

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

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

AUDIT COMMITTEE MEETING
December 14, 2017
1:30 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 OCERS' TRAVEL EXPENSE REPORTS](#)

Presentation by Mark Adviento, Internal Auditor

Recommendation: Receive and file *Audit of OCERS' Travel Expense Reports*.

B. [HOTLINE UPDATE](#)

Presentation by Mark Adviento, Internal Auditor

Recommendation: Receive and file.

C. [STATUS OF 2017 INTERNAL AUDIT PLAN](#)

Presentation by Mark Adviento, Internal Auditor

Recommendation: Receive and file.

D. [CONSIDERATION OF 2018 RISK ASSESSMENT AND 2018 AUDIT PLAN](#)

Presentation by Mark Adviento, Internal Auditor

Recommendation:

Approve the *2018 Risk Assessment and 2018 Audit Plan*.

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

CLOSED SESSION ITEM

**E. THREAT TO PUBLIC SERVICES OR FACILITIES
(GOVERNMENT CODE SECTION 54957)**

Adjourn pursuant to Government Code section 54957 to consult with *Steve Delaney, CEO, Brenda Shott, Asst. CEO; Jenny Sadoski, Director of Information Technology; Jon Gossard, Security Operations Manager; Cynthia Hockless, Director of Administrative Services, and Gina M. Ratto, Chief Legal Officer*

Recommendation: Take appropriate action.

**F. PUBLIC EMPLOYMENT
(Government Code section 54957)**

Title: Acting Director of Internal Audits

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

**REGULAR BOARD MEETING
December 18, 2017
9:00 A.M.**

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

**REGULAR BOARD MEETING
January 16, 2018 (tentative)
9:00 A.M.**

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

**INVESTMENT COMMITTEE MEETING
January 26, 2018 (tentative)
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 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

DATE: December 6, 2017
TO: Members of the Audit Committee
FROM: Mark Adviento, CPA, Internal Auditor
SUBJECT: **AUDIT OF OCERS' TRAVEL EXPENSE REPORTS**

Recommendation

Receive and file.

Background/Discussion

OCERS' Internal Audit Division completed an audit of travel expense reimbursements between January 2013 and March 2017. Internal Audit concludes that OCERS' travel expense reimbursements to staff and trustees were accurate and complete, properly approved, and supported with adequate documentation.

Internal Audit recommends one improvement to internal controls and four revisions to OCERS' Travel Policy language. The policy is due for an OCERS' Governance Committee review in November 2018.

Details of our audit, findings, recommendations, and management responses are in the report following.

Submitted by:

M.A. – Approved

Mark Adviento, CPA, Internal Auditor



Audit of OCERS' Travel Expense Reports

Report Date: December 6, 2017

Internal Audit Department

Mark Adviento, CPA, Internal Auditor

Table of Contents

Conclusion.....	1
Objective, Scope, and Methodology.....	2
Background.....	2
Findings, Recommendations, and Management Responses.....	4

Conclusion / Executive Summary

OCERS' Internal Audit Division completed an audit of travel expense reimbursements between January 2013 and March 2017. In this period, staff and trustees submitted 621 expense reports totaling \$643,606 spent on educational conferences and investment due diligence trips.

Internal Audit concludes that OCERS' travel expense reimbursements to staff and trustees were accurate and complete, properly approved, and supported with adequate documentation.

However, Internal Audit recommendations include one improvement to internal controls and four revisions to OCERS' Travel Policy language based on the **Control Findings** listed below. The policy is due for an OCERS' Governance Committee review in November 2018.

Control Finding #1 – OCERS' Board was not provided with required conference attendance reports.

- Recommendation - Ensure staff submit conference attendance reports to the Board of Retirement when required.

Control Finding #2 – OCERS' Travel Policy does not make use of GSA (General Services Agency) per diem rates to reimburse for meals and incidental expenses.

- Recommendation - Reimburse staff and trustees for meals and incidental expenses with federal government "per diem" rates, not from meal receipts.

Control Finding #3 – OCERS' Travel Policy is not specific enough in terms of insurance coverage.

- Recommendation - Require car rental insurance and determine when flight insurance is necessary.

Control Finding #4 – OCERS' Travel Policy does not limit airline seating to coach or economy.

- Recommendation - Require the use of non-refundable coach or economy airline seating.

Control Finding #5 – OCERS' Travel Policy does not prohibit executive car service and social networking events for reimbursement.

- Recommendation - Prohibit reimbursement for executive car service and social networking events.

Details of our **Control Findings**, Internal Audit’s recommendations, and management’s responses begin on page 4.

Objective, Scope, and Methodology

The objective of this audit was to determine that staff and trustee expense reports were accurate and complete, properly approved, supported with adequate documentation, and in compliance with OCERS’ Travel Policy.

The scope of the audit included employee and trustee expense reimbursements between January 2013 and March 2017. Internal Audit randomly selected a sample of 60 expense reimbursements totaling \$115,702 for detail testing.

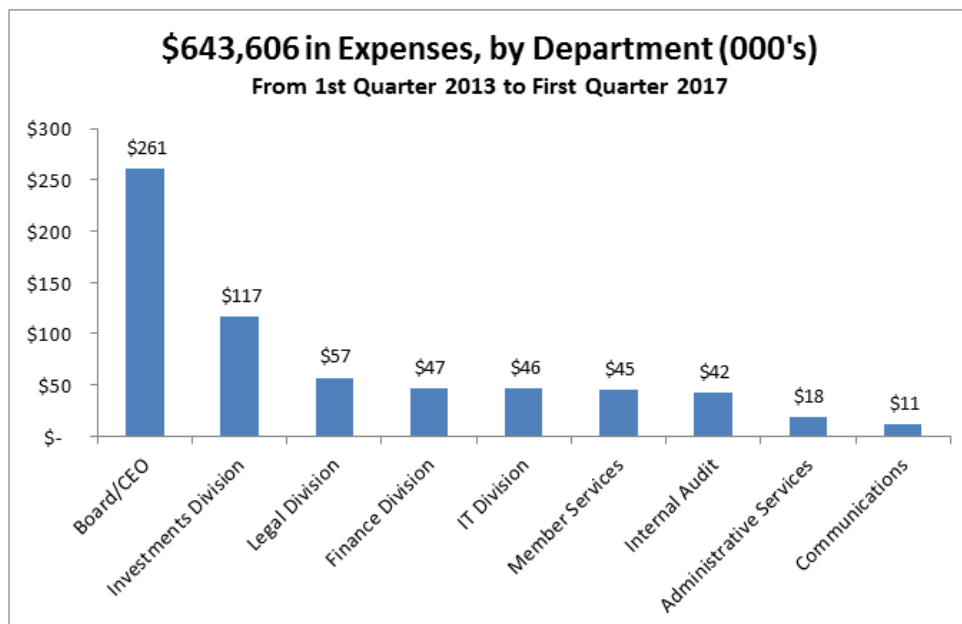
Appendix #1 details the audit testing methodology.

Background

OCERS’ Board *Travel Policy* states:

“Prudent oversight of a public sector pension plan requires that trustees and staff occasionally travel to business meetings and educational conferences or seminars, held in or outside of the state of California. Travel and related costs incurred in doing so not only represent legitimate expenses of the plan, but are a sound investment in the ongoing success of the organization in meeting the needs of the membership.”

As required by policy, OCERS’ Finance Division reports the above travel related expenses quarterly to the Board via the consent agenda. The below graph categorizes total reported spending by department since 2013. Spending included airfare, hotel, meals, conference registration fees, ground transportation, and mileage:



OCERS' Finance Division also processes all staff and trustee requests for travel reimbursement. The reimbursement process is manual in nature. However, OCERS' Finance Division maintains properly segregated duties within the accounts payable function to ensure that expense reports are properly approved, accurate, and supported with original receipts of reasonable expenses. The Finance Manager also manually reviews quarterly travel expense reporting to the Board of Retirement for accuracy and completeness. Finally, as a budgetary control, OCERS' department heads monitor their travel and training expenses.

Appendix #2 provides travel expense statistics requested by the Audit Committee on June 9, 2017.

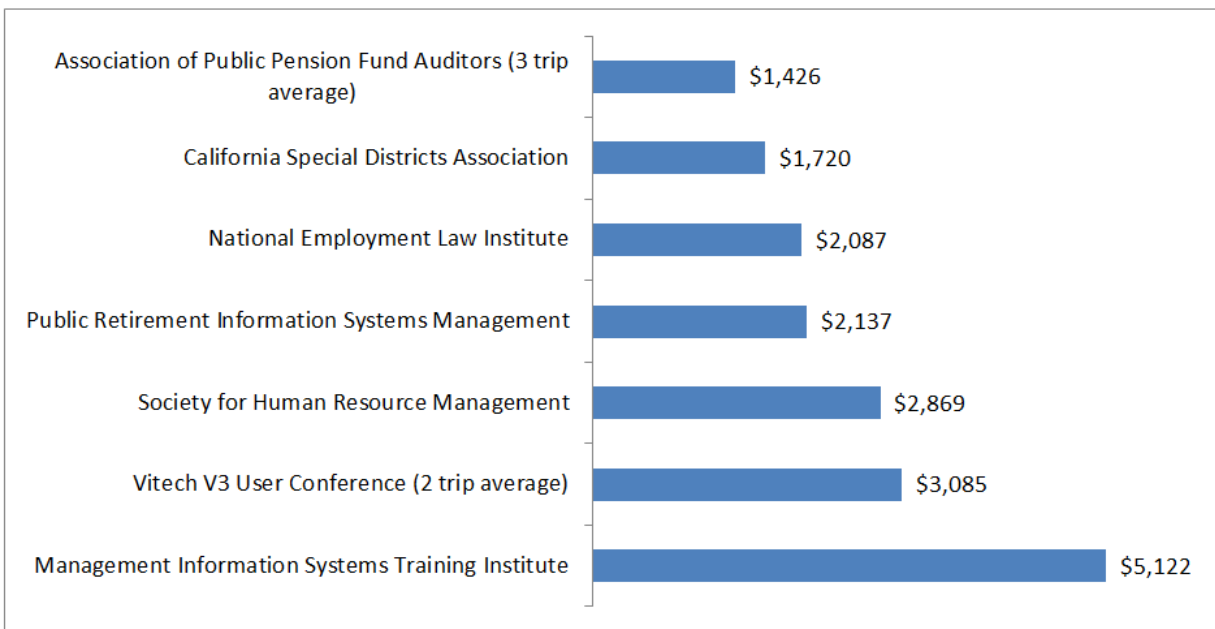
Control Finding #1 (Internal Controls) – OCERS’ Board was not provided with required conference attendance reports.

Finding Detail

Conference attendance reports justify OCERS’ expenditures for having attended conferences not pre-approved in the Travel Policy.

The attendance report summarizes knowledge gained, recommends future attendance, and discloses the total cost of attending. Typically a month or two after the conference, staff submits the reports to OCERS’s Board for approval via the consent agenda.

From our test sample of 60 expense reports, we tested a total of \$115,702 in total travel expenses. We noted that staff did not prepare conference attendance reports for seven educational conferences because they did not know they had to complete an attendance report. The conferences are listed below; the total cost of attending amounted to \$24,385 (21% of our sample):



Recommendations

If management believes these seven conferences have proven beneficial to OCERS, management should consider adding them to the Travel Policy’s list of pre-authorized conferences and seminars.

The Finance Division’s expense reimbursement form should require the traveler to state (or check off) whether or not a travel attendance report, as required by policy, was completed and submitted to the CEO’s executive assistant.

Management Response:

Agree Disagree

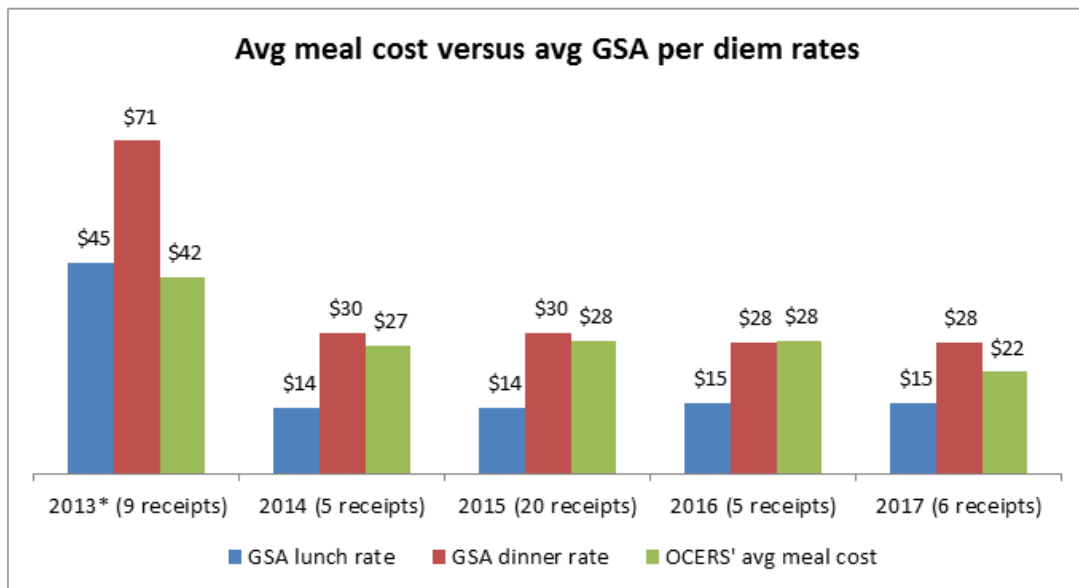
Management agrees with the recommendation to add a box on the expense reimbursement form indicating whether or not a travel attendance report has been completed and submitted to the CEO. This will serve as a reminder to both the attendee and approving manager that a report is required to be submitted to the CEO for conferences that are not included in the Travel Policy's list of pre-authorized conferences and seminars.

Control Finding #2 (Efficiency/effectiveness) – OCERS Travel Policy does not make use of GSA (General Services Agency) per diem rates to reimburse for meals and incidental expenses.

Finding Detail

From our test sample of 60 expense reports, we tested a total of \$4,086 in meal expenses reimbursed to staff and trustees. We noted that staff and trustees submitted an aggregate amount of \$1,513 in meal expenses (37% of our test sample) with 45 non-itemized meal receipts. OCERS reimbursed staff and trustees for all of these meal receipts ranging from \$20 to \$70. However, non-itemized receipts could possibly include additional expenses beyond the cost of meals for one person; additional expenses might include items such as alcohol purchases, restaurant gift cards, and meals for accompanying spouse/family members.

To help ensure meal reimbursements reflect normal meal costs for just one person, many organizations reimburse traveling employees a standard daily amount (or “per diem”¹) set by the GSA. The GSA, a federal agency, conducts studies every three to five years to update its daily “per diem” rate for appropriate meals and incidental expenses. Current daily “per diem” rates vary from \$51 to \$74, per person, depending on region within the United States. The daily rate combines breakfast, lunch, dinner, and tips. Below is a comparison of the above 45 non-itemized receipts versus average GSA per diem rates.



* 2013 - all 9 receipts were from a due diligence trip to visit money managers in the United Kingdom. The 2013 per diem rates used above are from the U.S. State Department website.

¹ Internal Audit polled members of APPFA (Association of Pension Plan Fund Auditors). The poll yielded responses from 17 funds; 16 indicate that they use per diem rates, or a similar daily cap, to reimburse for meals.

Recommendation

To reduce reputational risk, OCERS should consider revising its Travel Policy to reimburse staff and trustees for meals and incidental expenses using the GSA's daily "per diem" rates.

However, if not, then OCERS should consider revising its Travel Policy to require itemized, not summarized, meal receipts for reimbursement. The Travel Policy should also then be revised to limit meal reimbursements for non-itemized receipts or lost receipts to GSA per diem meal rates.

Management Response:

Agree Disagree

Management neither agrees nor disagrees on whether or not per diem rates are to be used instead of reimbursements for actual expenses and believes there are benefits and risk to each approach. As the audit highlights the benefits of using GSA per diem rates, we feel it is a balanced approach to also consider the downside of moving to a per diem approach to meal reimbursements. Implementing GSA per diem rates for meals will further limit the visibility of what charges are actually incurred, including non-allowed expenses such as alcohol, gift cards and meals for family members, as well as increasing costs as actual charges may be less than reimbursements issued at the GSA per diem rate (as demonstrated in the chart above).

Management and finance staff make every effort to obtain itemized receipts for all reimbursements, but is supportive of limiting meal reimbursements for non-itemized receipts or lost receipts to the lesser of GSA per diem meal rates or the actual cost on the non-itemized receipt or other payment proof for lost receipts (e.g., credit card statement).

Control Finding #3 (Efficiency/effectiveness) – OCERS' Travel Policy is not specific enough in terms of insurance coverage.

Finding Detail

Car Rental Insurance

OCERS may incur liability if a staff or trustee's personal car insurance is not adequate to cover car rental damage or 3rd party liability arising from a rental car accident.

The Travel Policy allows travelers to rent cars if it is an economical alternative to other transportation methods. A compact vehicle is expected, unless several trustees and/or staff will be using the vehicle together. However, the policy does not mention any requirements regarding possessing adequate personal car insurance or obtaining additional insurance while renting a car.

Within our test sample of 60 expense reports, there were car rental charges totaling \$1,865 from 9 expense reports. We noted from one expense report that staff incurred \$150 in LDW (Loss Damage Waiver) insurance for a weekly car rental, thereby protecting OCERS from liability for potential damage to the rental car.

Car rental companies offer drivers the following insurance options (Enterprise© currently quotes each at \$11 to \$12 per day per for a compact car in California):

- LDW (loss damage waiver) which waives the renter's responsibility for loss of, or damage to, the rental vehicle itself.
- SLP (supplemental liability protection) which provides the renter with up to \$1,000,000 in protection from third party liability claims such as bodily injury and/or property damage.

Flight Insurance

From our test sample of 60 expense reports, we tested a total of \$24,768 in airfare expenses. We noted three flights with an average of \$90 in flight insurance not currently required by policy. For two flights (domestic) we could not determine exactly what type of coverage was purchased for \$49 and for \$152. For the third flight (international), \$69 was paid to provide coverage for lost baggage, emergency medical and dental, and trip delay/cancellation.

Recommendation

Car Rental Insurance - OCERS should consider revising its Travel Policy to require travelers to obtain insurance available from car rental companies. With such insurance, OCERS can protect its assets from potential claims arising from a rental car accident.

Flight Insurance – OCERS should consider revising its Travel Policy to state when it is appropriate to purchase flight insurance (i.e. expensive international flights) to

reimburse OCERS for potential lost airfare. Such insurance policies have specific requirements (i.e. doctor's note to prove illness) before the policy pays for a claim.

Management Response:

Agree Disagree

Management concurs with the recommendation to purchase car rental insurance when traveling on OCERS' business. Although employees and trustees may be covered through their personal automobile insurance coverage, OCERS does not have a system to monitor and track this coverage and keep it updated. A more cost effective method to ensure that OCERS and its employees and trustees are covered for any damages incurred while renting a car on OCERS-related business travel would be to require the purchase of car rental insurance if there is a need to rent a car for OCERS-related business travel (please note that rental cars are not a frequently used transportation expense at OCERS).

Management also concurs with the recommendation to include in the Travel Policy when it is appropriate to purchase flight insurance, such as higher-cost airfare incurred for international or long-distance travel when a non-refundable ticket is purchased as purchasing refundable tickets is typically more costly than the insurance option.

Control Finding #4 (Efficiency/effectiveness) – OCERS’ Travel Policy does not limit airline seating to coach or economy.

Finding Detail

OCERS’ travel policy language does not explicitly emphasize low cost, economical airfare. OCERS’ Travel Policy regarding airfare is a single sentence that states, “OCERS’ Board members and staff will obtain airline tickets at competitive prices.”

OCERS’ previous travel policy allowed the purchase of more expensive refundable airfare (such as SWA© airline’s “Business Select” class seats). However, OCERS’ Finance Division began advising staff to purchase less expensive non-refundable seating circa 2013.

From our test sample of 60 expense reports, we tested a total of \$24,768 in airfare expenses. We noted staff and trustees purchased five round trip flights totaling \$3,830 (or 16% of our test sample) in which SWA© airline’s “Business Select” class seats (see **Table #1**) were purchased instead of less expensive seating alternatives.

Table #1

Destination	Cost	Year	Days between purchase & flight
Berkely, CA	\$ 518	2015	17 days
Denver, CO	\$ 724	2015	11 days
Tempe, AZ	\$ 534	2016	32 days
Austin, TX	\$ 1,008	2016	37 days
Dallas, TX	\$ 1,046	2016	75 days

Recommendation

OCERS should consider revising its Travel Policy language to state, “OCERS’ Board members and staff will obtain airline tickets at competitive prices for non-refundable coach or economy seating. Refundable seating should be rarely used and only upon supervisory pre-approval.”

Management Response:

Agree **Disagree**

Management supports revising the Travel Policy to include more specific language as to the types of airline tickets and add on airline service charges that are reimbursable when traveling on OCERS-related business. In practice, OCERS currently encourages its employees to book non-refundable airfare due to the cost benefit as compared to

refundable tickets which are typically significantly higher. In addition, most major airlines will allow a credit equal to the amount of the non-refundable airfare to be used towards future flights in the event of a cancellation.

Control Finding #5 (Efficiency/effectiveness) – OCERS’ Travel Policy does not prohibit executive car service and social networking events for reimbursement.

Finding Detail

Executive Car Service

From our test sample of 60 expense reports, we tested a total of \$9,067 in ground transportation expenses. On four conference trips, we noted executive-type car expenses with one way rates ranging from \$61 to \$110 (before tip and booking fees). Uber’s website estimates a \$33 to \$43 base fare one way for the above trips. According to staff, the same trustee in all the above four trips currently no longer uses an executive car service.

Staff and trustees have less expensive and widely available alternatives for transport such as the ridesharing services Uber® or Lyft®, shuttles, and taxis as compared to an executive style car service.

Conference Networking Events

From our test sample of 60 expense reports, we tested a total of \$448 of miscellaneous expenses. We noted a reimbursed miscellaneous expense for \$65 to enroll in an optional networking activity at an approved conference.

Although scenic trips or group recreational activities are a common networking activity at conferences, staff and trustees should pay out of pocket if they want to attend, not OCERS. Staff and trustees can network at events such as after-hours receptions and breakout sessions usually included with the registration fee.

Recommendation

To reduce reputational risk, OCERS should consider amending the Travel Policy to prohibit reimbursement for:

- Executive style car service.
- Social or recreational networking events not already included in the conference’s base registration fee.

Management Response:

Agree Disagree

Management supports amending the Travel Policy to prohibit reimbursement for executive style car service.

Management is also supportive of adding verbiage to clarify the policy on social or recreational networking events not included in the conference's base registration fee, but defers to the Board if the policy should be amended to prohibit these types of events altogether. Currently, at the time of registration, these events are looked at on a case-by-case basis and approval granted if the events are deemed to be an appropriate use of OCERS' funds.

Categories of Audit findings and Recommendations:

Critical Control Weaknesses:

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS' reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

Significant Control Weaknesses:

These are Audit Findings or a combination of Audit Findings that represent a significant Deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

Control Findings:

These are Audit Findings concerning (1) internal controls, (2) compliance issues, or (3) efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within six to twelve months.

Appendix #1

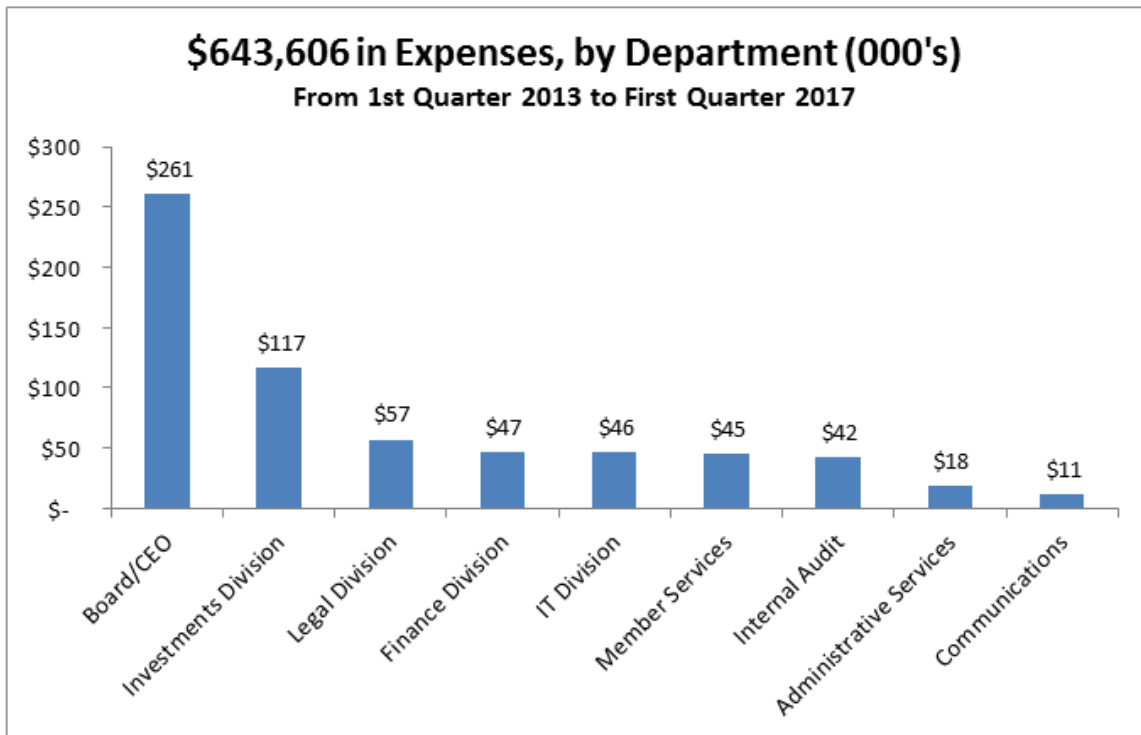
Audit Testing Methodology

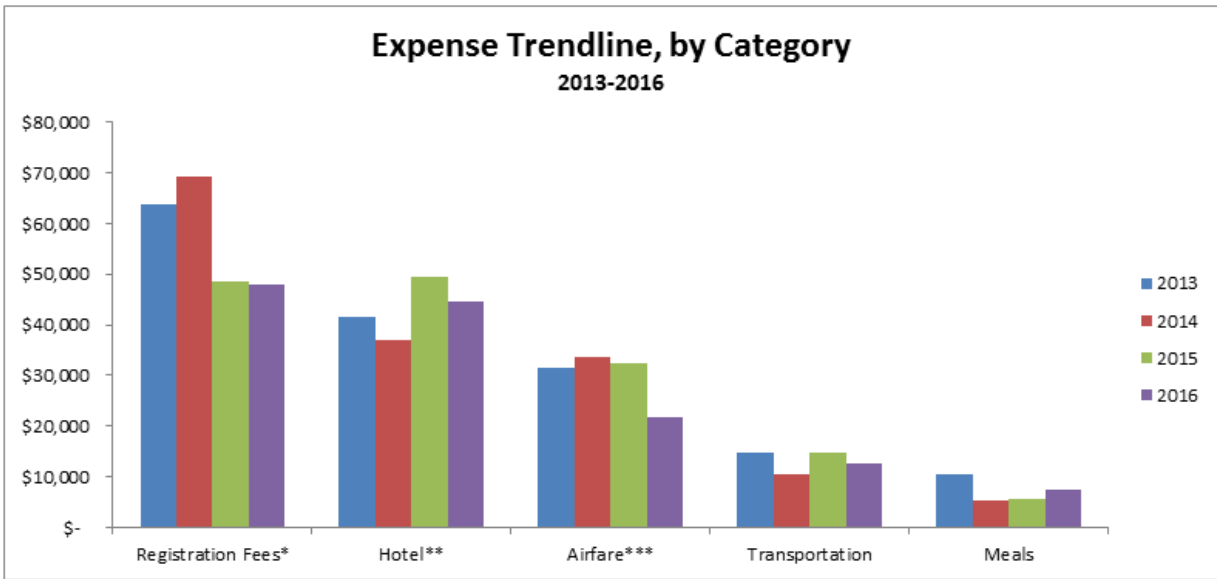
- Reviewing quarterly travel expense reporting to the Board for completeness.
- Inspecting expense reimbursement forms submitted by employees and trustees for proper supervisory approvals and accuracy.
- Inspecting supporting documentation such as receipts and mileage maps for accuracy and reasonableness.
- Per expense report, creating a timeline of expenses, categorized by expense and location, to determine reasonability.
- Performing audit steps to review expenses for indications of potential fraud or duplicate reimbursements to staff and trustees.

Appendix #2

Expense Report Statistics

Spending By Department





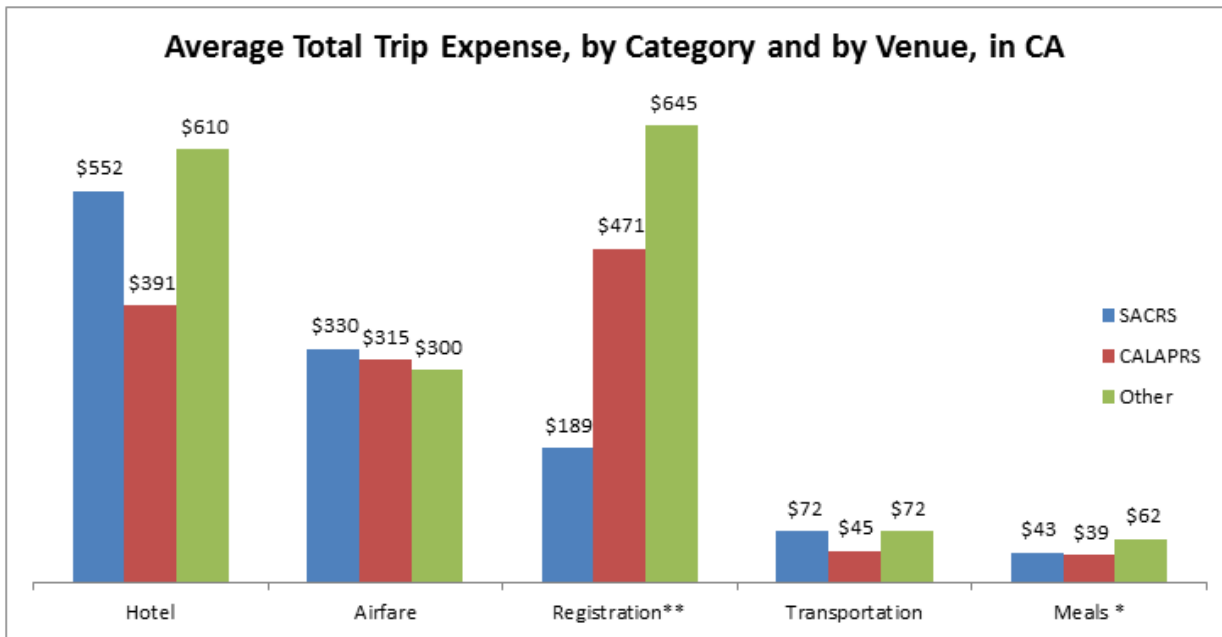
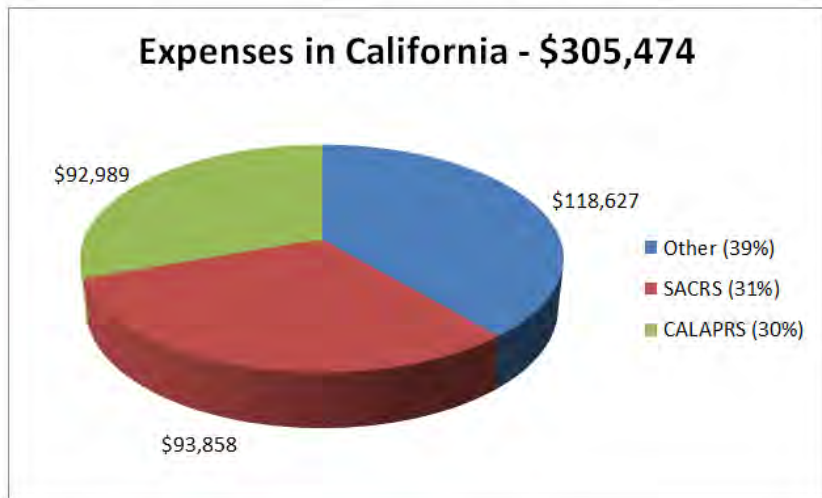
* Registration Fees decreased 28% in 2015/2016 vs 2013/2014 due to less attendance at Wharton Business School.

** Hotel Increased 20% in 2015/2016 vs 2013/2014 due to trips to Washington D.C., Boston, and Texas.

*** Airfare decreased 33% from 2015 to 2016 due to less flights to Florida, New York, and overseas.

Expenses (Within California)

Forty-eight percent (\$305,474) of OCERS' total travel expenditures within our audit scope occurred within the state of California mostly to attend various SACRS (State Association of County Retirement Systems) and CALAPRS (California Association of Public Retirement Systems) sponsored educational events, trustee specific training seminars, forums, and roundtable events:

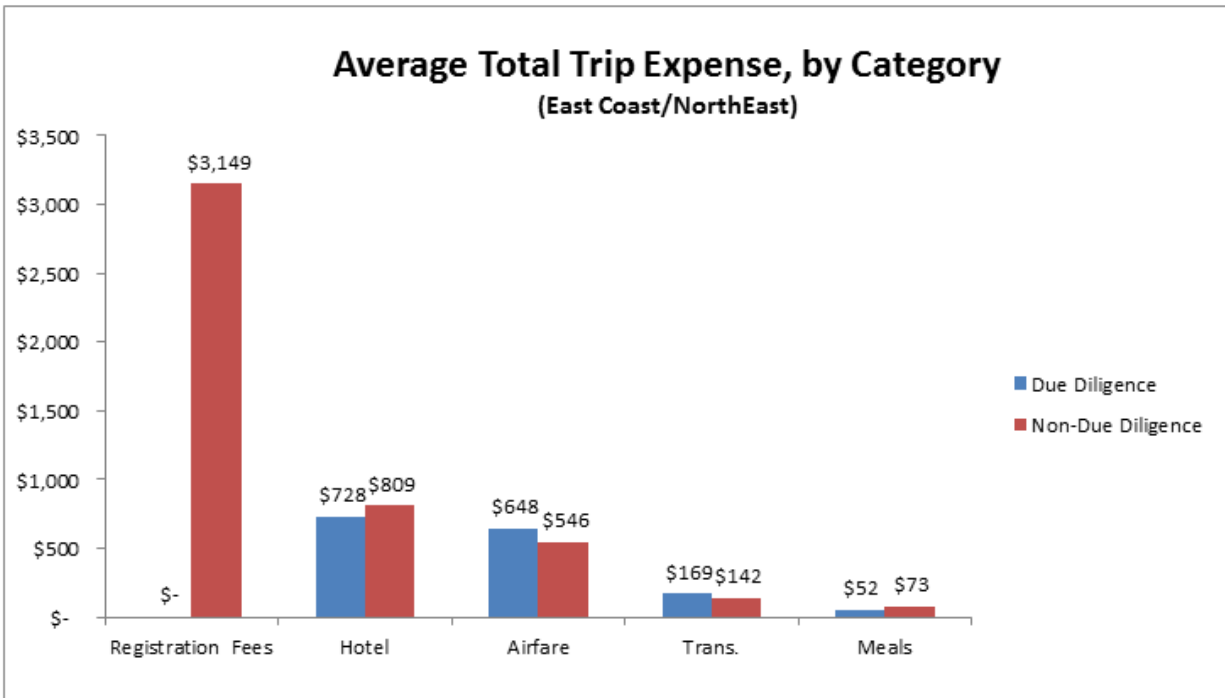


* Meals excludes average of \$2,803 for OCERS' annual investment/educational forums.

** Largest registration fees were for I.T./CALAPRS leadership seminars for staff and Advanced seminars for Trustees.

Expenses (East Coast and Northeast)

Twenty-eight percent (\$182,773) of OCERS' total travel expenditures within our audit scope occurred when employees and trustees travelled to New York, Boston, Philadelphia, and Washington D.C. primarily to attend investment manager/consultant sponsored seminars, Wharton School investment training for trustees, and for investment staff due diligence visits.



Expenses (Remainder)

The remaining twenty-four percent (\$155,360) of OCERS' total travel expenses occurred mostly when staff attended various administrator seminars and profession specific seminars held throughout the country. Professional seminars included GFOA (Government Finance Officer Association), NAPPA (National Association of Public Pension Attorneys), PRISM (Public Retirement Information Systems Management), and APPFA (Association of Public Pension Fund Auditors). Finally, OCERS' former CIO accounted for nearly all of the \$16,416 in international travel costs with due diligence trips to England (twice), Switzerland, and Singapore.

B

Memorandum

DATE: December 7, 2017
TO: Members of the Audit Committee
FROM: Mark Adviento, CPA, Internal Auditor
SUBJECT: HOTLINE UPDATE

Recommendation

Receive and file.

Background/Discussion

As required by OCERS' hotline policy, the Audit Committee should be regularly updated when new reports are made to the hotline*. Internal Audit has received a total of nine reports from the hotline in 2017. Since the last update to the Audit Committee on July 6, 2017, six additional reports have been filed; none are considered an ethics violation such as fraud, harassment, conflict of interest, or an illegal activity:

Two customer service related reports regarding:

- A beneficiary's responsibility for providing OCERS with a deceased member's death certificate and an updated domestic relations order (i.e. divorce settlement) from the court.
- A terminating member's "rollover" of pension contributions from OCERS to another financial institution.

Two complaints related to OCERS' designated smoking area in the parking lot and two complaints related to landscaping noise on the weekends.

- OCERS' staff has previously informed the Audit Committee that OCERS' designated smoking area complies with the applicable California Government Code Section.
- OCERS has notified the property manager to ensure landscaping activity does not take place before 7:00 AM (Mondays – Saturdays) or before 9:00 AM (Sundays or federal holidays).

*OCERS pays \$1,450 annually to the hotline service provider.

Submitted by:

M.A. - Approved _____

Mark Adviento, CPA, Internal Auditor

C

Memorandum

DATE: December 6, 2017
TO: Members of the Audit Committee
FROM: Mark Adviento, CPA, Internal Auditor
SUBJECT: STATUS OF 2017 INTERNAL AUDIT PLAN

Recommendation

Receive and file.

Background/Discussion

Following is a brief description of in-progress internal audits and audit projects from 2017. Attached is an accounting of hours for the 2017 audit plan.

Actuarial Audit: At the June 9, 2017 Audit Committee meeting, the Committee selected Cheiron to perform an actuarial audit of Segal's 2016 actuarial valuation. A key objective of this audit was for Cheiron to replicate Segal's 2016 actuarial liability calculation for reasonability and consistency with actuarial standards. Cheiron will present the results of their audit at the next Audit Committee meeting scheduled for January 30, 2018.

OCFA Payroll Transmittal Audit: A draft of the audit report will be sent to OCFA for management's comments and feedback. OCFA's official responses to the audit findings will come from OCFA's Budget & Finance Committee which next meets January 10, 2018. The objective of this audit is to determine that OCFA payroll transmittals submitted to OCERS were accurate and complete. If OCFA's responses arrive with sufficient time, the audit report will be presented at the next Audit Committee meeting scheduled for January 30, 2018.

Investment Rebalancing Audit: The fieldwork phase of this audit is in progress and the audit will carry over into 2018. The objective of this audit is to review the Investment Department's procedures for rebalancing OCERS' portfolio to comply with its investment allocation. The audit report will be presented at the next Audit Committee meeting scheduled for January 30, 2018.

Submitted by:

M.A. – Approved

Mark Adviento, CPA
Internal Auditor

**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 12/31/17	Comments
Internal Audits					
Plan Sponsor Review	Report and presentation of plan sponsors' financial status.	A	50	45	Completed in February.
CIO Position Review	Review responsibilities of CIO Position.	A	200	189	Completed in February.
San Juan Capistrano Payroll Transmittal	Review payroll transmittals and employee data.	B	50	48	Completed in March.
Finance Investments Transfers Review	Role of Investments' staff in assessing and approving investments fundings, balancings, transactions, valuations.	A	300	301	Completed in May.
NYSCRF Fraud Review	Review NYSCRF fraud and OCERS related policies	A	50	54	Completed in May.
V3 Data Conversion Audit	Review data used in system conversion from PensionGold to V3.	A	50	60	Completed in June.
Reciprocity Claims Audit	Review reciprocity claims for accuracy and completeness, and adequate supporting documentation.	A	250	290	Completed in August.
Expense Report Audit	Audit of selected OCERS' expense reports.	B	250	270	Completed in December.
OCFA Payroll Transmittal	Review payroll transmittals and employee data.	A	300	324	To be presented in January 2018.
Investments Rebalancing Review	Review the Investment Division's rebalancing processes.	A	300	40	To be carried over into 2018.
	Internal Audits Subtotal		1,800	1,621	

**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 12/31/17	Comments
Non-Audit Projects					
Actuarial Audit	RFP - Audit of Segal's 2016 valuation.	A	60	44	To be presented in January 2018.
Miscellaneous Investigations	Use of hotline reporting system.	B	50	20	Nine reports in 2017.
Risk and Control Matrix	Review and update Risk and Control Matrix.	A	50	35	Completed in July.
Risk Assessment and Audit Plan	Annual preparation of the Audit Plan, updates to the current Audit Plan.	A	50	85	Includes 2018 audit plan.
Miscellaneous Projects	For small hours unplanned projects or assignments by the Audit Committee.	C	50	15	Category added in May, instead of to Admin time.
	Non-Audit Projects Subtotal		260	199	
Administration					
Board and Committee Meetings	Board meetings, Audit Committee, Investment Committee, Governance Committee.	A	300	210	Includes preparation time for meetings.
General Administration	Attending staff and other meetings, administrative duties.	B	1,200	744	
General Administration	Other		0	787	Staffing change.
	Administration Subtotal		1,500	1,741	

**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 12/31/17	Comments
Other					
Miscellaneous Leave	Holidays, Sick Leave, Time off, etc.		432	394	
Training / Conferences	Required to maintain CPA certification. SACRS, APPFA.		168	205	
Total Hours off			600	599	
	Total Hours Available for Two Auditors		4,160	4,160	

D

Memorandum

DATE: December 6, 2017
TO: Members of the Audit Committee
FROM: Mark Adviento, CPA, Internal Auditor
SUBJECT: **CONSIDERATION OF 2018 RISK ASSESSMENT AND 2018 AUDIT PLAN**

Recommendation

Approve the *2018 Risk Assessment* and the *2018 Audit Plan*.

Background/Discussion

Attached are Internal Audit's 2018 Risk Assessment and the 2018 Audit Plan with estimated hours. Projects include:

1st half of 2018

- OCTA (Orange County Transportation Authority): Review payroll transmittals and employee data for accuracy and completeness.
 - Last audited 5 ½ years ago.
- Orange County Superior Court: Review payroll transmittals and employee data for accuracy and completeness.
 - Internal Audit has not audited Superior Court since it joined OCERS in 2004.
- Annual Plan Sponsor Report: Present information regarding plan sponsors' financial position to the Board.
 - To be presented at the March 2018 Regular Board meeting.

2nd half of 2018

- Cyber Security Risk Assessment (RFP): Consultant to perform an independent cybersecurity assessment. Identify potential vulnerabilities in OCERS' information technology infrastructure and systems, and develop a prioritized set of recommendations to address risks identified. Consultant to perform assessment using a cybersecurity best-practice framework from either:
 - CIS (Center for Internet Security) or NIST (National Institute of Standards and Technology)

Memorandum

- Disability Benefit Audit: Review of internal processes and supporting documentation for disability claims. Recalculate benefit amounts for accuracy and completeness.

- Orange County Sheriff's Department: Review payroll transmittals and employee data for accuracy and completeness.
 - Postponed from last year's audit plan at the request of OCERS' management.

Submitted by:

M.A. – Approved

Mark Adviento, CPA
Internal Auditor

Internal Audit Risk Assessment Matrix for 2018

Risk	High	High to Medium	Medium	Medium to Low	Low
Rankings	5	4	3	2	1
Definitions					

Materiality /	Financial	Strategic /	Change /	Complexity of	Political /	Last Audit -	Average Risk
Division	Impact /	Operational	Stability	Operations or	Reputation	Time and	Ranking
Auditable Process	Compliance	Impact		Regulations		Results	

Division	Auditable Process	Financial Impact / Compliance	Strategic / Operational Impact	Change / Stability	Complexity of Operations or Regulations	Political / Reputation	Last Audit - Time and Results	Average Risk Ranking
Enterprise	Business continuity / disaster recovery	5	5	5	5	5	5	5.0
Information Technology	Data security	5	5	4	5	5	5	4.8
Information Technology	Network Security	5	5	4	5	5	5	4.8
Plan Sponsors (OCTA)	Contribution transmittals	5	5	3	5	5	5	4.7
Plan Sponsors (Superior Court)	Contribution transmittals	5	5	3	5	5	5	4.7
Plan Sponsors (County)	Contribution transmittals	5	5	4	5	5	3	4.5
Member Services	Benefit setup	5	5	4	5	5	3	4.5
Information Technology	Data security 3rd party vendors	3	3	5	5	5	5	4.3
Investments	Investment consultant review	5	5	5	5	4	2	4.3
Board	Governance	4	5	3	5	5	4	4.3
Services	Hiring	3	4	5	4	4	5	4.2
Finance	Payroll for retirees	5	4	4	4	5	3	4.2
Investments	Operations of investment managers	5	5	3	5	3	4	4.2
Investments	Asset allocation/rebalancing	5	5	5	5	4	1	4.2
Services	Physical security	3	5	5	2	5	5	4.2
Investments (OCFA)	Risk management	4	4	5	5	4	3	4.2
Plan Sponsors (Sanitation District)	Contribution transmittals	5	5	4	5	5	1	4.2
Plan Sponsors (Sanitation District)	Contribution transmittals	5	5	3	5	5	1	4.0

Internal Audit Risk Assessment Matrix for 2018

Division	Auditable Process	Materiality / Financial Impact / Compliance	Strategic / Operational Impact	Change / Stability	Complexity of Operations or Regulations	Political / Reputation	Last Audit - Time and Results	Average Risk Ranking
Investments	Due diligence	5	5	4	5	4	1	4.0
Member Services	Member eligibility	4	4	4	4	4	4	4.0
Investments	Investment manager fees	5	4	4	5	4	2	4.0
Services	Succession Planning	2	5	4	3	5	5	4.0
Enterprise	Data privacy	4	3	3	4	5	5	4.0
Legal	Compliance review	4	4	3	4	4	5	4.0
Investments	Investment policy compliance	5	5	3	3	3	5	4.0
Member Services	Interest posting / crediting	4	4	3	3	4	5	3.8
Investments	Derivatives	5	5	3	5	3	2	3.8
Enterprise	Ethics Policy	4	4	3	2	5	5	3.8
Finance	Budgeting	4	4	3	4	3	5	3.8
Finance	Cash management	4	4	3	4	3	5	3.8
Finance	General Ledger	3	5	3	4	3	5	3.8
Legal	Record management and retention	4	4	3	3	4	5	3.8
Member Services	Disability process	4	3	4	3	4	5	3.8
Investments	Reporting to the Board	3	3	3	3	5	5	3.7
Member Services	Lump sum payments	3	3	4	3	4	5	3.7
Member Services	Member refunds	3	3	4	3	4	5	3.7
Enterprise	RFP process	3	3	4	3	4	5	3.7
Enterprise	Vendor contract compliance	4	4	3	3	3	5	3.7

Internal Audit Risk Assessment Matrix for 2018

Division	Auditable Process	Materiality /		Change / Stability	Complexity of Operations or Regulations	Political / Reputation	Last Audit - Time and Results	Average Risk Ranking
		Financial Impact / Compliance	Strategic / Operational Impact					
Finance	valuation	5	3	5	3	3	3	3.7
Investments	Cash/Wire Processing	5	4	3	4	5	1	3.7
Actuary	Actuarial extract	5	4	3	4	3	2	3.5
Member Services	1099 reporting	3	3	3	3	4	5	3.5
Member Services	Dependent eligibility	3	4	3	3	3	5	3.5
Enterprise	Procurement	3	3	4	3	3	5	3.5
Finance	Accounts Payable	3	3	5	3	2	5	3.5
Finance	Contributions - member, employer	3	5	5	3	4	1	3.5
Finance	Financial reporting	3	4	3	4	4	3	3.5
Finance	Spreadsheet controls	3	3	3	4	3	5	3.5
(smaller ones)	Contribution transmittals	2	5	3	5	5	1	3.5
Services	HR Processes	3	3	3	3	3	5	3.3
Member Services	IRS 401 contribution limits	3	3	3	3	3	5	3.3
Member Services	IRS 415 benefit payment limits	3	3	3	3	3	5	3.3
Member Services	Survivor claims	2	2	4	3	4	5	3.3
Investments	Investment reconciliations	5	5	2	3	3	2	3.3
Legal	Contract administration	3	3	3	3	3	5	3.3
Member Services	Pension Spiking (PEPRA)	3	3	3	4	5	1	3.2
Member Services	Retiree Rehires (PEPRA)	3	3	3	4	5	1	3.2
Member Services	COLA adjustments	4	3	3	3	3	3	3.2
Legal	Domestic Relations Orders	2	3	2	3	3	5	3.0
Member Services	Reciprocity	3	3	4	3	3	1	2.8

Internal Audit Risk Assessment Matrix for 2018

Division	Auditable Process	Materiality / Financial Impact / Compliance	Strategic / Operational Impact	Change / Stability	Complexity of Operations or Regulations	Political / Reputation	Last Audit - Time and Results	Average Risk Ranking
Investments	Personal Trading Policy compliance	2	3	3	3	4	2	2.8
Member Services	Death comparison process	2	3	4	3	3	1	2.7
Member Services	Service Credit Purchases	2	2	4	3	4	1	2.7
Finance	Travel expenses	2	1	1	1	5	1	1.8

Risk Assessment Methodology:

Internal Audit established the structure of the risk assessment by identifying key programs, projects, and processes (auditable entities). We then identified the following categories of risk:

1. **Materiality / Financial Impact/ Compliance** – The magnitude of financial exposure, the degree of regulatory oversight, possible financial penalties.
2. **Strategic / Operational Impact** – The significance of this process to OCERS’ strategic success, impact of process disruption.
3. **Change / Stability** – How much the process has been altered and the change of personnel carrying out the process.
4. **Complexity of Operations or Regulations** – The number of individuals, entities, and processes involved, and the degree to which professional judgment or technical expertise is applied.
5. **Political / Reputation** – The degree of public interest and awareness, the visibility of the process to the media.
6. **Last Audit: Time and Results** – The length of time since the last audit or review was conducted and the results of that audit or review.

**Orange County Employees Retirement System
Internal Audit Division
2018 Internal Audit Plan**

**Planned
Hours -
2018
Budget**

Audit Activity	Description	Planned Hours - 2018 Budget	Comments
Internal Audits		1,255 hours total	
Investments Rebalancing Review	Review the Investment Division's rebalancing processes.	80	Carried over from 2017 audit plan.
OCTA Payroll Transmittals	Review payroll transmittals and employee data of selected plan sponsor.	275	Accuracy and completeness of payroll transmittals.
Superior Court Payroll Transmittals	Review payroll transmittals and employee data of selected plan sponsor.	275	Accuracy and completeness of payroll transmittals.
Benefit Setup Audit	Review internal processes for validating members' disability applications and supporting medical documentation. Re-calculate benefit payments.	275	Accuracy and completeness of benefit payments.
RFP Cybersecurity Risk Assessment	Cybersecurity Risk Assessment	80	Prepare and issue an RFP for an external consultant to perform the assessment. Prepare audit report to the AC. Budget amendment required from the full Board.
Orange County Sheriff's Department	Review payroll transmittals and employee data of selected plan sponsor.	270	Accuracy and completeness of payroll transmittals. Postponed from 2017's Audit Plan.

**Orange County Employees Retirement System
Internal Audit Division
2018 Internal Audit Plan**

**Planned
Hours -
2018
Budget**

Audit Activity	Description		Comments
Non-Audit Projects		276 hours total	
	External Quality Review Audit performed by IIA (Institute of Internal Auditors)	100	Audit preparation and prepare responses to the external auditor's report.
	Annual Plan Sponsor report	70	
	Ethics Hotline	26	
	Management Risk & Control Matrices	40	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	40	
Other		549 hours total	
	Audit Committee meetings	40	5-6 Audit Committee meetings estimated, including prep time.
	General Administration	250	12% of 2018 budget vs 29% in prior year
	Holidays/Annual Leave	209	
	Training Hours	50	
Grand Total Hours		<u>2,080</u>	

2018 Audit Plan Hours (2,080 Budgeted Hours)

