

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

BOARD OF RETIREMENT  
2223 WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701

AUDIT COMMITTEE MEETING  
August 30, 2017  
12:30 p.m.

AGENDA

This agenda contains a brief general description of each item to be considered. Except as otherwise provided by law, no action shall be taken on any item not appearing in the following agenda.

- A. [AUDIT OF V3 DATA CONVERSION AND KEY REPORTS](#)  
*Presentation by David James, Director of Internal Audit*

**Recommendation:** Receive and file.

- B. [AUDIT OF OCERS' RECIPROCITY PROCESS](#)  
*Presentation by David James, Director of Internal Audit*

**Recommendation:** Receive and file.

- C. [ANNUAL INTERNAL CONTROL SELF-ASSESSMENT BY MANAGEMENT](#)  
*Presentation by David James, Director of Internal Audit*

**Recommendation:** Receive and file.

- D. [STATUS OF INTERNAL AUDITS AND AUDIT PROJECTS](#)  
*Presentation by David James, Director of Internal Audit*

**Recommendation:** Receive and file.

\*\*\*\*\* END OF INDIVIDUAL ITEMS AGENDA \*\*\*\*\*

CLOSED SESSION ITEM

- E. **PUBLIC EMPLOYEE PERFORMANCE EVALUATION (GOVERNMENT CODE §54957(b))**  
**Title: Director of Internal Audit**

Audit Committee Meeting  
August 30, 2017

Adjourn pursuant to Government Code section 54957(b) to evaluate the performance of the  
Director of Internal Audit

**Recommendation:** Take appropriate action.

**\*\*\*\*\* END OF CLOSED SESSION ITEMS AGENDA \*\*\*\*\***

**PUBLIC COMMENTS:** The public, plan members, beneficiaries, and/or representatives may speak to any subject matter contained in the agenda *either* at the time the item is addressed *or* at this time, provided that no action may be taken on any item not appearing on this agenda unless authorized by law. Persons who want to address items on the agenda should provide written notice to the Secretary of the Committee prior to the Committee's discussion on the item by filling out the Public Comment Form located in the back of the room. When addressing the Committee, please state your name for the record prior to providing your comments. Speakers will be limited to three minutes.

**COMMITTEE MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**ADJOURNMENT**

**NOTICE OF NEXT MEETINGS**

**GOVERNANCE COMMITTEE MEETING**

**September 5, 2017**

**9:30 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**INVESTMENT MANAGER MONITORING SUBCOMMITTEE MEETING**

**September 7, 2017**

**9:00 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

Audit Committee Meeting  
August 30, 2017

**REGULAR BOARD STRATEGIC PLANNING & EDUCATION FORUM  
SEPTEMBER 13 & 14, 2017  
8:00 a.m.**

**DOUBLETREE CLUB BY HILTON-ORANGE COUNTY AIRPORT  
7 HUTTON CENTRE DRIVE  
SANTA ANA, CA 92707**

**INVESTMENT COMMITTEE MEETING  
SEPTEMBER 19, 2017  
9:00 a.m.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701**

*All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.*

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at [adminsupport@ocers.org](mailto:adminsupport@ocers.org) or by calling 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours' notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

A

## Memorandum

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**DATE:** August 22, 2017  
**TO:** Members of the Audit Committee  
**FROM:** David James, CPA, Director of Internal Audit  
**SUBJECT:** **AUDIT OF V3 DATA CONVERSION AND KEY REPORTS**

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### Recommendation

Receive and file.

### Background/Discussion

OCERS' Internal Audit and Focal Point Data Risk, LLC (formerly known as Sunera) have completed an independent audit of the data migration from PensionGold to V3. The audit found that the data converted from OCERS' legacy pension administration system, PensionGold, to OCERS' new pension administration system, V3, was substantially accurate and complete as of V3's go-live in December 2015. The small number of data conversion variances found in the audit has been corrected in V3 by OCERS and Vitech.

The audit also tested six key reports in V3 for accuracy. The auditors found defects in three of those reports. Prior to these V3 reports being used in production, OCERS and/or Vitech corrected all of the defects in these reports. Further details are in the attached report.

Submitted by:

 D.J. - Approved  
EMPLOYEES RETIREMENT SYSTEM

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David James, CPA  
Director of Internal Audit



## **Audit of V3 Data Conversion and Key Reports**

**Report Date: August 2, 2017**

**Internal Audit Department**

**Director of Internal Audit: David James, CPA, MBA**

**Internal Auditor: Mark Adviento, CPA**

**Audit of V3 Data Conversion and Key Reports**  
**August 2, 2017**

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## **Executive Summary**

OCERS' Internal Audit and Focal Point Data Risk, LLC (formerly known as Sunera) have completed an independent audit of the data migration from PensionGold to V3. The audit found that the data converted from OCERS' legacy pension administration system, PensionGold, to OCERS' new pension administration system, V3, was substantially accurate and complete as of V3's go-live in December 2015. The small number of data conversion variances found in the audit has been corrected in V3 by OCERS and Vitech.

The audit also tested six key reports in V3 for accuracy. The auditors found defects in three of those reports. Prior to these V3 reports being used in production, OCERS and/or Vitech corrected all of the defects in these reports. See further detail in the "Data Conversion Variances and Management Comments" section and the "Key V3 Reports' Variances and Management Comments" section below.

## **Background**

In December 2015, OCERS replaced PensionGold with a new pension administration system, V3, which was purchased from Vitech Systems. To obtain assurance that data had been migrated correctly from PensionGold to V3, OCERS' Internal Audit recommended that an audit be performed of the data conversion and of key output reports from V3.

Because the audit was performed post-go-live of V3 in December 2015, it was necessary that the audit be performed on copies of PensionGold and V3 databases taken as of the December 2015 go-live date. The audit covered 100% of data converted from PensionGold to V3.

## **Audit Scope**

The scope of the data conversion audit included 100% of the SQL programming code used to migrate PensionGold data to V3EXEC staging tables and then a direct comparison of 100% of the data in both the V3EXEC staging tables and V3 data tables.

The scope of the key V3 report portion of the audit included:

1. Payee Actuarial Extract – used for OCERS' actuarial valuation
2. Non-Payee Actuarial Extract – used for OCERS' actuarial valuation
3. ACH (Automated Clearing House) – used for direct deposit of monthly benefits



4. Employment Development Department (EDD) – California tax withholding report
5. 1099 IRS tax reporting – Federal tax withholding reporting
6. Positive Pay – used to confirm benefit payments made via live checks.

The audit scope did not include a review of OCERS’ data cleansing activities taken to prepare PensionGold data for the conversion.

### **Audit Methodology**

The audit reviewed and evaluated SQL programming code built by OCERS’ staff and consultants to convert PensionGold data into the V3EXEC staging tables. The auditors reviewed all 461 SQL queries and stored procedures (groupings of SQL statements) built by OCERS’ staff and consultants. The auditor’s SQL programming code review did not find anything that would filter out or manipulate data, and no variances were found by the auditors.

To evaluate the completeness and accuracy of the data migration from the V3EXEC staging tables into V3, the auditors created SQL queries and performed field-level comparisons of data between the staging tables in V3EXEC and V3. Variances found by the auditors are noted below in the “Data Conversion Variances and Management Comments” section below.

For key V3 reports re-performance, the auditors used V3 design and specification documentation to recreate V3 reports and compared their report outputs against actual V3 reports and PensionGold reports. Variances found by the auditors are noted below in the “Key V3 Reports’ Variances and Management Comments” section below.

### **Data Conversion Variances and Management Comments**

The following variances required OCERS or Vitech to make corrections to data in V3:

<b>Data Conversion Variances</b>	<b>Members Affected</b>
1. Incorrect contact information	73
2. Incorrect family relationship description	1
3. Missing SSN	2
4. Incorrect plan sponsor code	1
Total members:	77

**Variance 1: Incorrect Contact Information:** In the contacts information table, V3 removed certain characters from contact information such as email addresses for 73 members. Correct contact information is needed to communicate with members.

*Management Comment:* Concur. OCERS requested a script from Vitech to correct the issue. The fix was applied on 3/16/2016.

**Variance 2: Incorrect Relationship Value:** In the dependent table, the record of one member's dependent was passed into V3 with a relationship classification of "OT", standing for "other", instead of "child". The relationship status of beneficiaries should reflect the actual relationship.

*Management Comment:* Concur. Member Services' staff updated the relationship classification in the record from "other" to "child".

**Variance 3: Missing SSNs:** In the beneficiary table, two associate records did not have a SSN in V3, even though the SSNs were placed into the staging table for upload into V3. Correct SSNs are required to properly identify OCERS' members and beneficiaries.

*Management Comment:* Concur. SSNs for the two associate members were originally incorrectly entered into PensionGold with two missing digits each, but were automatically rejected as part of the transfer from the staging tables into V3. Member Services subsequently added the correct SSNs into V3 for both the associates' records after obtaining the correct SSNs from the member.

**Variance 4: Missing Employer Plan Codes:** In PensionGold, the incorrect plan sponsor code was tied to one member's account transactions that properly zeroed out salaries, contributions, and service credit upon retirement (the actual retirement benefit was not affected). This incorrect plan code was blanked out in V3 when the member's data moved from the staging tables to V3. Employer plan codes should reflect the actual plan sponsor that employed the member.

*Management Comment:* Concur. OCERS requested a script from Vitech to correct the issue. The fix was applied on 6/15/2017.

### **Key V3 Reports' Variances and Management Comments**

No issues were found with the following reports:

- 1099 – Federal tax withholding reporting
- Positive Pay – used to confirm benefit payments made via live checks.
- ACH (Automated Clearing House) – used for direct deposit of monthly benefits

The following reports in V3 had defects that required corrections to be made by Vitech:

<b>Key V3 Report</b>	<b>Members Effected</b>
1. EDD report - incorrect California income tax withholding amounts	5
2. Actuarial payee report - incorrect pension, annuity, and COLA amounts	9
3. Actuarial non-payee report - incorrect member status	37
Total members:	51

### **Employment Development Department (EDD) Report**

The auditors recreated the EDD report and noted variances for five members compared to the output from V3's EDD report. V3's EDD report did not properly record voided/reissued benefit checks in the proper quarter for these five members. Voided/reissued benefit checks should be recorded in the same quarter of the original benefit check's issuance, not a subsequent quarter when a member actually reports a missing benefit check to OCERS. Since OCERS remits income tax withholding to California on a quarterly basis, this would have resulted in incorrect state income tax reporting to the State of California.

#### *Recommendation*

OCERS should confirm the logic used by Vitech to create the EDD report and correct the EDD report.

#### *Management Response*

Concur. Management determined that the findings were an issue and logged a defect with Vitech. The report defect was fixed and tested by OCERS' staff with the February 2017 V3 Build 8.4 prior to 2016 tax withholding reporting to the state of California.

### **Actuarial Report – Non-Payee & Payee**

#### *Recommendations*

For the Non-Payee Actuarial Report, several variances were found between the V3 reports recreated by the auditors and reports run from PensionGold and V3. 21 of the

22 variances found by the auditors during fieldwork were due to defects previously identified by OCERS for correction by Vitech. The remaining variance was escalated to Vitech as a defect related to the status of 37 members. The V3 report was not correctly picking up the current status (i.e., Active, Deferred, On Leave) as required by the actuary for the valuation.

For the Payee Actuarial Report, four variances were found between the V3 reports recreated by the auditors and reports run from PensionGold and V3. One of the variances was due to a defect previously identified by OCERS for correction by Vitech. The remaining three variances were escalated to Vitech as a defect related to (1) pension amounts, (2) annuity amounts, and (3) COLA adjustments for the same nine members. Each of the nine members in the variance had a lump-sum or manual one-time payment (paid in the last month of the reporting period) that was incorrectly picked up by the V3 report instead of the regular monthly benefit payment as required by the actuary for the valuation.

#### *Management Response*

Concur. Vitech's V3 Build 8.4 was placed into production in February 2017 and contained fixes for all defects described above. The auditors retested the reports and confirmed that the variances were fixed in time for the 2016 actuarial valuation performed by Segal.

B

## Memorandum

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**DATE:** August 22, 2017  
**TO:** Members of the Audit Committee  
**FROM:** David James, CPA, Director of Internal Audit  
**SUBJECT:** **AUDIT OF OCERS' RECIPROCITY PROCESS**

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### Recommendation

Receive and file.

### Background/Discussion

OCERS' Internal Audit Division has completed an independent audit of OCERS' procedures for establishing incoming reciprocity for its members. Our audit recommends that OCERS' management should consider taking additional steps to educate members about the benefits of reciprocity and/or make a significant policy change to address members' untimely reciprocity requests; add additional controls over reciprocity refund calculations performed by one plan sponsor; and correct one minor reciprocity refund calculation error found in our test sample. The details of our findings and recommendations are discussed further in the attached report.

Submitted by:

 D.J. - Approved  
EMPLOYEES RETIREMENT SYSTEM

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David James, CPA  
Director of Internal Audit



## **Audit of OCERS' Reciprocity Process**

**Report Date: August 2, 2017**

### **Internal Audit Department**

**Director of Internal Audit: David James, CPA, MBA**

**Internal Auditor: Mark Adviento, CPA**

**OCERS Internal Audit**  
**Audit of OCERS' Reciprocity Process**  
**August 2, 2017**

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## **Conclusion / Executive Summary**

OCERS' Internal Audit Division has completed an independent audit of OCERS' procedures for establishing incoming reciprocity for its members. Our audit recommends that OCERS' management should consider taking additional steps to educate members about the benefits of reciprocity and/or make a significant policy change to address members' untimely reciprocity requests; add additional controls over reciprocity refund calculations performed by one plan sponsor; and correct one minor reciprocity refund calculation error found in our test sample. The details of our findings and recommendations are discussed further in the "Findings, Recommendations, and Management Responses" section of the report.

### **Objective, Scope, and Methodology**

The objective of the audit was to determine that members with incoming reciprocity were eligible for reciprocity and that contribution refunds arising from reciprocity were accurate and complete.

The scope of the audit included reciprocity refund contribution refunds paid to members between June 2015 and December 2016.

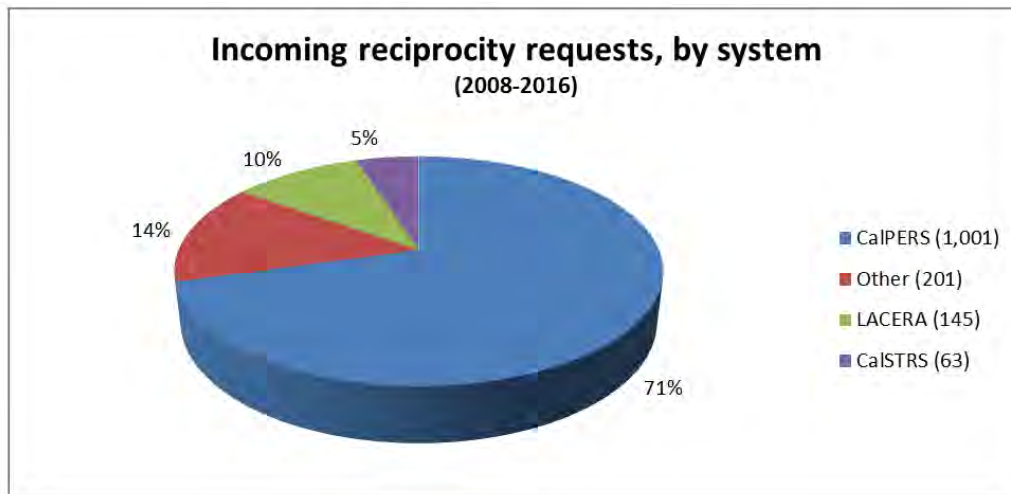
The methodology included recalculating the contribution refunds for a sample of 30 members for accuracy; and determining if there is adequate documentation supporting reciprocity eligibility and the refund calculation.

### **Background - Reciprocity Eligibility and Benefits**

Reciprocity provisions encourage career public service by preserving the retirement benefits earned by members who transfer between two or more reciprocal systems. Incoming reciprocity is established for members who terminate from an employer covered by a reciprocal agency, leave their funds on deposit with that reciprocal agency, and enter OCERS within 180 days. OCERS members can establish reciprocity with all County Employees Retirement Law (CERL) systems, CalPERS, CalSTRS, and other California based systems. Reciprocity benefits include:

- The member's contribution rate at OCERS will be based on the member's earlier age of entry with a reciprocal system, resulting in a lower contribution rate
- Service credit under all reciprocal retirement systems will count toward the eligibility age required for an OCERS' benefit

- The member can use the highest average salary earned from any reciprocal system for an OCERS' benefit calculation.



### **Confirming Eligibility for Reciprocity**

In order to confirm a member's eligibility for reciprocity with another system, OCERS faxes or emails the reciprocal system an ISMA (Inter-System Membership Advice) Form 1004 requesting information on the member's entry date and service credit with that system. This is a standardized form created in collaboration between CERL Systems, CalPERS, and CalSTRS. It can take several months for the other reciprocal system to return a certified ISMA form to OCERS.

When reciprocity is confirmed via a certified ISMA form, OCERS' Member Services updates the Pension Administration System (V3) with the member's contribution basis date to reflect the member's earlier entry date with the reciprocal system (and thus a younger age of entry with OCERS) as well as entering a reciprocal employment record reflecting the years of service earned with the other system. In addition, the member might also be placed in a different benefit plan within V3.

The above updates in V3 typically lower the member's age based contribution rate, resulting in a partial refund of previously paid contributions. Member Services calculates this contribution refund and notifies the employer so that the employer can pay the refund to the member. OCERS also notifies the employer about the member's new contribution basis date, new contribution rate, and new plan (if applicable) so that the employer can update its payroll system. The County's reverse pickup rate structure and the advent of PEPRA plans adds complexity to this calculation. Such calculations could be simplified were OCERS to adopt a single contribution rate for PEPRA members

instead of using aged based rates. The Board previously considered the issue, as discussed below.

### **Board Decision on PEPRA Rates**

At the November 2012 Board of Retirement meeting, the Board was asked to consider a recommendation to determine whether to use a single contribution rate or an age based rate when setting member contributions for PEPRA safety and general members. The change would not have affected non-PEPRA members.

In favor of the policy change was that a system with multiple rate groups with varying rates based on entry age adds to system complexity and additional work for staff and the actuary, and that this pooling of costs was consistent with other demographic pooling of costs used by other retirement systems.

Against the policy change was that a single rate structure would necessarily result in younger members paying higher rates and older members paying lower rates compared with entry age based rates. New members that enter at older ages would be subsidized by new members that enter at lower ages, compared to the practice of using entry age based rates. Also this change would cause plan sponsors to have employees in a plan formula that has both an age based rate structure and a single rate structure depending on hire date.

The Board voted 5-2 against the single rate methodology proposal, and instead voted 5-2 to continue with the age based methodology with regards to PEPRA member contribution rates.

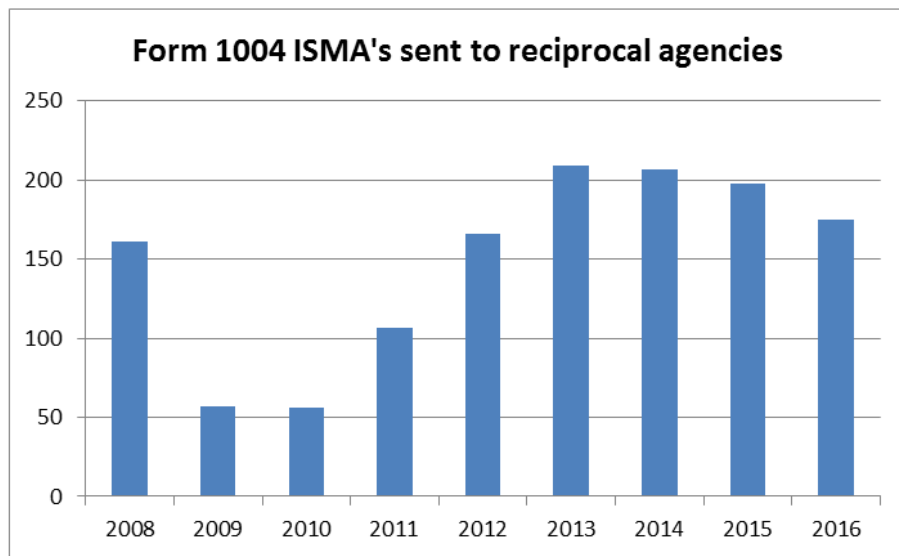
### **Reciprocity Refund Calculations in V3**

Member Services uses V3's Reciprocity Rebilling function to automatically perform reciprocity refund contributions via a batch process. With the previous Pension Administration System, PensionGold, Member Services' staff performed a manual calculation with spreadsheets. With one exception detailed further in Finding #2, all reciprocity refund calculations are reviewed by an Accounting Technician.

## Member's Responsibility

New members typically notify OCERS of previous public service on the Member Affidavit form completed by the member when starting employment. Alternately, any member can notify Member Services by phone.

Members, however, have sometimes informed OCERS of previous public service several years after joining OCERS or just before retiring after a lengthy career. This can result in Member Services staff spending additional amounts of time researching years' of employment records and age-based contribution rates to calculate a contribution refund. See Finding #1, as OCERS should take steps to further educate members and plan sponsors about reciprocity benefits and/or make a policy change to address members' untimely reciprocity requests.



## Internal Audit Testing

Internal Audit tested a sample of 30 contribution refunds paid to members between June 2015 and December 2016. Internal Audit recalculated these refunds and reviewed supporting documentation establishing reciprocity. Supporting documentation included Member Affidavit forms, ISMA forms, refund calculation spreadsheets, reciprocity acknowledgement letters to members from OCERS and reciprocal systems, refund authorization forms sent to plan sponsors, and member notification forms sent to plan sponsors.

In our sample, we noted that it averaged 5.7 months for reciprocal pension systems to return a certified ISMA form to OCERS. Also, the average contribution refunded to members was \$1,389.

During testing, we noted that OCERS' Member Services is not performing a secondary review over reciprocity refunds actually calculated by OCFA. See Finding #2 for further detail. Also, during the testing we noted one reciprocity refund calculation error of a minor dollar amount. See Finding #3 for further detail.

## Findings, Recommendations, and Management Responses

### Finding #1 – Members’ Untimely Notifications of Reciprocity (Process Improvement)

Significant Member Services’ staff time can be spent researching and calculating contribution refunds if a member notifies OCERS of previous public service several years after beginning membership with OCERS. The same applies if the member notifies OCERS just before filing a retirement application after a lengthy career.

Member Services disclosed to Internal Audit a member who claimed reciprocity upon retirement in 2017 but who entered service with OCERS in 1987. This required Member Services to recalculate 30 years of contributions. Also we noted one member who notified OCERS of previous public service approximately five years after beginning with OCERS, and another member who notified OCERS 1.3 years after beginning with OCERS.

In such cases, Member Services must manually recalculate several years of biweekly payroll contributions due to limitations of V3’s Reciprocity Rebilling function.

### Recommendation (1 of 2) – Member Education

OCERS should take additional steps to educate members of the benefits of reciprocity and the importance of timely notifying OCERS of previous public service. OCERS’ welcome letters to new members could also include existing pamphlets describing the benefits of reciprocity. Furthermore, OCERS should inquire with the County if it would allow OCERS to present the benefits of reciprocity during the County’s lunch time seminars available to County staff.



Source: Email from County Human Resources sent to all County employees and OCERS’ staff

In addition, staff should use the OCERS’ *At Your Service* newsletter, the *County Connection* magazine, and other sources of communications with members to publicize the need for members to notify OCERS early about their eligibility for reciprocity.

## **Recommendation (2 of 2) – Policy of Recognizing Member Reciprocity**

OCERS should consider recognizing a member's reciprocity only on a go-forward basis from the date of the member's reciprocity request, after confirming eligibility with the reciprocal system. This would eliminate the need for Member Services to recalculate contributions for pay periods prior to the member's request and free up Member Services' staff time for other duties. Per consultation with OCERS' Legal Department, there is no prohibition against this practice in the CERL. Such a policy change would require consideration by Board Members, Legal counsel, and OCERS' management before implementing.

### **Management Response**

Consideration will be given to recommendation #1 of 2. OCERS Welcome Letter is intended to direct the new member to the website where Summary Plan Descriptions (SPD) containing a comprehensive amount of information regarding their OCERS benefits can be accessed.

Management agrees with recommendation #2 of 2 and will work with Legal.

### **Finding #2 – OCFA Reciprocity Refunds Without OCERS' Review (Significant)**

We noted that Member Services is not performing a secondary review over reciprocity refund calculations actually performed by OCFA for its safety members. Over time, OCERS has adopted the practice of relying on OCFA to perform this calculation due to its complexity. Reciprocity refund calculations for OCFA safety members are complex because OCFA's member flat rate contribution structure needs to be reconciled against OCERS' age of entry contribution structure. In addition to the flat rate contribution structure, a number of OCFA employees receive an offset of their employee paid retirement contributions due to a health insurance credit. There is a risk that Member Services is not detecting errors made by OCFA, resulting in incorrect contributions paid to OCERS.

### **Recommendation**

Member Services staff should be trained, with the assistance of OCFA payroll personnel, in how OCFA calculates reciprocity refunds so that Member Services can add its own secondary review process over OCFA reciprocity refunds.

## **Management Response**

Agreed. Management has been in contact with the payroll team at OCFA and we have taken steps to reinstate the review process.

## **Finding #3 – Refund Calculation Mistake on Pensionable Pay Items (Minor)**

One member has a contribution refund calculation that did not apply the reciprocal entry age rate against the member's pensionable pay items. This resulted in an overpayment of a contribution refund to the member of \$36.

Reciprocity refund calculations should include contributions paid on pensionable pay items.

## **Recommendation**

Member Services should write off the \$36 due to immateriality or attempt to recover the \$36 overpayment from the member.

## **Management Response**

Agreed.



Finding #	Finding	Rec #	Recommendation
1	Significant Member Services' staff time can be spent researching and calculating contribution refunds if a member notifies OCERS of previous public service several years after beginning membership with OCERS. The same applies if the member notifies OCERS just before filing a retirement application after a lengthy career.	1	<p>OCERS should take additional steps to educate members of the benefits of reciprocity and the importance of timely notifying OCERS of previous public service.</p> <p>OCERS should consider recognizing a member's reciprocity only on a go-forward basis from the date of the member's reciprocity request, after confirming eligibility with the reciprocal system.</p> <p><b>(Process Improvement)</b></p>
2	Member Services is not performing a secondary review over reciprocity refund calculations performed by OCFA for its safety members.	2	<p>Member Services staff should be trained, with the assistance of OCFA payroll personnel, in how OCFA calculates reciprocity refunds so that Member Services can add its own secondary review process over OCFA reciprocity refunds.</p> <p><b>(Significant)</b></p>
3	One member has an overpayment of a contribution refund of \$36.	3	<p>Member Services should write off the \$36 due to immateriality or attempt to recover the \$36 overpayment from the member.</p> <p><b>(Minor)</b></p>

## **Report Item Classifications**

For reporting audit findings and recommendations, we classify the report items in the following categories:

**Critical** – a control deficiency that is a critical exception to a business process or goal. Management should address immediately.

**Significant** – a significant deficiency in the design or operation of internal controls. Management should address promptly with corrective action.

**Minor** – will meaningfully enhance the design or operation of specific internal controls. Management should address in a reasonable amount of time.

**Process Improvement** – recommendation to improve upon a general business processes.

C

# Memorandum

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**DATE:** August 22, 2017  
**TO:** Members of the Audit Committee  
**FROM:** David James, CPA, Director of Internal Audit  
**SUBJECT:** ANNUAL INTERNAL CONTROL SELF-ASSESSMENT BY MANAGEMENT

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## Recommendation

Receive and file.

## Background/Discussion

Internal Audit has met with management from Finance, Member Services, Investments, and Information Technology, and we reviewed the Risk and Control Matrices (RACM) with them. We discussed business objectives, related risks, and controls in place to mitigate such risks. Based on information supplied by management, we updated the internal control descriptions.

The matrices document the key internal controls that OCERS’ management has asserted they have in place and the risks they mitigate. These lists of controls are representations by management, many of which have been tested in the course of audits performed by Internal Audit. Internal Audit plans to audit the remainder of these internal controls in future audits.

Finance Division	76
Information Technology	16
Investments Division	20
Member Services	28
<b>Total Number of Key Internal Controls:</b>	<b>140</b>

Submitted by:



D.J. - Approved

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David James, CPA  
 Director of Internal Audit

D

## Memorandum

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**DATE:** August 22, 2017  
**TO:** Members of the Audit Committee  
**FROM:** David James, CPA, Director of Internal Audit  
**SUBJECT:** STATUS OF INTERNAL AUDIT AND AUDIT PROJECTS

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### Recommendation

Receive and file.

### Background/Discussion

10 of 14 audit projects have been completed from the 2017 Audit Plan.

Remaining open audit projects are:

- The **audit of OCERS' expense reports** is in fieldwork stage. The objective of the audit is to determine that internal controls over expense reimbursements for OCERS' staff and trustees help ensure that payments are accurate, properly documented, and in compliance with OCERS' Board approved Travel Policy and OCERS' Corporate Credit Card Policy. The scope will include testing of a sample of 60 expense reports since June 30, 2012.
- The **audit of OCFA payroll transmittals and employee data** is in the planning stage. Internal Audit has contacted OCFA with several meetings, information requests, and discussion of the audit program.
- The **actuarial audit** of Segal's 2016 valuation is on schedule, and the final report should be presented to the Audit Committee in December 2017, according to the actuarial auditor, Cheiron. Segal and OCERS are providing Cheiron the information they requested. Cheiron is currently preparing the coding for comparing data in their audit.
- The **Investments rebalancing review** is in the early planning stage.

Submitted by:

ORANGE COUNTY  
**OCERS** D.J. - Approved  
EMPLOYEES RETIREMENT SYSTEM

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David James, CPA  
Director of Internal Audit

**Orange County Employees Retirement System  
Internal Audit Division  
2017 Internal Audit Plan**

Audit Activity	Description	Priority (A, B, or C)	Planned Hours - Original Budget	Actual Hours as of 8/18/17	Hours Estimated to Complete	Comments
<b>Internal Audits</b>						
Plan Sponsor Review	Report and presentation of plan sponsors' financial status.	A	50	45	0	Completed in February.
CIO Position Review	Review responsibilities of CIO Position.	A	200	189	0	Completed in February.
San Juan Capistrano Payroll Transmittal	Review payroll transmittals and employee data.	B	50	48	0	Completed in March.
Finance Investments Transfers Review	Role of Investments' staff in assessing and approving investments fundings, balancings, transactions, valuations.	A	300	301	0	Completed in May.
NYSCRF Fraud Review	Review NYSCRF fraud and OCERS related policies	A	50	54	0	Completed in May.
V3 Data Conversion Audit	Review data used in system conversion from PensionGold to V3.	A	50	60	0	Completed in June.
Reciprocity Claims Audit	Review reciprocity claims for accuracy and completeness, and adequate supporting documentation.	A	250	290	0	Completed in August.
Expense Report Audit	Audit of selected OCERS' expense reports.	B	250	186	64	In fieldwork stage.
OCFA Payroll Transmittal	Review payroll transmittals and employee data.	A	300	4	296	In planning stage.
Investments Rebalancing Review	Review rebalancing processes.	A	300	0	300	In planning stage.
<b>Internal Audits Subtotal</b>			1,800	1,177		

**Orange County Employees Retirement System  
Internal Audit Division  
2017 Internal Audit Plan**

Audit Activity	Description	Priority (A, B, or C)	Planned Hours - Original Budget	Actual Hours as of 8/18/17	Hours Estimated to Complete	Comments
<b>Non-Audit Projects</b>						
Actuarial Audit	RFP - Audit of Segal's 2015 valuation.	A	60	44	16	In progress.
Miscellaneous Investigations	Use of hotline reporting system.	B	50	17	33	Four reports in 2017.
Risk and Control Matrix	Review and update Risk and Control Matrix.	A	50	35	0	Completed in July.
Risk Assessment and Audit Plan	Annual preparation of the Audit Plan, updates to the current Audit Plan.	A	50	37	0	Completed in January.
Miscellaneous Projects	For small hours unplanned projects or assignments by the Audit Committee.	C	50	15	35	Category added in May. Moved hours from General Admin.
	<b>Non-Audit Projects Subtotal</b>		260	148		
<b>Administration</b>						
Board and Committee Meetings	Board meetings, Audit Committee, Investment Committee, Governance Committee.	A	300	182	118	Includes preparation time for meetings.
General Administration	Attending staff and other meetings, administrative duties.	B	1,200	649	551	
	<b>Administration Subtotal</b>		1,500	831		
	<b>Total Hours</b>		<b>3,560</b>	<b>2,156</b>		



**Orange County Employees Retirement System  
Internal Audit Division  
2017 Internal Audit Plan**

Audit Activity	Description	Priority (A, B, or C)	Planned Hours - Original Budget	Actual Hours as of 8/18/17	Hours Estimated to Complete	Comments
<b>Other</b>						
Miscellaneous Leave	Holidays, Sick Leave, Time off, etc.		432	270		
Training / Conferences	Required to maintain CPA certification. SACRS, APPFA.		168	205		
Total Hours off			600	475		
	<b>Total Hours Available for Two Auditors</b>		<b>4,160</b>	<b>2,631</b>		