

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

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

**AUDIT COMMITTEE MEETING
February 7, 2019
9:00 a.m.**

Members of the Committee

Frank Eley, Chair
Charles Packard, Vice Chair
Jeremy Vallone
Shari Freidenrich

AGENDA

This agenda contains a brief general description of each item to be considered. The Committee may take action on any item included in the agenda; however, except as otherwise provided by law, no action shall be taken on any item not appearing on the agenda. The Committee may consider matters included on the agenda in any order, and not necessarily in the order listed.

OPEN SESSION

PUBLIC COMMENTS

At this time, members of the public may comment on (1) matters not included on the agenda, provided that the matter is within the subject matter jurisdiction of the Board; and (2) any matter appearing on the Consent Agenda. **Persons wishing to provide public comment at this time should fill out a speaker card located at the back of the room and deposit it in the Recording Secretary's box located near the back counter.** When addressing the Board, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

In addition, public comment on matters listed on this agenda will be taken at the time the item is addressed.

CONSENT AGENDA

[C-1 APPROVE AUDIT COMMITTEE MINUTES](#)

Audit Committee Meeting Minutes

December 11, 2018

ACTION ITEMS

NOTE: Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Committee's discussion of the item. **Persons wishing to provide**

comment on a matter listed on the agenda should fill out a speaker card located at the back of the room and deposit it in the Recording Secretary's box located near the back counter.

A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA

A-2 HOTLINE UPDATE

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

A-3 AUDIT OF OCERS' DISABILITY PAYMENTS

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

A-4 CONSIDERATION OF 2019 RISK ASSESSMENT AND 2019 AUDIT PLAN

Presentation by David Kim, Director of Internal Audit

Recommendation: Approve the 2019 Risk Assessment and 2019 Audit Plan.

INFORMATION ITEMS

I-1 AUDIT COMMITTEE CHARTER OVERVIEW

Presentation by David Kim, Director of Internal Audit

I-2 STATUS UPDATE OF 2018 AUDIT PLAN

Written Report

******* END OF OPEN SESSION AGENDA *******

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

REGULAR BOARD MEETING
February 19, 2019
9:00 A.M.

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

INVESTMENT COMMITTEE MEETING
February 27, 2019
9:00 A.M.

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

GOVERNANCE COMMITTEE MEETING
March 1, 2019
8:30 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.

C-1

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

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

**AUDIT COMMITTEE MEETING
December 11, 2018
1:00 p.m.**

Members of the Committee

Frank Eley, Chair
Charles Packard, Vice Chair
Russell Baldwin
Shari Freidenrich

MINUTES

OPEN SESSION

The Chair called the meeting to order at 1:03 p.m.

Attendance was as follows:

Committee Members: Frank Eley, Chair; Russell Baldwin; Shari Freidenrich

Staff: Steve Delaney, CEO; Gina Ratto, General Counsel; David Kim, Director of Internal Audit; Brenda Shott, Assistant CEO of Internal Operations; Suzanne Jenike, Assistant CEO External Operations; Mark Adviento, Internal Auditor; Sonal Sharma, Recording Secretary; Anthony Beltran, Audio Visual Technician.

Guests (via telephone): Paul Angelo and Andy Yeung, Segal Consulting

PUBLIC COMMENT

None.

CONSENT AGENDA

C-1 APPROVE AUDIT COMMITTEE MINUTES

Audit Committee Meeting Minutes

August 3, 2018

A **motion** was made by Mr. Baldwin, **seconded** by Mr. Eley to approve the minutes.

ACTION ITEMS

A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA

A-2 AUDIT OF ORANGE COUNTY TRANSPORTATION AUTHORITY PAYROLL TRANSMITTALS
Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

Ms. Freidenrich arrived at 1:07p.m.

A **motion** was made by Ms. Freidenrich, **seconded** by Mr. Baldwin to receive and file.

A-3 AUDIT OF ORANGE COUNTY FIRE AUTHORITY PAYROLL TRANSMITTALS
Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

A **motion** was made by Mr. Baldwin, **seconded** by Ms. Freidenrich to receive and file.

A-4 AUDIT OF ORANGE COUNTY SUPERIOR COURT PAYROLL TRANSMITTALS
Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

A **motion** was made by Mr. Baldwin, **seconded** by Ms. Freidenrich to receive and file.

Public Comment: Bryan Drinkward, HR Manager at Orange County Superior Court, clarified a few details regarding OCSC's process regarding payroll transmittals.

A-5 TRIENNIAL REVIEW OF THE RISK POLICY
Presentation by Brenda Shott, Assistant CEO, Internal Operations

Recommendation: Approve and recommend that the Board approve the Risk Policy.

A **motion** was made by Ms. Freidenrich, **seconded** by Mr. Baldwin to approve and recommend that the Board approve the Risk Policy with the amended contemplated changes.

INFORMATION ITEMS

I-1 STATUS UPDATE OF 2018 AUDIT PLAN
Written Report

I-2 INTERNAL AUDIT TRANSITION
Presented by David Kim, Director of Internal Audit

The Committee recessed into Closed Session at 2:24pm

******* END OF OPEN SESSION AGENDA *******

CLOSED SESSION

E-1 THREAT TO PUBLIC SERVICES OR FACILITIES (GOVERNMENT CODE SECTION 54957)

Adjourn into Closed Session pursuant to Government Code section 54957 to consult with *Steve Delaney, CEO, Brenda Shott, Asst. CEO; Matthew Eakin, Director of Cyber Security; Jenny Sadoski, Director of Information Technology; Jon Gossard, IT Manager; and Gina M. Ratto, General Counsel; David Kim, Director of Internal Audit*

Recommendation: Take appropriate action.

*** * * * * END OF CLOSED SESSION AGENDA * * * * ***

The Committee resumed into Open Session at 3:24

OPEN SESSION

The Chair reported no reportable action taken.

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

The Chair adjourned the meeting at 3:26pm.

A-2

Memorandum

DATE: February 7, 2019
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: HOTLINE UPDATE

Recommendation

Receive and file.

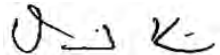
Background/Discussion

Internal Audit regularly updates the Audit Committee when new reports are made to the hotline. There were no reports in 2018.

Internal Audit received one report from the hotline on January 3, 2019. The report is not considered an ethics violation such as fraud, harassment, conflict of interest, or an illegal activity.

The complaint was a misdirected message to OCERS that should have been directed to Secova, the County of Orange benefits administrator. Member Services contacted Secova on the member's behalf to clarify the confusion and address the member's concern.

Submitted by:



David Kim
Director of Internal Audit

A-3

Memorandum

DATE: February 7, 2019
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **AUDIT REPORT – OCERS’ Disability Payments**

Presentation

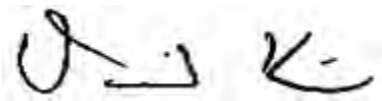
Background/Discussion

As per the 2018 Audit Plan, Internal Audit performed an audit of OCERS’ Disability Payments.

There are no audit findings in the report.

The full audit report is attached.

Submitted by:



David Kim
Director of Internal Audit



Audit of OCERS' Disability Payments

Report Date: January 28, 2019

Internal Audit Department

David Kim, Director of Internal Audit

Mark Adviento, Internal Auditor

OCERS Internal Audit
Audit of OCERS' Disability Payments
January 28, 2019

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Conclusion / Executive Summary

OCERS' Internal Audit Division has completed an audit of OCERS' Disability Payments initiated between January 2016 and June 2018.

Internal Audit concludes that the OCERS' disability payments were properly approved; substantially complete/accurate; and supported with proper documentation.

Objective, Scope, and Methodology

The objective of this audit was to determine that OCERS' disability payments were properly approved; substantially complete/accurate; and supported with proper documentation.

The scope of the audit included disability payments setup by Member Services between January 2016 and June 2018. Internal Audit randomly selected a sample of 30 disability benefit payment setups totaling \$107,108. Minor variances noted in the manual calculations were brought to the attention of Member Services and have since been corrected; see Appendix 1 for further detail.

Appendix 2 details the audit testing **methodology**.

Background

Final Average Salary (FAS)

OCERS' V3 system automatically calculates a retiring member's final average salary (FAS) based on plan sponsor payroll data accumulated via V3's automated payroll transmittal process.

- For the past 5 years, 97% of the FAS calculations were automated within the pension administration system.

The remaining 3% of the FAS calculations consist of Legacy member pensionable compensation (typically pensionable paid time off) manually added to retiring members' FAS¹. Such a manual process is subject to inherent manual errors, which we noted from our sample testing. Member Services has a quality review process to peer review benefit setups, which Internal Audit verified as part of this audit.

¹ Technical and administrative barriers limit OCERS' ability at this time to integrate V3 with the individual payroll systems of OCERS' 13 plan sponsors necessary to automate this last 3%.

Service Connected Disability

If a member is permanently incapacitated from performing his or her usual job duties as a result of a job related injury, illness, or disease, the member may be eligible for a service connected disability retirement benefit, regardless of age or length of service.

The member's incapacity must arise during the course of employment with one of OCERS' plan sponsors and the member's job duties must have contributed substantially to the member's incapacity. A service connected disability retirement benefit is a monthly benefit equal to 50% of the member's FAS or (if eligible) the member's service retirement benefit, whichever is greater. Benefits not exceeding 50% of FAS are considered non-taxable income under Internal Revenue Service code section 104(a) (1).

Non-Service Connected Disability

If a member's permanent incapacity is not a result of an injury, illness or disease arising from employment with an OCERS' plan sponsor, the member may be eligible for a non-service connected disability retirement. The member must have at least 5 years of service credit with OCERS to be considered for a non-service connected disability retirement. The monthly benefit for a non-service connected disability retirement is up to 33% of the member's FAS depending on the member's years of service credit or the member's service retirement benefit amount, whichever is greater. A non-service connected disability benefit is 100% taxable.

Categories of Audit Findings:

Critical Control Weaknesses:

These are finding(s) 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 or integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.

Significant Control Weaknesses:

These are finding(s) that represent a significant deficiency in the design or operation of internal controls. Management is expected to address Significant Control Weaknesses brought to its attention promptly.

Findings:

These are finding(s) concerning (1) internal control, (2) compliance, or (3) efficiency/effectiveness issues in which Internal Audit will recommend to management a corrective action to implement or enhance processes and/or internal controls. Findings are expected to be addressed within six to twelve months.

Appendix 1

Member	Members' monthly benefit payment setup variance	Total over/underpayment to be settled	Root Cause
Member #1	\$22.18 monthly benefit overpayment	\$695.08 overpayment of benefits to be paid back by the member via monthly installment payments.	Member Services (MS) manually keyed in the wrong FAS amount into V3 after performing a necessary recalculation of FAS.
Member #2	\$5.21 monthly benefit overpayment	\$84.30 in overpayments to the member is below OCERS' Write Off Policy ² threshold of \$100 for the collection of overpaid benefits. Management has written off this amount as per OCERS' Write Off Policy.	MS included an incorrect number of pensionable vacation hours within the member's FAS.
Member #3	\$7.99 monthly benefit underpayment	\$236.89 underpayment of benefits to be paid in a lump sum to the member.	MS included incorrect holiday hours worked; resulted in a shifted FAS measuring period.
Member #4	\$0.29 monthly benefit underpayment	\$6.42 underpayment of benefits to be paid in a lump sum to the member.	MS manually keyed in the incorrect hourly pay rate when including pensionable holiday pay within the member's FAS.
Net Total	Net \$19.11 monthly benefit overpayment. *	\$451.77 net overpayment to be settled with members (does not include write-off amounts).	

*\$107,108 was the total monthly benefit payment setup in our test sample.

² OCERS' Board Write Off Policy was recently adopted by the Board on November 19, 2018

Appendix #2

Audit Testing Methodology

- Verify existence of a Board Ordered Examination (indicating either a Service or Non-Service Connected Disability) signed by an OCERS' approved disability physician.
- Verify OCERS' Board Meeting Minutes indicating the Board's approval of the disability benefit.
- Review supporting documentation that supports the FAS used in V3's benefit calculation.
- Ensure the proper disability benefit formula was used for either a Service or Non-Service Connected Disability.
- Review evidence of supervisory review of FAS calculation.

A-4



Memorandum

DATE: February 7, 2019
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **CONSIDERATION OF 2019 RISK ASSESSMENT AND 2019 AUDIT PLAN**

Recommendation

Approve the *2019 Risk Assessment* and the *2019 Audit Plan*.

Background/Discussion

Attached are Internal Audit's 2019 Risk Assessment and the 2019 Audit Plan with estimated hours. Projects include:

1st half of 2019

- Employee and Employer Contributions Accounting: Review Finance Division controls to ensure the recording of contribution payments to the GL are complete, accurate and timely. Additionally, review the controls for GL account reconciliations and reporting to external parties as well as related system controls.
 - Not audited by Internal Audit in the past 6 years.

- Business Continuity and Disaster Recovery: Review controls related to business continuity and disaster recovery.
 - First time audit.

- Benefit and Lump Sum Payments Accounting: Review Finance Division controls to ensure the recording of retiree payroll payments to the GL are complete, accurate and timely. Additionally, review the controls for GL account reconciliations and reporting to external parties as well as related system controls.
 - Not audited by Internal Audit in the past 6 years.

- Management Action Plan Verification: Confirm if management action plans from prior audits have been implemented.
 - Recommended from the 2018 External Quality Assessment.

Memorandum

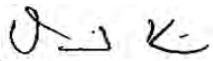
2nd half of 2019

- Pensionable Pay Item Review: Confirm OCERS operational changes made as a result of Management's Final Average Salary project from 2018. Additionally, review OCERS' controls to confirm plan sponsor transmittals are in compliance with the updates from the Final Average Salary project.
 - Governance Committee to review Master Final Average Salary Project at its February 2019 meeting.
- Annual Plan Sponsor Report: Report on the financial status of OCERS' plan sponsors based on their June 30, 2018 financial statements.
 - Internal Audit will incorporate additional metrics for the Board to consider.

On-Going through 2019

- Develop a Quality Assurance and Improvement Program (QAIP):
 - Recommended from the 2018 External Quality Assessment.
 - Develop/modify IA processes and performance metrics.
 - Work with Audit Committee and OCERS' Management team.
- Co-Sourced Audit of IT Controls: Develop IT Risk Assessment, review IT General Controls and act in an advisory capacity for OCERS' on-going Cyber Security efforts.
 - RFP was issued on January 10, 2019. Vendor to be selected by early March 2019.
- Consulting Project (Investments Division): Act in an advisory capacity to the Investment Division to review the process and related controls of the investment execution plans.
 - Internal Audit will assess requirements and build consultative program.

Submitted by:



David Kim
Director of Internal Audit

Internal Audit Risk Assessment Matrix for 2019

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

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
Member Services	Final Average Salary Policy Review	5	5	5	5	5	5	5.0
Enterprise	Business continuity / disaster recovery	5	5	4	5	5	5	4.8
Information Technology	Data security	5	5	4	5	5	5	4.8
Information Technology	Network Security	5	5	4	5	5	5	4.8
Finance	Payroll for retirees	5	5	4	4	5	5	4.7
Finance	Contributions - member, employer	5	5	5	4	4	5	4.7
Actuary	Acturial extract	5	5	4	3	5	5	4.5
Finance	Investment accounting and valuation	5	5	4	4	4	5	4.5
Member Services	Dependent eligibility	5	5	3	5	4	5	4.5
Internal Audit	Action plan follow-up	5	5	5	3	4	5	4.5
Enterprise	Data privacy	4	5	3	4	5	5	4.3
Information Technology	Data security 3rd party vendors	5	5	3	3	5	5	4.3
Investments	Investment consultant review	5	5	3	4	5	4	4.3
Investments	Operations of investment managers	5	5	3	4	5	4	4.3
Investments	Due diligence	5	5	3	4	5	3	4.2
Investments	Reporting to the Board	4	5	2	4	5	5	4.2
Member Services	Disability process	5	3	4	4	5	4	4.2
Plan Sponsors (County)	Contribution transmittals	5	5	3	4	5	3	4.2

Internal Audit Risk Assessment Matrix for 2019

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
Administrative Services	Physical security	4	5	3	2	5	5	4.0
Board	Governance	5	5	2	3	5	4	4.0
Finance	Cash management	5	5	3	3	3	5	4.0
Finance	General Ledger	5	5	2	4	3	5	4.0
Finance	Financial reporting	5	4	2	4	4	5	4.0
Finance	Spreadsheet controls	5	4	2	4	4	5	4.0
Investments	Risk management	4	4	4	5	4	3	4.0
Legal	Compliance review	3	4	3	4	5	5	4.0
Member Services	Benefit setup (including eligibility, pension spiking)	5	5	3	5	5	1	4.0
Member Services	Survivor claims	5	5	3	3	3	5	4.0
Plan Sponsors (OCFA)	Contribution transmittals	5	5	3	5	5	1	4.0
Administrative Services	Succession Planning	2	5	3	3	5	5	3.8
Enterprise	Ethics Policy	4	4	3	2	5	5	3.8
Investments	Asset allocation/rebalancing	5	5	3	4	5	1	3.8
Investments	Cash/Wire Processing	5	5	4	3	4	2	3.8
Investments	Investment reconciliations	5	5	2	4	3	4	3.8
Member Services	Member Enrollment	2	5	4	3	4	5	3.8
(Sanitation District)	Contribution transmittals	4	5	3	4	5	2	3.8
Investments	Derivatives	4	4	4	3	4	3	3.7
Member Services	IRS 415 benefit payment limits	3	3	3	3	5	5	3.7
Member Services	COLA adjustments	4	4	2	3	4	5	3.7
Plan Sponsors (OCTA)	Contribution transmittals	4	5	3	4	5	1	3.7

Internal Audit Risk Assessment Matrix for 2019

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
Plan Sponsors (Superior Court)	Contribution transmittals	4	5	3	4	5	1	3.7
Plan Sponsors (All other active plan sponsors)	Contribution transmittals	4	5	3	3	3	4	3.7
Internal Audit	QAIP (Internal)	1	3	5	3	5	5	3.7
Administrative Services	HR Processes	2	4	3	4	3	5	3.5
Finance	Accounts Payable	3	3	5	3	2	5	3.5
Investments	Investment manager fees	5	3	4	2	5	2	3.5
Administrative Services	Hiring	2	4	3	3	3	5	3.3
Finance	Budgeting	4	3	2	3	3	5	3.3
Administrative Services	Contract administration	4	3	3	3	2	5	3.3
Member Services	Interest posting / crediting	5	4	1	3	2	5	3.3
Member Services	IRS 401 contribution limits	3	3	3	3	3	5	3.3
Enterprise	Procurement	3	3	2	3	3	5	3.2
Investments	Personal Trading Policy compliance	2	3	2	3	4	5	3.2
Legal	Record management and retention	2	4	1	3	4	5	3.2
Member Services	1099 reporting	5	3	1	3	2	5	3.2
Member Services	Lump sum payments (death benefits, refunds)	4	3	2	3	2	5	3.2
Enterprise	RFP process	3	2	1	3	4	5	3.0
Enterprise	Vendor contract compliance	3	3	2	3	2	5	3.0

Internal Audit Risk Assessment Matrix for 2019

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
Member Services	Service Credit Purchases	3	3	3	4	3	2	3.0
Internal Audit	QAIP (External)	1	3	5	3	5	1	3.0
Legal	Domestic Relations Orders	2	3	2	3	2	5	2.8
Member Services	Reciprocity	3	3	2	4	3	2	2.8
Member Services	Death matching process	1	3	3	3	3	2	2.5
Member Services	Retiree Rehires (PEPRA)	3	2	2	1	5	1	2.3
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
2019 Internal Audit Plan**

Audit Activity	Description	Planned Hours - 2019 Budget	Comments
Internal Audits/Consulting			
Benefit and Lump Sum Payments Accounting	Review Finance Division controls to ensure the recording of retiree payroll payments to the GL are complete, accurate and timely. Additionally, review the controls for GL account reconciliations and reporting to external parties as well as related system controls.	300	
Employee and Employer Contributions Accounting	Review Finance Division controls to ensure the recording of contribution payments to the GL are complete, accurate and timely. Additionally, review the controls for GL account reconciliations and reporting to external parties as well as related system controls.	300	
Business continuity / disaster recovery	Review the controls over the business continuity and disaster recovery process.	220	
Pensionable Pay Item Review	Confirm OCERS operational changes made as a result of Management's Final Average Salary project from 2018. Additionally, review OCERS' controls to confirm plan sponsor transmittals are in compliance with the updates from the Final Average Salary project.	360	

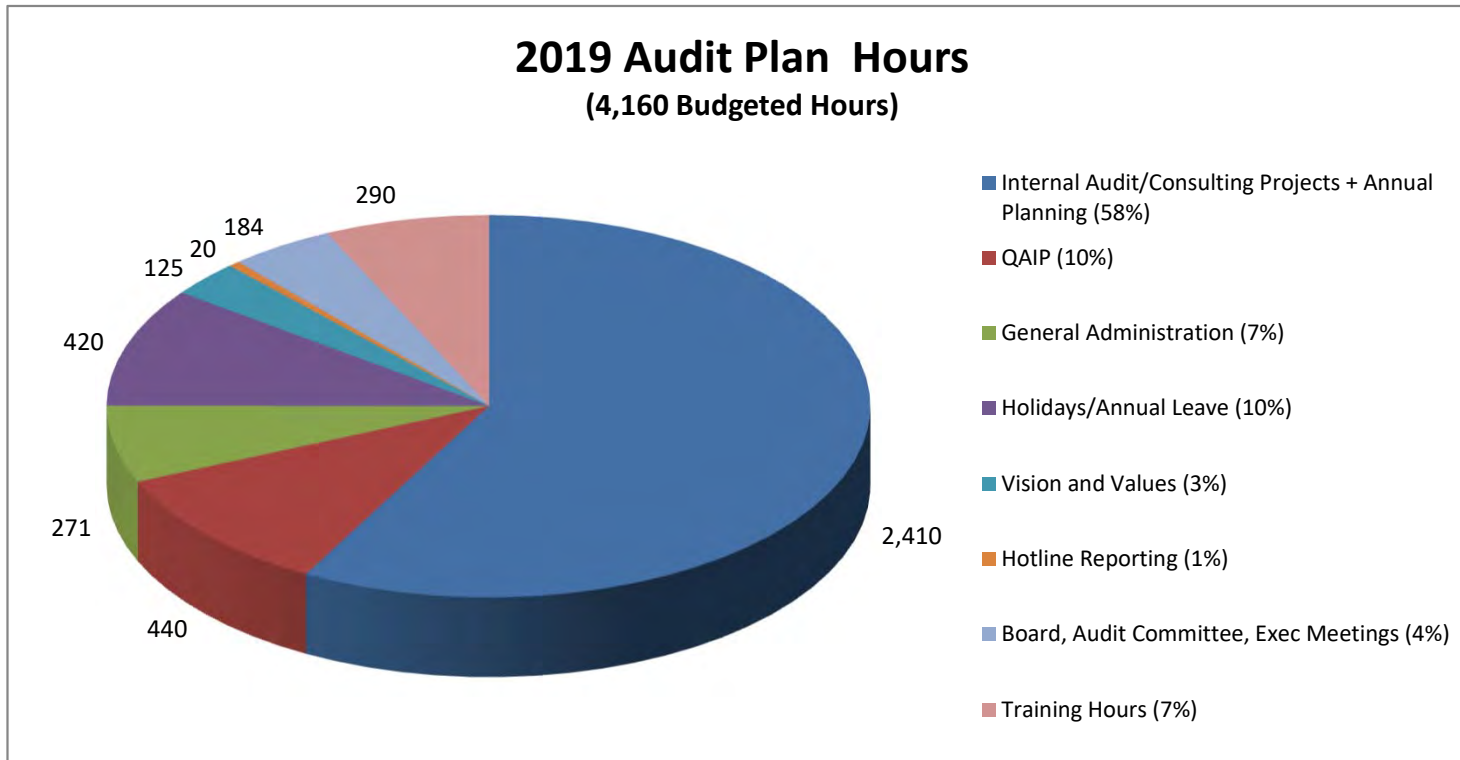
**Orange County Employees Retirement System
Internal Audit Division
2019 Internal Audit Plan**

Audit Activity	Description	Planned Hours - 2019 Budget	Comments
External Vendor Review of IT Controls	Develop the Information Technology Risk Assessment and long term IT Audit Program, including testing of IT General Controls.	180	RFP selection, coordination with IT/Cyber Security, review audit program
Ad-hoc project	Open for an ad-hoc project TBD	100	
Consulting - Investment	Act in an advisory capacity to the Investment Divisions to review the process and related controls of the investment execution plans.	320	Assess requirements and build consultative program
Internal Audit - Management Action Plan Verification	Action Plan Follow-up - Develop a new process, implement follow-up program and escalation procedures, clear backlog, develop reporting.	180	
Consulting - Annual Plan Sponsor Report	Annual Plan Sponsor report of key financial information on OCERS' plan sponsors based upon 2018 audited financial statements.	200	Additional scope items per CEO
Annual Audit Planning	Review and update Risk and Control Matrix.	100	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	150	

**Orange County Employees Retirement System
Internal Audit Division
2019 Internal Audit Plan**

Audit Activity	Description	Planned Hours - 2019 Budget	Comments
Quality Assurance and Improvement Program	External Quality Review Audit IIA - Institute of Internal Auditors	40	Develop responses/action plans
	IA Quality Review- self assessment - Develop new process, implement QAIP program, develop metrics	160	
	IA Assessment/Modifications - perform assessment of IA Operations, incorporate feedback from external QAIP, implement changes approved by AC.	240	IA Software, status reporting, audit reporting, IA manual updates
Administration	Vision and Values - Continuous Improvement Program	75	Develop a process, assign priority levels, route to appropriate parties, develop reporting
	Vision and Values Committee	50	Participate in the Vision and Values Committee
	Board meetings, Audit Committee, Investment Committee, Governance Committee.	135	12 Board meetings (6 hours each), estimated 4 Audit Committee meetings (8 hours each).
	Use of hotline reporting system.	20	
	General admin time	271	7% of 2019 budget
	Weekly meetings with CEO	25	
	Monthly meeting with Audit Committee Chair	24	
	Holidays (12 days), Annual Leave (15 days)	420	
	Training and Continuing Education	290	
Grand Total Hours		<u>4,160</u>	

Orange County Employees Retirement System
Internal Audit Division
2019 Internal Audit Plan



I-1

Memorandum

DATE: February 7, 2019
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **AUDIT COMMITTEE CHARTER OVERVIEW**

Presentation

Background/Discussion

The CEO has requested that, on an annual basis, each committee staff coordinator provide an overview of the committee charter to their respective committees. Attached is the first overview for the Audit Committee.

Submitted by:



David Kim
Director of Internal Audit



Audit Committee Charter

Presented on February 7, 2019

by

David Kim

Director of Internal Audit

Audit Committee

- Purpose
- Responsibilities/Oversight
- Reporting to the Board
- Management's Internal Controls & Risks
- Internal Audit Definition



Audit Committee's Purpose

Provide oversight of OCERS' internal and external audit activities

Ensure that appropriate action is taken on audit recommendations

Promote & enhance effective internal controls for OCERS' operations

Assist Board in ensuring the independence of internal audit functions

Oversee issue related communication between external auditors, internal auditors, and management

Oversight - External

- Oversight of Financial Reporting Process
 - ❖ Review audited financial statements with external auditor and senior management
 - ❖ Review external auditor's assessment of the appropriate application of accounting principles by OCERS' management
- Oversight of External Auditors
 - ❖ Appoint, compensate, retain, and oversee the work of external auditors



Oversight - Internal

- Direct oversight of Internal Audit function
 - ❖ Conduct performance review of Director of Internal Audit
- Review and approve the risk assessment and annual Internal Audit Plan
 - ❖ Including approval of adequate budget and resources
- Receive and review internal and external audit reports and management responses



The Audit Committee recommends:

- Selection of External Auditor and Actuarial Auditor
- Approval of the Annual CAFR
- Approval of the following charters/policies:
 - ❖ Audit Committee Charter
 - ❖ Internal Audit Charter
 - ❖ Risk Policy
 - ❖ Ethics, Compliance, and Fraud Hotline Policy



Management's Internal Controls and Risk Assessment

Review management's responsibilities for:

- Monitoring material risks facing OCERS



Management's Internal Controls and Risk Assessment

Review management's responsibilities for:

- Establishing adequate business processes and internal controls to minimize risk



Definition

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations





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Memorandum


DATE: February 7, 2019
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: STATUS UPDATE OF 2018 AUDIT PLAN

Written Report

Background/Discussion

Attached is a comparison of budgeted 2018 audit plan hours versus the completed program actual hours, by project.

Submitted by:



David Kim
Director of Internal Audit

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

Audit Activity	Description	Planned Hours - Original Budget	Actual Hours as of 12/31/18	Comments
Internal Audits				
OCTA Payroll Transmittals	Review of certain key data used in system conversion from PensionGold to V3.	275	313	Presented to AC in December 2018
Superior Court Payroll Transmittals	Review payroll transmittals and employee data of selected plan sponsor.	275	299	Presented to AC in December 2018
Benefit Setup Audit	Review internal processes for validating members' disability applications and supporting medical documentation. Re-calculate benefits payments.	250	265	To be presented to AC in February 2019
RFP Cybersecurity Risk Assessment	Cybersecurity Risk Assessment	120	0	Postponed until 2019 as directed by the Audit Committee
Orange County Sheriff's Department	Review payroll transmittals and employee data of selected plan sponsor.	250	12	Postponed
Investment Rebalancing Audit	Carried over from 2017	0	70	Presented to AC in January 2018
OCFA Payroll Transmittals	Carried over from 2017	0	76	Presented to AC in December 2018
	Internal Audits Subtotal	1,170	1,035	
Non-Audit Projects				
	External Quality Review Audit IIA - Institute of Internal Auditors	100	192	Final report to be issued Jan 2019

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

Audit Activity	Description	Planned Hours - Original Budget	Actual Hours as of 12/31/18	Comments
	Annual Plan Sponsor report	70	80	Presented to Board in March 2018
	Use of hotline reporting system.	30	0	No complaints yet in 2018
	Review and update Risk and Control Matrix.	40	4	To be updated along with 2019 audit planning
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	50	164	To be presented to AC in February 2019
	Fraud Assessment	0	50	Mississippi Fund fraud case
	Prepare training materials for new DIA	0	40	Provided to new DIA in September 2018
	Non-Audit Projects Subtotal	290	530	
Administration				
	Board meetings, Audit Committee, Investment Committee, Governance Committee.	104	114	
	General admin time	250	291	
	Holidays, Annual Leave	216	342	
	Training/Continuing Ed.	50	194	SACRS training and Harassment Prevention training
	IA Process Assessment		84	
	IA Software Assessment		48	
	IT Audit Assessment		42	
	Administration Subtotal	620	1,115	
	New Director of Internal Audit	600		Hired late September 2018
	Total Hours Available for 1.3 Auditor	2,680	2,680	