There have been no changes related to the 2019 Policy for Purchasing Goods and Services and the 2020 Purchasing and Contract Administration Manual. These documents will be updated throughout the process of the implementation of the Enterprise Lifecycle Contract Management (ECLM) system. These documents will be rolled out to the organization in conjunction with the ECLM system with a targeted goal of completion by the end of calendar year 2023. We will also include staff training with this rollout.	12/31/2023	ON TRACK Audit was issued in December 2022. Management is in the process of implementing this recommendation.
Contract Operations 2023 10 December 23, 2022 Opportunities for Improvement	Medium Finding #2 - Data errors found in the Contract Management System (CMS)	The Contract Unit should work with Contract Administrators to ensure that the CMS data is consistent, current, correct, and complete.	The Contract Unit is in the process of updating all the contract metadata and making certain fields required as we implement the ECLM. The Contract Administrators and Division Managers were provided with the list of corresponding contracts and supporting metadata for their review and updates. The Contract Unit will complete the database cleanup by the end of January 2023. The Contract Unit will implement and perform a quarterly review of the system to ensure data integrity.	1/17/2023	PENDING INTERNAL AUDIT'S VERIFICATION In January 2023, Administrative Services Management completed their update in CMS to ensure the data is consistent, current, correct, and complete.
Contract Operations 2023 10 December 23, 2022 Opportunities for Improvement	Medium Finding #3 - Minimal training provided to Contract Administrators	We recommend the Contract Unit develop a training framework: 3a. Provide training to Contract Administrators when the Policy is updated every two years, or if the process changes significantly. 3b. Provide an overview of the contract administration process through its Contract Resources page on LACERA Connect.	The Contract Compliance Unit will implement and enforce an annual Contract Administrator training program. The training program will include the following: - New Contract Administrator orientation and training - Annual training for all Contract Administrators - Contract compliance resources made available to the Contract Administrators on LACERA Connect. The Contract Unit will conduct contract compliance training for the Contract Administrators by the end of February 2023. The training will take place on the Zoom platform so that the information is recorded and uploaded to LACERA Connect for future reference. After the implementation of the ECLM, staff will have access to various training resource videos and documents that provide instructions on how to use the system as well as live training will also be provided on the use of the new system.	1/26/2023	PENDING INTERNAL AUDIT'S VERIFICATION In January 2023, Administrative Services Management has completed the development of a training framework.

Project Name	Risk Rating	Recommendation	Management Response	Target Implementation Due Date	Quarterly Status Update
Project #	Finding				
Report Date					
Audit Rating					
Executive Office					
Los Angeles County's Compliance with Requirements for Rehired Retirees 2022-38 November 4, 2022 Unsatisfactory	Medium Finding #1 - Spike in the number of Rehired Retirees Exceeding 960-Hour Limit	<p>1. We recommend LACERA's CEO formally request the County CEO in conjunction with the County Director of Human Resources and Auditor-Controller to prepare a corrective action plan that consolidates and actively monitors the rehired retiree (960-hour limit) reporting requirements for all County departments.</p> <p>2. We recommend LACERA's Executive Office, Systems, and Benefits work with the County's CEO Office and Auditor-Controller to establish an automated feed of rehired retirees' hours as part of payroll data.</p> <p>3. We recommend LACERA's Executive Office, Legal Office, and Benefits develop a policy and procedure to address both preventing overages and taking the required action on the retirement payroll of retirees that exceed the 960-hour limit.</p>	<p>LACERA management supports the outlined recommendation(s) in working with the County's CEO office, Auditor Controller, and County Human Resource department to determine if we're able to obtain (preferable in an automated fashion) Rehired Retirees' hours to ensure compliance against the 960-hour limit.</p> <p>In terms of actionable steps, management will set-up a meeting with County CEO, Auditor Controller, and Human Resources to explore data feed options. The County is currently in the process of a "black-out" year-end system maintenance and will not take on new data projects until mid-January 2023, as described by the Auditor Controller Division Chief. We're not able to provide an exact timeframe for when this recommendation will be implemented, since it's predicated on the County's bandwidth and willingness to provide data. We commit to engaging the County in January 2023 and providing an update by March 30, 2023. After conferring with the County and assessing the extent of their ability to track employee time, LACERA will develop and implement a policy and set of procedures to include the normal process as well the consequences and remediation needed to ensure compliance with CERL, PEPR and the IRS requirements.</p>	3/30/2023	<p>ON TRACK</p> <p>1) Systems is currently working on reporting from the 120-day report to be uploaded into Workspace every accrual period. This will provide a means to track hours worked by rehired retirees. The reporting will provide hours worked per fiscal year to date and hours remaining in the 960-hour limit.</p> <p>2) Once programming is in place automated systems will generate letters to members and departments informing them of the hour limit once a new rehired retiree is identified. Subsequent letters will be sent to member and their department throughout the fiscal year to inform both parties of the progression towards the 960-hour limit. These letters will be sent at milestones programmed into our system to be 50%, 75%, and 90%.</p> <p>3) Legal is reviewing the consequences that LACERA can impose on rehired retirees that violate the agreement and exceed the 960-hour limit. Once finalized LACERA will partner with Human Resources to update the rehired retiree agreements with specific language of consequences of violations. Letters that are sent to members will have similar language.</p>

Project Name	Risk Rating	Recommendation	Management Response	Target Implementation Due Date	Quarterly Status Update
Project #	Finding				
Report Date					
Audit Rating					
Los Angeles County's Compliance with Requirements for Rehired Retirees 2022-38 November 4, 2022 Unsatisfactory	High Finding #2 - Lack of adherence to PEPRA's "limited duration" language	4. We recommend LACERA's Executive Office and Legal Office work with the Board of Retirement to determine a more defined "bright-line" definition of limited duration to ensure compliance with PEPRA and provide for recovery of benefits paid during periods worked in violation of PEPRA law.	The current LACERA policy allows for a broad definition of limited duration. We believe that most CERL systems have not yet "defined" limited duration in terms of a specified timeline regarding Rehired Retirees', instead they focus on ensuring Retirees are meeting the annual 960-hour compliance. For an employer as large as the County of Los Angeles, it's difficult to determine a one size fits all definition for "limited duration" due to the workforce complexities of the various departments (Sheriffs, Dept. of Health, Dept. Human Services, etc.) Instead, our revised recommendation is to provide the County CEO's office with education around PEPRA's intent behind limited duration for Rehired Retirees.	6/30/2023	ON TRACK 1) The Department of Human Resources implemented the Policies and Procedures Guide (PPG 505) and LACERA is working with Human Resources to revise. LACERA is requesting all documentation that is required from the department to rehire a retiree. As outlined in PPG 505 the employee is hired on a temporary basis and therefore must be in a limited duration. All appointments must include approvals from the CEO office and the department should have a plan to transfer the special skills to an active employee. 2) LACERA is continuing to work with the Human Resources department to ensure compliance by departments that rehire retirees are employed on a temporary basis. 3) As part of our Legal review, LACERA is reviewing how to define limited duration and provide Human Resources with recommendations to revise PPG 505. Once the review is complete a presentation will be provided to the BOR to provide the policy of limited duration and actions LACERA will take for violations.

Project Name	Risk Rating	Recommendation	Management Response	Target Implementation Due Date	Quarterly Status Update
Project #	Finding				
Report Date					
Audit Rating					
Financial Accounting & Services Division					
Accounts Payable Audit 2022-UP3 April 15, 2022 Satisfactory	Low Finding #1 - LACERA does not have a formal Accounts Payable policy.	1.) FASD, in conjunction with the Administrative Services Division, should develop a policy that covers all areas of accounts payable practices to help LACERA divisions obtain a mutual understanding of responsibilities and ensure compliance. 2.) Once the policy has been developed, FASD should communicate the Policy to the organization.	Management agrees with the recommendation. FASD management will work with Administrative Services management to develop and communicate a policy that addresses the accounts payable process including the purchasing functions. Management is currently implementing a new accounts payable automated tool, anticipating deployment during the next fiscal year, which may alter steps within the current process. Management will incorporate into the policy any process changes that occur when implementing the new tool.	3/31/2023	AT RISK FASD, PMO, and the AP Team stakeholders resumed implementation of Certify AP since the last AC meeting. Users, vendors, and workflow approvals have been added to the system and the AP Team is working on mapping Certify data for GP general ledger integration. The AP Team can now submit invoices and test transactions in the system. Electronic payment campaign documents to LACERA vendors have also been approved and Emburse will take the next two months to build out the three different payment streams in the system before starting their electronic payment campaign to transition vendors from check to ACH or virtual card. FASD has also begun drafting the AP Policy under the Policies, Procedures, and Charters requirements of the Policy Committee. FASD is aiming to submit the AP policy no later than March 16, in time for the March 23 Policy Committee meeting, and distribute the AP Policy thereafter.

Project Name	Risk Rating	Recommendation	Management Response	Target Implementation Due Date	Quarterly Status Update
Project #	Finding				
Report Date					
Audit Rating					
Human Resources Division					
Audit of LACERA's Rehired Retiree Program 2022-28B August 8, 2022 Unsatisfactory	High Finding #1 - Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	1. LACERA's Executive Office and HR should meet and confer around the expectations for compliance with the Post Employment Rehired Retiree Policy. HR should then revise their procedure accordingly. 2. HR Management ensure 960 Request Forms are completed and approved by the Executive Office, and all required documentation is obtained each fiscal year prior to the rehired retiree beginning work. 3. HR Management to ensure that missing documentations identified in this audit are obtained for the rehired retirees that worked in FY 2020-2021.	Management agrees that there is always room for improvement in both timing and documentation. In collaboration with Human Resources, we will take the following steps: a. Collaborate on an educational and informational program to be delivered to the MAC and SAC teams on an annual basis to review the policy, procedures, and to stress the importance of adherence to the policy. b. Review our procedures and make adjustments to ensure that we have set 'standards' for justification and transition plans, and how they are to be submitted and reviewed. c. The management team believes flexibility is required in determining the timing of bringing back rehired retirees. As such, we will review the policy and procedures and propose adjustments to allow for a process to bring back a retiree during a fiscal year and outline what mid-year or end of year adjustments must be made to support the need. d. Management and HR will work to document the actions taken during this review period.	9/30/2022 Approved 1st Extension 12/31/2022	PENDING INTERNAL AUDIT'S VERIFICATION LACERA Management (HR, Executive Office, and Legal) have met to review the rehired retiree procedures and are making adjustments based on the new policy. Subpart 1 is in process with the new policy that will go to the Operations Oversight Committee (OOC) in March 2023. For subpart 2, improvement will follow from the new policy process. For subpart 3, no missing documentations for HR to obtain.
Audit of LACERA's Rehired Retiree Program 2022-28B August 8, 2022 Unsatisfactory	High Finding #2 - Noncompliance With 960-Hour Limit Requirement	1. HR Management should coordinate and communicate with division managers, prior to and periodically during the year, to ensure compliance with the 960-hour limit.	Management agrees we need to do everything we can to adhere to the regulations and prevent to the best of our ability any instances of overages. With this in mind the following action steps will be or have been taken: a) Human Resources has already begun providing division managers with a monthly report beginning in January of each FY so they can track the hours assigned to the rehired retiree more closely. b) Will work to remind the MAC and SAC team of the importance of reviewing these reports immediately upon receipt and managing the remaining time in such a manner that overages are not allowed.	12/31/2022	PENDING INTERNAL AUDIT'S VERIFICATION HR communicated with Division Managers in 2021 and 2022 about the status of 120 day employees.

Project Name Project # Report Date Audit Rating	Risk Rating Finding	Recommendation	Management Response	Target Implement ation Due Date	Quarterly Status Update
Audit of LACERA's Rehired Retiree Program 2022-28B August 8, 2022 Unsatisfactory	High Finding #3 - Lack of specific limits in defining limited duration	1. LACERA Executive Management should develop a more prescriptive policy around the rehiring of retirees which includes specific limits around the matter of limited duration. 2. LACERA Executive Management should develop an expedited plan to transition from the retiree to permanent staff and report that plan to the Board of Retirement.	Management agrees in general that retired staff members should be brought back for a limited duration to remain in compliance with regulations. However, management also believes that CERL is flexible enough to support, with justification, bringing back a retired staff member on a cyclical basis as needed. For example, LACERA has a cyclical spike in demand for Member Operations Group staff members in Benefits and Member Services during the March Madness season. Management reserves the right to evaluate business needs and make a determination whether it is more economical and efficient to bring back retired staff, or hire additional permanent staff that would not be needed during the "off retirement season." Therefore, we feel the previous responses provide sufficient recommendations that will cover the requirement for a transition plan, when applicable.	12/31/2022	PENDING INTERNAL AUDIT'S VERIFICATION Management has created a new policy that will go to the Operations Oversight Committee (OOC) in March 2023. IA believes this has been addressed in the revised policy.
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	N/A Opportunity #2: Policies, Procedures & Automation	2.a. HR should create and disseminate an HR Recruiting Manual to assist hiring officials (division managers) and recruiters in identifying and recruiting the best candidates.	HR will develop a Division Manager-oriented manual Recruitment Manual documenting recruitment processes and procedures, including roles and responsibilities of HR staff and Division staff, a workflow diagram, checklists, and all necessary forms and documentation. The HR Director will also review and update the existing HR internal procedure manual used by recruiters to correspond to the Division Manager's manual, and include HR specific responsibilities, and links to the appropriate Civil Service Rules.	12/31/2022	PENDING INTERNAL AUDIT'S VERIFICATION As of December 2022, HR team developed a manager-oriented recruiting manual and the HR Director reviewed the HR manual. Additionally, the HR manual has been reviewed by the Executive Office. It will be rolled out to MAC with a pilot program in February or March 2023.

Project Name Project # Report Date Audit Rating	Risk Rating Finding	Recommendation	Management Response	Target Implement ation Due Date	Quarterly Status Update
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	N/A Opportunity #2: Policies, Procedures & Automation	2.b. HR should utilize the resources and tools available through automated systems such as NEOGov or alternative systems to obtain data contained within the Analytics and Reporting functionality of the system. This data should be used to monitor and assess performance, such as, time-to-hire.	LACERA will assess the capabilities of the existing (NEOGov) and other commercially available systems and look for opportunities to obtain the desired metrics identified in this report and through the strategic planning process. LACERA is constrained, however, by its unique relationship with Los Angeles County as it does not own or have access to all of the required data.	6/30/2023	ON TRACK Systems and HR reviewed NeoGov and ServiceNow for reporting and analytics use in HR. The Information Technology Coordination Council approved the use of ServiceNow which will generate metrics. Systems is currently in development of ServiceNow's metrics reporting for HR purpose.
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	N/A Opportunity #2: Policies, Procedures & Automation	2.c. HR should develop a Recruiting Process Flow Diagram which summarizes the key phases, responsibilities of divisions, and hand-off points which occur for all phases of recruitment. This should be performed in collaboration with divisions to identify opportunities for streamlining, to ensure agreement and reduce areas of confusion. This document along with updated P&P's will enable both HR and Divisions to have a clear and consistent understanding of the recruitment process.	HR will develop a workflow diagram and checklists as part of the Division Manager-oriented Recruitment Manual identified in Recommendation 2a.	12/31/2022	PENDING INTERNAL AUDIT'S VERIFICATION As of December 2022, HR team developed a manager-oriented recruiting manual and the HR Director reviewed the HR manual. Additionally, the HR manual has been reviewed by the Executive Office. It will be rolled out to MAC with a pilot program in February or March 2023.

Project Name Project # Report Date Audit Rating	Risk Rating Finding	Recommendation	Management Response	Target Implement ation Due Date	Quarterly Status Update
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	N/A Opportunity #3: Structure, Culture & Service Level Agreements	3.a. HR should align with the Society of Human Resources Management ("SHRM") 4 best practice for recruiting to establish the recruitment team configuration. Based on the current number of vacancies which LACERA has, dedicated recruiters will result in a focus on recruitment to meet the needs of the organization.	The use of a Generalist Human Resources Analyst vs. Specialized recruiter will better meet LACERA's longterm organizational needs. The goal is for each division to have a dedicated Human Resource Generalist that will assist and advise on matters of not only recruitment, but labor relations, employee relations, employee performance, and other Human Resource activities. The Human Resource department has requested additional resources as part of the 2022/23 Proposed Budget with the proposed structure in mind.	6/30/2023	ON TRACK After considerations, HR management decided to continue using Generalist Human Resources Analysts to meet LACERA's long-term organizational needs. Applications for Generalist HR Analyst have been received and qualified. The first test part of the Sr. HR Assistant is complete.
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	N/A Opportunity #3: Structure, Culture & Service Level Agreements	3.b. HR should have recruiting specialists who are assigned specific Divisions as requested by organization stakeholders.	Management's response within 3.a addresses this recommendation.	6/30/2023	ON TRACK After considerations, HR management decided to continue using Generalist Human Resources Analysts to meet LACERA's long-term organizational needs. Applications for Generalist HR Analyst have been received and qualified. The first test part of the Sr. HR Assistant is complete.
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	N/A Opportunity #3: Structure, Culture & Service Level Agreements	3.c. HR should perform a needs assessment to determine whether additional resources are needed by performing the following activities: i.) an evaluation of the competencies of the team; ii.) performing a skills and capabilities assessment; iii.) identifying areas of strengths and professional development needs; iv.) an analysis of the division's tasks performed; and v.) the associated time requirements.	This is a foundational issue that must be accomplished before several other recommendations. LACERA will seek professional assistance to complete an assessment of Human Resources staff capabilities and strengths and identify plans for professional development to fill relevant skill gaps that may exist.	6/30/2023	ON TRACK On 2/7/2023, HR management is still in the process of implementing this recommendation.

Project Name Project # Report Date Audit Rating	Risk Rating Finding	Recommendation	Management Response	Target Implement ation Due Date	Quarterly Status Update
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	N/A Opportunity #3: Structure, Culture & Service Level Agreements	3.d. HR Management and Division Management should establish SLAs as it relates to recruiting efforts. SLAs should identify individual roles and responsibilities at the division level and those performed by HR recruiting staff. Additionally, performance measures should be established to address both efficiency and effectiveness (i.e., performance measure on timing associated with candidate interviews). Lastly, monitoring of the agreements should occur to hold both HR and Divisions accountable for responsibilities and timeliness of recruiting activities.	Roles and responsibilities and expected timelines will be outlined in the Human Resources recruitment manual discussed under Recommendation 2.a. SLAs will need to be negotiated with individual Divisions. Constraints will include available metrics, and HR and Division staff capacity. HR staff will develop an SLA template that will be used to document agreed upon deliverables and timelines.	12/31/2022	PENDING INTERNAL AUDIT'S VERIFICATION As of December 2022, HR team developed a manager-oriented recruiting manual and the HR Director reviewed the HR manual. Additionally, the HR manual has been reviewed by the Executive Office. It will be rolled out to MAC with a pilot program in February or March 2023.
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	N/A Opportunity #3: Structure, Culture & Service Level Agreements	3.e. HR should update work programs for all HR members including the members exclusively dedicated to recruiting efforts. The work programs should outline key recruiting steps, organizational support, and performance measures and accountability.	Human Resources will assess work programs, review classifications, and identify gaps.	12/31/2022	PENDING INTERNAL AUDIT'S VERIFICATION In November 2022, HR Director and Assistant HR Director met to discuss the recommendation. HR management reviewed and assessed any needed changes on work programs related to recruitment and job classifications. Gaps were also identified and summarized.

Project Name	Risk Rating	Recommendation	Management Response	Target Implementation Due Date	Quarterly Status Update
Project #	Finding				
Report Date					
Audit Rating					
Investments Division					
THC Stale Check Review 2021 47 June 15, 2021 Unsatisfactory	High Inadequate controls over the THC check process allowed 104 checks to go stale	The Investment Office should: 2. Address the remaining stale checks by: a. logging and recordings the status of each check until new checks are received and deposited or written off as a loss of funds, b. performing a monthly review by Real Estate team management of the State Check Summary Log and the status of efforts made to obtain reissued checks and the determination of checks that are uncollectable for write-off, and c. dispositioning uncollectable checks with the Executive Office to determine appropriate reporting.	The Investment Office agrees to both the finding and recommendation. 2. The real estate team continues to work diligently to resolve all 104 of these checks. Many of them have already been deposited. a. As of 6/10/21, 46 checks totaling \$180,498 have been deposited, 58 checks totaling \$88,034 are still in progress, and none have been deemed unrecoverable. b. Members of the real estate team and its management meet weekly to review the status of pending and reissued checks. Checks in progress that are being reissued by state or local governments can take up to 24 months. c. Staff will provide quarterly updates to Investment Office Management, Executive Office, and Internal Audit division.	6/30/2023	ON TRACK Of the 58 checks totaling \$88,034.05 identified as still in progress of recovery as of 6/10/21, \$17,843.45 has been recovered, \$6,218.66 has been written off, and the remaining \$63,971.94 is pending and in various stages of recovery. The bulk of the remaining amount in process of recovery is being claimed with two state agencies: the State of California and the California Franchise Tax Board.

Project Name	Risk Rating	Recommendation	Management Response	Target Implementation Due Date	Quarterly Status Update
Project #	Finding				
Report Date					
Audit Rating					
Retiree Healthcare (RHC) Division					
Risk and Control Assessment – Retiree Healthcare Division 2022-33 July 14, 2022	Medium Finding #1 - RHC management has not initiated or completed a majority of its divisional strategic goals.	RHC management should a) assess its strategic goals using a risk-based approach, and b) prioritize addressing goals that can be completed with RHC's current resources.	Management agrees with the recommendation. Currently, LACERA is in the process of developing its organizational Strategic Plan. LACERA's Executive Team and RHC management will develop, align, and prioritize divisional goals and action plans with the finalized LACERA strategic plan. Also, will work in conjunction with Systems, Member Services, Communications, and other divisional stakeholders to ensure cross functional alignment.	3/31/2023	ON TRACK RHC has been collaborating with other applicable divisions to ensure alignment of our goals. RHC's FY2022-2024 strategic goals will be presented to the Board of Retirement (BOR) with the FY2024 budget plan.
Risk and Control Assessment – Retiree Healthcare Division 2022-33 July 14, 2022	Low Finding #2 - RHC division does not have a formal process for reviewing divisional policies and procedures.	RHC management should develop a policy and procedures review process to ensure that the documents are current with applicable laws, organizational policies, and processes.	Management agrees with the recommendation. RHC management will adopt the checklist, process, and procedures developed by the newly formed Policy Committee in authoring and implementing its various policies and procedures. This will ensure adherence to organizational standards and transparency in operational policies and controls.	6/30/2023	ON TRACK RHC management is working on implementing the recommendation. Currently, RHC management believe that the recommendation will be completed by the deadline.

Project Name	Risk Rating	Recommendation	Management Response	Target Implement ation Due Date	Quarterly Status Update
Project #	Finding				
Report Date					
Audit Rating					
Systems Division and Executive Office					
BoardVantage Secure Document Access Review 2022-09 October 21, 2022 Opportunities for Improvement	High Finding #1 - Expected application document access control restrictions were not validated and audit trails were not turned on.	1. LACERA's OneMeeting (PrimeGov) application owners/developers should ensure that during implementation, in the beta phase, when first placed into production, and periodically thereafter, they perform tests of access controls to ensure that the application is appropriately setup and aligned with planned and expected application controls for restricting access to documents to only those authorized and intended to have access. 2. LACERA's Information Security Office should require and ensure that appropriate and available audit trails are built in/turned on and periodically reviewed for all LACERA applications.	1. Management agrees with the findings and recommendations. Staff is currently in the implementation process for the OneMeeting application and user testing is currently underway. Application controls are being tested around security level access and document authorization. Application ownership has been clearly identified and content ownership limited to the Executive Office. Office manuals and desk procedures will be designed to clearly identify access controls and periodic audit testing. 2. The new OneMeeting application will have the audit trail functionality turned on. Furthermore, the Information Security organization is in process of developing and publishing for approval an Audit and Accountability Policy. This policy will require the activation of security and access logging and audit trails for all systems within the LACERA infrastructure. Additionally, the policy will specify that the respective application/system owners are responsible for the periodic review and affirmation of the systems and access audit logs. Note: this policy is in development for presentation to the LACERA Policy Committee and estimate approval before February 2023.	2/28/2023	ON TRACK Access controls were tested and are properly documented per each user prior to the OneMeeting application going live in January 2023. The OneMeeting internal policy and procedures are scheduled to be agendized and reviewed by the Policy Committee in March.
BoardVantage Secure Document Access Review 2022-09 October 21, 2022 Opportunities for Improvement	High Finding #2 - Supporting application access was not appropriately restricted and audit trails were not fully functional and periodically reviewed.	LACERA's OneMeeting (PrimeGov) application owners/developers should ensure the new PrimeGov cloud-based web application has audit logging functions in place when confidential documents are accessed. Audit trail reports should be automatically generated to notify the Executive staff of users accessing confidential documents.	Management agrees with this finding and recommendation. The OneMeeting (PrimeGov) application provides user and audit reporting accessible to application owners. . All deficiencies in the BoardVantage system have been addressed included turning on the audit functions and blocking unauthorized users from gaining access to sensitive documents. Procedures will include quarterly reporting and auditing with any findings reported to Executive Management. To be implemented by February 28, 2023.	2/28/2023	ON TRACK Quarterly user access will be provided to the management team for review.

Project Name Project # Report Date Audit Rating	Risk Rating Finding	Recommendation	Management Response	Target Implement ation Due Date	Quarterly Status Update
BoardVantage Secure Document Access Review 2022-09 October 21, 2022 Opportunities for Improvement	Low Finding #3 - The Policy documenting staff and trustee pre- authorized access to the seven levels of document security is not kept current.	Executive Board Assistants should ensure the new OneMeeting (PrimeGov) cloud-based web application incorporates reports each month on user access changes, to confirm access controls for viewing confidential documents are in place and the application appropriately restricts access to only authorized individuals.	Management agrees with this finding and recommendation. Consolidating three applications into one application will provide better control of user access. Implementation of OneMeeting (PrimeGov) includes process changes that will mitigate this finding. This includes but is not limited to updating the Systems Employee Access Form (SEAF) to include access request for the OneMeeting application. This will ensure proper documentation is properly reviewed, approved, and process. Furthermore, requesting that the Board Offices are added to HR's notification of staff termination. This will ensure that immediate action to deactivate a user is completed timely. The deployment of OneMeeting will consolidate multiple applications and will include controls and safeguards identified in the Audit report. This new application will be fully implemented by February 28, 2023.	2/28/2023	ON TRACK Human Resources has included the Board Offices in the communication for staff termination. The SEAF form is in the process of being updated to include the OneMeeting application.

STRATEGIC RECOMMENDATION FOLLOW-UP REPORT AS OF JANUARY 15, 2023

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
Organizational Structure				
Organizational Governance Review	Organizational Structure	High	LACERA should continue efforts to develop a strategic plan for the organization. Once the strategic plan is in place, LACERA should ensure that the Work Plan and Strategic Initiatives for the Investments Division aligns with the organizational wide strategic plan. The strategic plan should include the following elements: - Clearly defined measurable outcomes that define what constitutes success in each strategic objective and align with applicable performance measures of the contributing process owners - Factors that influence the near and long-term outcomes related to strategic objectives that define how internal and external factors impact progress towards goals and objectives - Identification of key stakeholders from various departments across the organization that are involved in achieving the desired outcomes - A framework to assess achievement and monitor progress, including performance information that can be assessed and categorized for each objective and outcome to determine if sufficient progress is being made and to identify gaps in strategic efforts (see Obs-08)	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
2022-01	Oversight, Strategy, Policies and Procedures	Obs #1 - LACERA does not have an organizational wide strategic plan		
July 20, 2022		LACERA does not have a strategic plan for retirement, member services and operations that aligns the goals and objectives of the organization with actionable plans and outcomes. LACERA initiated a strategic planning process in April 2022, which will include input from Board members and staff throughout the organization.		
N/A		A Work Plan and Strategic Initiatives for the Investments Division was approved by the Board of Investments on January 12, 2022 including an Investment Division Purpose that aligns with the requirements of the Investment Division Policy.		
Organizational Governance Review	Organizational Structure	High	The BOR's Committee Charters and the Chief Executive Officer's (CEO) job description should be reviewed and updated to reflect the appropriate responsibilities of each. The Charters should include oversight responsibilities while the CEO job description should include responsibilities for carrying out the Board directives and management of the organization.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
2022-01	Structure and Accountability	Obs #5 - The LACERA CEO job description and the responsibilities of the Board Committees overlap/conflict		
July 20, 2022		There is overlap in the Chief Executive Officer's (CEO) duties as listed in the CEO job description and the responsibilities of the BOR's Committees as listed in the Committee Charters.		
N/A				

Project Name Project Number Report Date Audit Rating	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating Finding	Recommendation	Quarterly Status Update
Organizational Governance Review 2022-01 July 20, 2022 N/A	Organizational Structure Ethical Values	Medium Obs #6 - LACERA does not have a formal enterprise fraud prevention and detection program While an Ethics Policy is in place that addresses fraud and the fraud reporting hotline, there is no formal program in place to prevent and detect fraud. The information obtained from the fraud reporting hotline is reported to the Audit Committee but there is not a process for incorporating what is learned into the organization's policies. Furthermore, there is no consistent training on fraud prevention and detection throughout the organization.	LACERA should implement a formal fraud prevention and detection program that includes a policy separate from the Ethics Policy, consistent training for staff including how to report suspected fraud, and a process to incorporate what is learned from the fraud reporting into the organization's policies.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
Quality Assurance Operations Review 2021 48 April 9, 2021 Opportunities for Improvement	Organizational Structure Risk of the QA Division's independence being impaired by having to report to the same AEO as the operating units in which they perform quality assurance audits.	Medium Finding #1 - The QA Division's independence is weakened when reporting to the same AEO over the operational areas in which they perform quality assurance audits.	Develop a plan and timeline for a) relocating training and metrics out of the QA Division to an operational division, and b) changing the reporting structure such that the QA Division reports independently to the Administrative AEO.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
Forecasting/Budget				
Risk and Control Assessment – Retiree Healthcare Division 2022-33 July 14, 2022 N/A	Resource Capacity Risk of inability to meet RHC's divisional objectives	N/A Obs #1 - RHC has vacancies throughout the division, especially in the Call Center. • RHC Call Center: The RHC Call Center has a total of 14 budgeted staff positions for FY2022. The RHC Call Center team consists of 4 full-time staff, 1 full-time staff working in a hybrid capacity, and 1 temporary agency staff. The remaining 8 positions are vacant. • Impact to other RHC sections: RHC supervisors and staff from the Operations and Audits/Financial sections are helping with the call center queues due to the short staffing. However, RHC operational staff cannot perform their regularly assigned responsibilities. It has resulted in a cycle of high-volume calls and backlog of incoming member requests and forms. RHC management is currently using overtime to address the issue.	This was a strategic observation made by Internal Audit.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
General Information Technology (IT) Controls				
Risk and Control Assessment – Retiree Healthcare Division	Resource Capacity, General IT Controls	N/A	This was a strategic observation made by Internal Audit.	ON TRACK
2022-33	Risk of increased inefficiencies due to errors and delays	Obs #3 - Most of RHC's operational processes rely heavily on manual processes and are performed outside of the Workspace system. These processes also lack automated controls.		Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
July 14, 2022				
N/A				

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
Internal and External Reporting				
Organizational Governance Review	Internal and External Reporting	Medium	LACERA should finalize the existing draft Communication Plan for the organization. In addition, guidelines for style and format of reporting should be developed to ensure consistency. Staff should be trained on the implemented Communication Plan and style and format guidelines.	ON TRACK
2022-01	Communication and Reporting	Obs #7 - LACERA does not have a communication plan		Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
July 20, 2022		A communication plan for the organization that establishes reporting timelines and format, including standards for communicating with employees and stakeholders has not been implemented. LACERA has drafted a Communication Plan for executive review. In addition, there is no style guide in place to be used with the communication plan to address style and format of standard communications.		
N/A				

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
Performance Measures				
Organizational Governance Review	Performance Measures	Medium	LACERA should develop and implement key performance indicators (KPI's) for any divisions that have not yet defined them. The KPI's should be quantifiable and be linked to the goals of the organization as established in the Strategic Plan (see Obs-01). In addition, reporting mechanisms should be established for the reporting of the KPI's so that the data can be used to inform decision making.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
2022-01	Communication and Reporting	Obs #8 - LACERA lacks defined Key Performance Indicators (KPI)		
July 20, 2022		While some divisions have either developed or drafted key performance indicators (KPI's), they have not been defined for all divisions. Member Benefits and Investments divisions have defined KPI's. The rest of the divisions have either drafted KPI's that have not been approved or have not developed them.		
N/A				
Quality Assurance Operations Review	Performance Measures	Medium	Develop an annual Quality Assurance Audit Plan and Key Performance (KPIs)	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
2021 48	Communication and Reporting	Finding #6: QA management does not have an annual quality assurance audit plan and does not have metrics and KPIs for managing their staff's work.		
April 9, 2021				
Opportunities for Improvement				

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
Policies/Procedure Development & Maintenance				
Organizational Governance Review	Policies/Procedure Development & Maintenance	High	LACERA should, at a minimum, establish a schedule for reviewing and updating all policies and procedures. In addition, internal controls should also be documented within the procedures and reviewed on a regular schedule and updated as necessary. LACERA should also find an automated solution to maintain policies and procedures.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
2022-01	Structure and Accountability	Obs #2 - LACERA does not review and revise policies and procedures or internal controls in an effective manner	The Policies and Procedures Council should focus not only on timely reviews, but also on quality control, ensuring thoroughness, ease of implementation, and effective communication with staff.	
July 20, 2022		There is no defined schedule for updating LACERA policies and procedures. Divisions have varying time frames for when they review their policies and procedures. That leads to policies and procedures being reviewed in an ad-hoc manner. There are also quality deficits: not all policies and procedures are thorough, deliberative, nor effectively implemented. Internal controls are not documented and reviewed regularly.		
N/A		The Executive Office recently established a Policies and Procedures Council to provide an enterprise-wide governance structure for policy management to ensure policies are up-to- date, standardize policy template and writing standards, develop a routine for new policy reviews, and establish policy review cycles for existing policies.		

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
Resource Capacity				
Risk and Control Assessment – Retiree Healthcare Division	Resource Capacity	N/A	This was a strategic observation made by Internal Audit.	ON TRACK
2022-33	Risk of inability to meet RHC's divisional objectives	<p>Obs #1 - RHC has vacancies throughout the division, especially in the Call Center.</p> <ul style="list-style-type: none"> • RHC Call Center: The RHC Call Center has a total of 14 budgeted staff positions for FY2022. The RHC Call Center team consists of 4 full-time staff, 1 full-time staff working in a hybrid capacity, and 1 temporary agency staff. The remaining 8 positions are vacant. • Impact to other RHC sections: RHC supervisors and staff from the Operations and Audits/Financial sections are helping with the call center queues due to the short staffing. However, RHC operational staff cannot perform their regularly assigned responsibilities. It has resulted in a cycle of high-volume calls and backlog of incoming member requests and forms. RHC management is currently using overtime to address the issue. 		Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
July 14, 2022				
N/A				

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
Risk Assessment				
Organizational Governance Review	Risk Assessment	High	LACERA should implement a formal enterprise risk management and compliance program for the organization that includes identification of risks and how to address those risks. The risk information should be used by the organization to make decisions. The program should also include an inventory of all program requirements and a plan to monitor compliance with those requirements. Reporting mechanisms should be implemented for risk management and compliance.	ON TRACK
2022-01	Assessment and Risk Management	Obs #9 - LACERA does not have a formal enterprise risk management and compliance program		Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
July 20, 2022		A formal enterprise risk management and compliance program does not currently exist at LACERA. The Investments Division has a compliance program to address risks within the portfolios and reports regularly to the Board of Investments. The organization has plans to hire a Compliance Manager in the next six months. A risk assessment of the organization is currently performed annually only by Internal Audit for the purpose of developing the Internal Audit Plan		
N/A				

Project Name	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating	Recommendation	Quarterly Status Update
Project Number		Finding		
Report Date				
Audit Rating				
Training and Development & Talent Management				
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	Training and Development & Talent Management N/A	N/A Opportunity #1: Planned, Measured and Optimized Recruiting Approach	1.a. LACERA's Executive Team should work with HR Management to develop an effective Workforce Plan and Implementation Strategies that clearly align with the organization's current and future Strategic Plans related to recruitment efforts. The Strategic Plan should include or address the following: i. HR should gather and analyze the organizational data and continue to evaluate the market supply versus LACERA's demand for talent while factoring in employee retention, employee development, knowledge transfer, and succession management. ii. Address initiatives to meet established goals such as workplace diversity through recruiting and whether vacancies are to be filled internally versus externally (open competitive). iii. Provide Division Management & Executives (stakeholders) with the performance metrics that assist in identifying the risk of turnover, retirement, retention drivers, and measurements related to recruitment activities and initiatives (i.e., time-to-hire, qualified candidates per opening, source quality, quality of hire, offer acceptance rate, first-year turnover rate, equitable recruiting, and employer of choice). iv. Document method of prioritizing future workforce initiatives that include criteria used or risk analysis performed. v. Method to effectively communicate to applicable HR resources and division management involved in recruiting efforts.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	Training and Development & Talent Management N/A	N/A Opportunity #1: Planned, Measured and Optimized Recruiting Approach	1.b. Identify an individual or committee (governance structure) to oversee the alignment of the approved Workforce Plan and HR's Implementation Strategies for recruiting.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.

Project Name Project Number Report Date Audit Rating	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating Finding	Recommendation	Quarterly Status Update
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	Training and Development & Talent Management N/A	N/A Opportunity #1: Planned, Measured and Optimized Recruiting Approach	1.c. LACERA's Workforce Plan should address succession planning as a key component. Each division should perform forecasting of future vacancies through retirement and attrition. Succession candidates should be identified in each division and professional development should occur to prepare these members for future roles. We recommend that LACERA identify a Workforce Planning Model such as that established by the California Department of Human Resources or an alternative model.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
Comprehensive Review of Human Resources Recruiting Process 2022-13 April 18, 2022 N/A	Training and Development & Talent Management N/A	Opportunity #3: Structure, Culture & Service Level Agreements	3.f. Based on the anecdotal evidence shared throughout this engagement it is apparent that LACERA's workplace culture is being affected in negative ways through perceptions and experiences of individuals who are directly related to the recruiting efforts, primarily at the Division level. As such, LACERA should perform an assessment of their HR Division to evaluate the team-member cohesiveness, related to employee satisfaction, level of engagement, perception of HR division management, and alignment with organizational strategy.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
Risk and Control Assessment – Retiree Healthcare Division 2022-33 July 14, 2022 N/A	Training and Development & Talent Management Risk of business sustainability	N/A Obs #2 - RHC is lacking succession planning between the management team and staff. RHC management has continued to rehire a retiree for over ten years.	This was a strategic observation made by Internal Audit.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.


Project Name Project Number Report Date Audit Rating	Related COSO Activity / Long Term Risk or Governance Element	Risk Rating Finding	Recommendation	Quarterly Status Update
Organizational Governance Review 2022-01 July 20, 2022 N/A	Training and Development & Talent Management Structure and Accountability	Medium Obs #3 - LACERA has not implemented a professional development plan A professional development and training plan for the organization does not exist. A training budget is in place and various training is offered to staff, but there is no formal professional development plan that identifies and aligns what training should be provided for staff in order to advance their skills and prepare them for growth within the organization. Additionally, professional development needs for individual employees to enhance their skills have not been incorporated into the system used for employee performance evaluations.	LACERA executive leadership should engage in a facilitated analysis of employees across the organization and identify specific development needs of employee classifications and functional groups. That analysis should include: - A needs and gap assessment of skills development required for critical organization functions - An assessment of the current training budget and how it is being spent - Input from employees on desired offerings, including technology training and "digital upskilling" - An inventory of competencies required of employees by supervisors across functions, including risk and internal control awareness and management competencies - A plan for integrating individual professional development needs into the performance evaluation system In the longer term, LACERA should pay specific attention to high performing employees, and engage employees who are emerging leaders in initiatives and achievement of key objectives, providing cross-training opportunities to ensure the employee receives a well-rounded understanding of interrelated processes and key resources of the organization.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.
Organizational Governance Review 2022-01 July 20, 2022 N/A	Training and Development & Talent Management Structure and Accountability	High Obs #4 - LACERA does not have a succession plan No organization wide succession plan for critical functions exists at LACERA. Some divisions have identified staff for succession but no formal plan has been put in place, including identifying core competencies and any professional development needed to enhance skills of those in line for succession.	LACERA should implement a succession planning process to ensure that the organization can maintain a workforce that collectively possesses the core competencies and skills needed to accomplish its strategic objectives. Effective succession planning focuses on current and future needs and develops a pool of high-potential personnel to meet the organization's long-term mission. The succession plan should include a framework for: - Identification of critical positions of leadership in the organization and executive resource needs, including an analysis of core competencies for leadership success, - Evaluation of the current state of talent, including existing executive competence against what is needed to strengthen executive performance for success at LACERA, and - Aligning identified talent to LACERA's needs, including reviewing the potential leadership readiness for increased challenges or capacity.	ON TRACK Executive Office is evaluating the observation as part of the current strategic planning efforts. The organizational strategic plan will be finalized in FY2023.




February 10, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Christina Logan 
Principal Internal Auditor

Gabriel Tafoya 
Senior Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

SUBJECT: Recommendation Follow-Up for Sensitive Information Technology Areas

Internal Audit reports to the Audit Committee a summary of recommendations being monitored related to system and network security audits and assessments.

Table 1 on page 2 summarizes the status of recommendations implemented related to seven sensitive information technology (IT) engagements and one category of recommendations in which we previously consolidated duplicated recommendations. Six (6) recommendations were implemented during this reporting period, November 2022 through January 2023.

Table 2 on page 4 summarizes the currently outstanding 29 recommendations by the different IT general controls areas.

Staff will be available to address questions at the March 2, 2023 Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

CL:gt

SUMMARY OF OPEN RECOMMENDATIONS

Table 1: Recommendations Status – By Audit Engagement

Engagement Name Report Date	Total Recos	Implemented During Prior Periods	Implemented Nov 2022 – Jan 2023	In Progress Jan 2023
Recommendation Status by Risk Level				
PM SOC FYE 2022 June 2022				
Medium	5	—	—	5
Moss Adams Pen and Social Engineering April 2022				
High	3	1	1	1
Medium	3	1	—	2
Low	1	—	—	1
PM SOC FYE2021 September 2021				
Medium	5	2	—	3
PM SOC Readiness Assessment February 2020				
Medium	10	8	1	1
Clear Skies Penetration Test and VeraCode Report March 2020				
High	1	1	—	—
Medium	25	17	2	6
Low	17	10	1	6
Tevora 2019 Penetration Test June 2019				
Low	5	3	1	1
Tevora 2018 Security Risk Assessment July 2018				
Medium	3	3	—	—
Low	6	4	—	2
Consolidated Recos January 2021				
High	2	2	—	—
Medium	2	1	—	1
Totals	88	53	6	29

For the month ended January 2023, the Information Security Office and Systems Division implemented six (6) recommendations. They implemented:

- One (1) Moss Adams recommendation by providing training that addresses phone impersonation awareness.
- Three (3) Clear Skies Penetration Test recommendations that address updates to MyLACERA.com.
- One (1) Tevora 2019 Penetration recommendation that address communications to remote servers.
- One (1) SOC1 Readiness Assessment recommendation that addresses monitoring and detecting changes to application code deployed to the production system.

For recommendations which are listed as **In Progress**, Systems Division and Information Security provided a summary of work to be performed and a timeline. They plan to complete all remaining Moss Adams recommendations by the beginning of the third quarter of the fiscal year.

RECOMMENDATIONS CATEGORIZED

IT General Controls (ITGC) are the basic controls that can be applied to IT systems such as applications, operating systems, databases, and supporting IT infrastructure. The general objective for ITGC is to ensure the integrity of the data and processes that systems support.

To provide additional insight into these sensitive recommendations, we categorized the recommendations from sensitive IT engagements into the following ITGC areas:

ITGC	Description of control
Data Backup and Recovery	Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.
Environmental	Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
Information Security	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
Logical Access	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
Physical Security	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.
System Development & Change Management	Controls provide reasonable assurance that changes to or development of applications is authorized, tested, and approved. Controls also, provide reasonable assurance that segregation of duties exist.
System Monitoring & Maintenance	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.

Table 2: Recommendations Status – By IT General Control Areas

	Total Recos	Implemented During Prior Periods	Implemented Nov 2022 – Jan 2023	In Progress Jan 2023
Data Back Up & Recovery	1	1	—	—
Environmental	—	—	—	—
Information Security	16	3	—	13
Logical Access	48	35	5	8
Physical Security	3	—	—	3
System Development & Change Management	2	1	1	—
System Monitoring & Maintenance	18	13	—	5
Total by Implementation Status	88	53	6	29

FOR INFORMATION ONLY

February 6, 2023

TO: 2023 Audit Committee
Jason E. Green
Onyx Jones
Patrick L. Jones
Shawn R. Kehoe
Keith Knox
Antonio Sanchez
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Kathryn Ton 
Senior Internal Auditor

FOR: March 2, 2023 Audit Committee Meeting

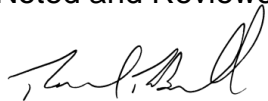
SUBJECT: **Ethics Hotline Status Report**

The purpose of this memorandum is to provide the Committee with information on ethics cases handled by LACERA. LACERA has contracted with NAVEX Global's EthicsPoint since November 2019 for its ethics hotline reporting and case management needs. In 2023, LACERA received four case reports which are under investigation at this time.

Issue Type	Count	Status
Hiring irregularities	4	In-progress

Staff will continue to provide updates to the Committee on future reports. For the Committee's information, Internal Audit is not currently investigating, nor has it received any new reports of wrongdoing and/or become aware of any matters of wrongdoing outside of the Ethics Hotline. Furthermore, we have not identified any matters of fraud in any of our recent or current audit and consulting work.

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

KT