

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

**AUDIT COMMITTEE MEETING
January 13, 2020
9:00 a.m.**

Members of the Committee

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

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.

PUBLIC COMMENT

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 Committee; 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 on the counter at the back of the room and deposit it in the Recording Secretary's inbox on the wall near the middle 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 (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 MEETING MINUTES

Audit Committee Meeting Minutes

November 18, 2019

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 public comment at this time should fill out a speaker card located on the counter at the back of the room and deposit it in the Recording Secretary's inbox on the wall near the middle of the room.**

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

A-2 REVIEW OF OCERS' AUDIT COMMITTEE CHARTER

Presentation by David Kim, Director of Internal Audit

Recommendation: Approve, and recommend that the Board approve, revisions to the Audit Committee Charter.

A-3 REVIEW OF OCERS' INTERNAL AUDIT CHARTER

Presentation by David Kim, Director of Internal Audit

Recommendation: Approve, and recommend that the Board approve, revisions to the Internal Audit Charter.

A-4 REVIEW OF OCERS' ETHICS, COMPLIANCE, AND FRAUD HOTLINE POLICY

Presentation by David Kim, Director of Internal Audit

Recommendation: Approve, and recommend that the Board approve, revisions to the Ethics, Compliance, and Fraud Hotline Policy.

A-5 AUDIT OF BENEFIT AND LUMP SUM PAYMENT ACCOUNTING

Presentation by David Kim, Director of Internal Audit and Mark Adviento, Internal Auditor

Recommendation: Receive and file.

A-6 INVESTMENT DIVISION CONSULTING ENGAGEMENT

Presentation by David Kim, Director of Internal Audit and Mark Adviento, Internal Auditor

Recommendation: Receive and file.

A-7 PRIOR INTERNAL AUDIT MANAGEMENT ACTION PLAN VERIFICATION

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

A-8 CONSIDERATION OF 2020 RISK ASSESSMENT AND 2020 AUDIT PLAN

Presentation by David Kim, Director of Internal Audit and Mark Adviento, Internal Auditor

Recommendation: Approve the 2020 Risk Assessment and 2020 Audit Plan.

INFORMATION ITEMS

I-1 OPERATIONAL RISK MANAGEMENT ANNUAL REPORT

Written Report

I-2 2019 HOTLINE SUMMARY

Written Report

I-3 STATUS UPDATE OF 2019 AUDIT PLAN

Written Report

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 Information Security; Jenny Sadoski, Director of Information Technology; Jon Gossard, Information Security Manager; and Gina M. Ratto, General Counsel*

Recommendation: Take appropriate action.

E-2. PUBLIC EMPLOYEE PERFORMANCE EVALUATION (GOVERNMENT CODE §54957(b))

Title: Director of Internal Audit

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

Recommendation: Take appropriate action.

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

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

REGULAR BOARD MEETING

**January 21, 2020
9:00 A.M.**

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

PERSONNEL COMMITTEE MEETING

**January 31, 2020
10:00 A.M.**

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

DISABILITY COMMITTEE MEETING

**February 04, 2020
10:00 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 call 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.



Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **REVIEW OF OCERS' AUDIT COMMITTEE CHARTER**

Recommendation

Approve, and recommend that the Board approve, revisions to the Audit Committee Charter as presented.

Background/Discussion

Attached for the Committee's triennial review is the Audit Committee Charter along with an overview of the Audit Committee Charter. The Audit Committee Charter was last updated in May of 2017.

Internal Audit recommends the following revisions to the Audit Committee Charter:

- Include Internal Audit staff to the attendees for the Audit Committee meeting; and
- Add wording to clarify the role of the Audit Committee over the financial reporting process.

Submitted by:

DK - Approved

David Kim
Director of Internal Auditor

2011



Audit Committee Charter

Presented on January 13, 2020

by

David Kim

Director of Internal Audit



Contents

Audit Committee

- Purpose
- Responsibilities/Oversight
- Annual Audit Planning and Testing
- Reporting to the Board
- Management's Internal Controls & Risks
- Internal Audit Definition
- Recommended Changes to the Audit Committee Charter



Audit Committee's Purpose

Provide oversight of OCERS' internal and external audit activities

Assist Board in ensuring the independence of internal audit functions

Promote & enhance effective internal controls for OCERS' operations

Ensure that appropriate action is taken on audit recommendations

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



Audit Committee Responsibilities

Oversight - External

- Oversight of Financial Reporting Process
 - ❖ Review audited financial statements with external auditor and senior management
 - Entrance Conference – ~March
 - Report Issuance - ~June
 - ❖ 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 (MGO contract expires 12/2020)



Audit Committee Responsibilities

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



Annual Internal Audit Planning

Nov 2019
IA reviews
survey results
with mgmt.

Dec 2019
IA drafts
2020 Audit
Program

Jan 2020
IA perform
2020 Audit
Program



Oct 2019
Internal Audit (IA)
performs initial
risk assessment &
request input
from OCERS mgmt.
via survey

Nov 2019
IA incorporates
survey results &
Operational Risk
Management
database into
Audit Universe

Jan 2020
IA submits
2020 Audit
Program to
Audit Committee
for approval



Reporting to the Board

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 (last approved 4/17/17)
 - ❖ Internal Audit Charter (last approved 4/17/17)
 - ❖ Operational Risk Policy (last approved 2/19/19)
 - ❖ Ethics, Compliance, and Fraud Hotline Policy (last approved 1/17/17)



Management's Internal Controls and Risk Assessment

Review management's responsibilities for:

- Monitoring material risks facing OCERS
- Establishing adequate business processes and internal controls to minimize risk



Internal Audit Department

Definition

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



Changes to the Charter

Recommended Changes to the Audit Committee Charter

Internal Audit recommends the following revisions to the Audit Committee Charter:

- Include Internal Audit staff to the attendees for the Audit Committee meeting; and
- Add wording to clarify the role of the Audit Committee over the financial reporting process.



Changes to the Charter cont.

Attendees for the Audit Committee meetings (pg. 1 of Charter)

Meetings

4. The Audit Committee will meet at least quarterly, with authority to convene additional meetings as circumstances require. All Audit Committee members are expected to attend each meeting. The Director of Internal Audit and Internal Audit staff will attend all Audit Committee meetings. Meeting notices will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. All meetings are subject to the Brown Act. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes of meetings will be prepared. Minutes of the meeting will contain a record of persons present, decisions taken, and a high-level summary of the discussion.



Changes to the Charter cont.

Financial Reporting Process (pg. 2 of Charter)

b. *Financial Reporting Process:* The Audit Committee will:

1. Monitor management's processes for the reporting of all financial information, including management's review with the external auditor regarding their scope, plan, duties, responsibilities, and the timing and engagement fee of the annual financial audit;

Kim, David
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Kim, David
Deleted: ing



Questions



OCERS Board Charter Audit Committee Charter

Introduction

1. The Board of Retirement has established an Audit Committee to assist it in overseeing the audit function within OCERS. The Audit Committee is an advisory committee to the Board of Retirement, and its recommendations are subject to final approval by the Board. Notwithstanding the preceding sentence, with respect to those matters expressly assigned to it in this Audit Committee Charter, the Audit Committee has final authority.

Purpose

2. The Audit Committee provides oversight of OCERS' internal and external audit activities. The Audit Committee assists the Board in ensuring the independence of the internal audit functions and ensuring that appropriate action is taken on audit recommendations. The Audit Committee helps promote and enhance effective internal controls for OCERS operations, and oversees communication between external auditors, internal auditors, and management.

Membership

3. The Audit Committee will consist of four members of the Board of Retirement. The Board Chair will appoint members of the Audit Committee as provided in the OCERS By-Laws and designate one member to serve as the Committee Chair.

Ideally, members should have expertise in accounting, auditing, financial reporting, and internal control. Although these desired traits are not mandatory, members should be sufficiently knowledgeable about these topics to make informed decisions with the assistance of a financial expert.

Meetings

4. The Audit Committee will meet at least quarterly, with authority to convene additional meetings as circumstances require. All Audit Committee members are expected to attend each meeting. The Director of Internal Audit and Internal Audit staff will attend all Audit Committee meetings. Meeting notices will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. All meetings are subject to the Brown Act. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes of meetings will be prepared. Minutes of the meeting will contain a record of persons present, decisions taken, and a high-level summary of the discussion.

Responsibilities and Duties

5. The Audit Committee's key areas of responsibility are:
 - a. *Law and Ethics*: The Audit Committee will provide the policy and framework for compliance with laws and regulations, mechanisms for assessment of compliance, and communication with the Board on OCERS policies.



OCERS Board Charter Audit Committee Charter

b. *Financial Reporting Process:* The Audit Committee will:

1. ~~Oversee~~ Monitor management's processes for the reporting of all financial information, including management's reviewing with the external auditor regarding their scope, plan, duties, responsibilities, and the timing and engagement fee of the annual financial audit;
2. Resolve disagreements between the internal auditor, external auditor, and /or management regarding financial reporting and internal control risks identified in the audit;
3. Review the audited financial statements with the external auditor and senior management;
4. Review management letters with management;
5. Review the findings or comments of regulatory agencies concerning financial statements or other information regarding OCERS;
6. Review the external auditor's assessments of the appropriate application of accounting principles by OCERS management;
7. Review all matters required to be disclosed by accounting standards, including significant changes in those standards; and
8. Meet with senior management, at least annually, to discuss the effectiveness of the internal financial and operational control policies.

c. *Oversight of the External Auditors:* The Audit Committee will:

1. Conduct the solicitation for the financial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;
2. Conduct the solicitation for the actuarial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;
3. Conduct the solicitation for, select, and appoint all external auditors (other than the financial auditor and the actuarial auditor) engaged for the purpose of issuing an independent audit report or performing other independent audits, reviews, or attest services;
4. Oversee the work of all external auditors; and conduct regular monitoring and performance reviews of the actuarial auditor and the financial auditor at least biennially in accordance with the Board's Procurement and Contracting Policy; and
5. Approve other audits, agreed upon procedures, and non-audit work to be conducted by external auditors.

d. *Oversight of Internal Audit:* The Audit Committee will:



OCERS Board Charter Audit Committee Charter

1. Approve all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
 2. Approve the compensation and salary adjustments of the Director of Internal Audit;
 3. Review the charters and policies assigned to Audit Committee at least once every three years in accordance with the schedule set forth in the OCERS Charters and Policies Review Schedule and recommend the same for approval by the Board of Retirement;
 4. Review and approve the risk assessment and annual Internal Audit Plan prepared by the Director of Internal Audit;
 5. Receive and review internal and external audit reports and management responses;
 6. Review significant recommendations from audits during the year and management's responses, and make appropriate recommendations to the Board; and
 7. Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to carry out its responsibilities.
- e. *Internal Control and Risk Management:* The Audit Committee will review management responsibilities for:
1. The adequacy of OCERS' internal controls, including information systems;
 2. Material risks facing OCERS and management's actions to minimize risk;
 3. Risks from external organizations such as service providers, vendors, investment managers, consultants, and plan sponsors; and
 4. Special investigations and whistleblower mechanisms. The Audit Committee can retain independent counsel, accountants, or other specialists to assist in the conduct of an investigation.

Reporting

6. The Audit Committee will:
 - a. Report to the Board of Retirement its activities and the results of its reviews; and
 - b. Review significant changes in accounting standards, policies, or practices that may impact OCERS and report the results of that review to the Board of Retirement.

Charter Review

7. The Audit Committee will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.



OCERS Board Charter Audit Committee Charter

Charter History

- 8. The Audit Committee Charter was adopted by the Board of Retirement on November 18, 2002, and amended on January 17, 2012, July 20, 2015, ~~and~~ May 15, 2017 and January 13, 2020.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

15/135/2017

Steve Delaney, Secretary of the Board

Date



OCERS Board Charter Audit Committee Charter

Introduction

1. The Board of Retirement has established an Audit Committee to assist it in overseeing the audit function within OCERS. The Audit Committee is an advisory committee to the Board of Retirement, and its recommendations are subject to final approval by the Board. Notwithstanding the preceding sentence, with respect to those matters expressly assigned to it in this Audit Committee Charter, the Audit Committee has final authority.

Purpose

2. The Audit Committee provides oversight of OCERS' internal and external audit activities. The Audit Committee assists the Board in ensuring the independence of the internal audit functions and ensuring that appropriate action is taken on audit recommendations. The Audit Committee helps promote and enhance effective internal controls for OCERS operations, and oversees communication between external auditors, internal auditors, and management.

Membership

3. The Audit Committee will consist of four members of the Board of Retirement. The Board Chair will appoint members of the Audit Committee as provided in the OCERS By-Laws and designate one member to serve as the Committee Chair.

Ideally, members should have expertise in accounting, auditing, financial reporting, and internal control. Although these desired traits are not mandatory, members should be sufficiently knowledgeable about these topics to make informed decisions with the assistance of a financial expert.

Meetings

4. The Audit Committee will meet at least quarterly, with authority to convene additional meetings as circumstances require. All Audit Committee members are expected to attend each meeting. The Director of Internal Audit and Internal Audit staff will attend all Audit Committee meetings. Meeting notices will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. All meetings are subject to the Brown Act. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes of meetings will be prepared. Minutes of the meeting will contain a record of persons present, decisions taken, and a high-level summary of the discussion.

Responsibilities and Duties

5. The Audit Committee's key areas of responsibility are:
 - a. *Law and Ethics*: The Audit Committee will provide the policy and framework for compliance with laws and regulations, mechanisms for assessment of compliance, and communication with the Board on OCERS policies.



OCERS Board Charter Audit Committee Charter

- b. *Financial Reporting Process:* The Audit Committee will:
1. Monitor management's processes for the reporting of all financial information, including management's review with the external auditor regarding their scope, plan, duties, responsibilities, and the timing and engagement fee of the annual financial audit;
 2. Resolve disagreements between the internal auditor, external auditor, and /or management regarding financial reporting and internal control risks identified in the audit;
 3. Review the audited financial statements with the external auditor and senior management;
 4. Review management letters with management;
 5. Review the findings or comments of regulatory agencies concerning financial statements or other information regarding OCERS;
 6. Review the external auditor's assessments of the appropriate application of accounting principles by OCERS management;
 7. Review all matters required to be disclosed by accounting standards, including significant changes in those standards; and
 8. Meet with senior management, at least annually, to discuss the effectiveness of the internal financial and operational control policies.
- c. *Oversight of the External Auditors:* The Audit Committee will:
1. Conduct the solicitation for the financial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;
 2. Conduct the solicitation for the actuarial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;
 3. Conduct the solicitation for, select, and appoint all external auditors (other than the financial auditor and the actuarial auditor) engaged for the purpose of issuing an independent audit report or performing other independent audits, reviews, or attest services;
 4. Oversee the work of all external auditors; and conduct regular monitoring and performance reviews of the actuarial auditor and the financial auditor at least biennially in accordance with the Board's Procurement and Contracting Policy; and
 5. Approve other audits, agreed upon procedures, and non-audit work to be conducted by external auditors.
- d. *Oversight of Internal Audit:* The Audit Committee will:



OCERS Board Charter Audit Committee Charter

1. Approve all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
 2. Approve the compensation and salary adjustments of the Director of Internal Audit;
 3. Review the charters and policies assigned to Audit Committee at least once every three years in accordance with the schedule set forth in the OCERS Charters and Policies Review Schedule and recommend the same for approval by the Board of Retirement;
 4. Review and approve the risk assessment and annual Internal Audit Plan prepared by the Director of Internal Audit;
 5. Receive and review internal and external audit reports and management responses;
 6. Review significant recommendations from audits during the year and management's responses, and make appropriate recommendations to the Board; and
 7. Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to carry out its responsibilities.
- e. *Internal Control and Risk Management:* The Audit Committee will review management responsibilities for:
1. The adequacy of OCERS' internal controls, including information systems;
 2. Material risks facing OCERS and management's actions to minimize risk;
 3. Risks from external organizations such as service providers, vendors, investment managers, consultants, and plan sponsors; and
 4. Special investigations and whistleblower mechanisms. The Audit Committee can retain independent counsel, accountants, or other specialists to assist in the conduct of an investigation.

Reporting

6. The Audit Committee will:
 - a. Report to the Board of Retirement its activities and the results of its reviews; and
 - b. Review significant changes in accounting standards, policies, or practices that may impact OCERS and report the results of that review to the Board of Retirement.

Charter Review

7. The Audit Committee will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.



OCERS Board Charter Audit Committee Charter

Charter History

8. The Audit Committee Charter was adopted by the Board of Retirement on November 18, 2002, and amended on January 17, 2012, July 20, 2015, May 15, 2017 and January 13, 2020.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

A handwritten signature in black ink that reads "Steve Delaney".

1/13/20

Steve Delaney, Secretary of the Board

Date



Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: REVIEW OF OCERS' INTERNAL AUDIT CHARTER

Recommendation

Approve, and recommend that the Board approve, revisions to the Internal Audit Charter as presented.

Background/Discussion

Attached for the Committee's triennial review is the Internal Audit Charter. The Internal Audit Charter was last updated in April of 2017.

Internal Audit recommends the following changes to the Internal Audit Charter:

- Update terminology from Internal Audit Division to Internal Audit Department.

Submitted by:

DK - Approved

David Kim
Director of Internal Auditor



OCERS Board Charter

Internal Audit Charter

Introduction

The Audit Committee of OCERS oversees the Internal Audit ~~Division~~Department under the following provisions:

Mission of the Internal Audit ~~Division~~Department

1. The mission of the Internal Audit ~~Division~~Department is to provide reliable, independent and objective evaluations and consulting services to the Audit Committee and OCERS' management relating to business and financial operations. Internal Audit assists the Board of Retirement and management to achieve their objectives by testing and reporting on the effectiveness of internal control systems, risk management, and governance processes.

Independence of the Director of Internal Audit

2. The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner.
3. Internal Audit shall not participate in any management activity or management relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization, in accordance with the Institute of Internal Auditors' Code of Ethics.

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditor independence is strongly emphasized by authoritative bodies such as the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Government Accountability Office. The Director of Internal Audit will follow recognized professional standards established by the Institute of Internal Auditors and be free of operational and management responsibilities that would conflict with the standards. Any potential impairment to independence will be communicated to the Audit Committee.

Organizational Reporting

4. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Director of Internal Audit will have direct access to senior management and the Board of Retirement. This can be achieved by a dual-reporting relationship. The Director of Internal Audit will report functionally to the Audit Committee and administratively to the Chief Executive Officer.

Functionally reporting to the Audit Committee involves the Audit Committee:

1. Reviewing and recommending changes to the Internal Audit Charter to the Board of Retirement;
2. Approving the risk-based Internal Audit plan;
3. Receiving communications from the Director of Internal Audit on the results of audit activities;



OCERS Board Charter Internal Audit Charter

4. Approving all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
5. Approving the compensation and salary adjustments of the Director of Internal Audit;
6. Making appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope or budgetary limitations that impede the ability of Internal Audit to carry out its responsibilities.

Administrative reporting is the reporting relationship within the OCERS management structure that facilitates the daily operations of the internal audit activity, which includes:

1. Budgeting and management accounting;
2. Human resource administration, including personnel evaluations, leave request approval, and compensation;
3. Internal communications and information flows;
4. Administration of the Internal Audit ~~Division~~Department's policies and procedures.

Objectives and Scope

5. The objective of Internal Audit is to assist the Board of Retirement and management in the effective discharge of their fiduciary responsibilities. Internal Audit will furnish them with audits, analysis, evaluations, recommendations, and information. Objectives include promoting effective internal controls, helping provide assurance that the organization's assets are safeguarded; compliance is maintained with prescribed laws, Board, and management policies; the reliability and integrity of OCERS' data is maintained; and procedures and operating efficiency are enhanced.

The scope of Internal Audit includes the examination and evaluation of the adequacy of OCERS' system of internal controls, risk management and governance processes. The scope includes:

1. Reviewing the reliability and integrity of financial and business information systems, and the means used to identify, measure, classify and report such information;
2. Reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws, and regulations that are fundamental to the operations of OCERS and could have a significant impact on operations, financial reports, and disclosures;
3. Reviewing the means of safeguarding assets and verifying the existence of such assets;
4. Monitoring and evaluating the effectiveness of OCERS' risk management systems, including identifying internal and external risks;
5. Auditing the accuracy of data transmitted to OCERS by external parties.
6. Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit;
7. For consulting and advisory services, Internal Audit may provide assessments and advice to identify risks and internal controls for projects.



OCERS Board Charter Internal Audit Charter

Authority and Responsibility

6. The Internal Audit ~~Division~~ **Department** is established by the OCERS Board of Retirement pursuant to applicable laws and regulations, customs of corporate governance, and best practices. This Charter and all future amendments are approved by the Audit Committee and adopted by the Board of Retirement by a majority vote.

The responsibility of OCERS Internal Audit is to serve the Board of Retirement in a manner that is consistent with the International Professional Practices Framework of the Institute of Internal Auditors, as required by California Government Code 1236. In addition, when appropriate, OCERS Internal Audit follows professional standards promulgated by the Government Accountability Office, the American Institute of Certified Public Accountants, and the Information Systems Audit and Control Association.

OCERS Internal Audit is responsible for:

1. Establishing policies and procedures for auditing, and directing and performing its technical and administrative functions;
2. Developing and executing a comprehensive audit program for the evaluation of internal controls established over OCERS' financial and business activities;
3. Preparing an annual audit plan that identifies audit projects addressing areas of highest risk to OCERS operations;
4. Auditing management's stewardship of OCERS' trust funds and resources and their compliance with policies and procedures;
5. Recommending improvements in internal controls to help:
 - a. Safeguard trust funds and resources,
 - b. Ensure data is not compromised,
 - c. Ensure compliance with laws and regulations;
6. Auditing procedures and records for accuracy and completeness to accomplish and report on intended objectives;
7. Producing reports on the results of audits, including findings and recommendations;
8. Following-up on actions taken to correct reported deficiencies;
9. Creating and maintaining a mechanism (i.e., OCERS' Ethics, Compliance, and Fraud Hotline) for reporting financial statement fraud, other fraud, and inappropriate activities;
10. Conducting special investigations and analysis as needed.

Internal Audit Access to Personnel and Information

7. Except where prohibited by law, Internal Audit will have complete and unrestricted access to all OCERS personnel, records, files, information systems, and assets. The Director of Internal Audit will



OCERS Board Charter Internal Audit Charter

inform the Audit Committee whenever significant barriers or resistance to access to personnel or information occurs.

Charter History

8. The Audit Committee will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.
9. The OCERS Internal Audit Charter was adopted by the Board of Retirement on November 18, 2002 and amended on August 19, 2008, January 17, 2012, July 20, 2015, April 17, 2017, and January 13, 2020.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

A handwritten signature in black ink that reads "Steve Delaney".

Steve Delaney, Secretary of the Board

1/13/20

Date



OCERS Board Charter Internal Audit Charter

Introduction

The Audit Committee of OCERS oversees the Internal Audit Department under the following provisions:

Mission of the Internal Audit Department

1. The mission of the Internal Audit Department is to provide reliable, independent and objective evaluations and consulting services to the Audit Committee and OCERS' management relating to business and financial operations. Internal Audit assists the Board of Retirement and management to achieve their objectives by testing and reporting on the effectiveness of internal control systems, risk management, and governance processes.

Independence of the Director of Internal Audit

2. The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner.
3. Internal Audit shall not participate in any management activity or management relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization, in accordance with the Institute of Internal Auditors' Code of Ethics.

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditor independence is strongly emphasized by authoritative bodies such as the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Government Accountability Office. The Director of Internal Audit will follow recognized professional standards established by the Institute of Internal Auditors and be free of operational and management responsibilities that would conflict with the standards. Any potential impairment to independence will be communicated to the Audit Committee.

Organizational Reporting

4. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Director of Internal Audit will have direct access to senior management and the Board of Retirement. This can be achieved by a dual-reporting relationship. The Director of Internal Audit will report functionally to the Audit Committee and administratively to the Chief Executive Officer.

Functionally reporting to the Audit Committee involves the Audit Committee:

1. Reviewing and recommending changes to the Internal Audit Charter to the Board of Retirement;
2. Approving the risk-based Internal Audit plan;
3. Receiving communications from the Director of Internal Audit on the results of audit activities;



OCERS Board Charter Internal Audit Charter

4. Approving all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
5. Approving the compensation and salary adjustments of the Director of Internal Audit;
6. Making appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope or budgetary limitations that impede the ability of Internal Audit to carry out its responsibilities.

Administrative reporting is the reporting relationship within the OCERS management structure that facilitates the daily operations of the internal audit activity, which includes:

1. Budgeting and management accounting;
2. Human resource administration, including personnel evaluations, leave request approval, and compensation;
3. Internal communications and information flows;
4. Administration of the Internal Audit Department's policies and procedures.

Objectives and Scope

5. The objective of Internal Audit is to assist the Board of Retirement and management in the effective discharge of their fiduciary responsibilities. Internal Audit will furnish them with audits, analysis, evaluations, recommendations, and information. Objectives include promoting effective internal controls, helping provide assurance that the organization's assets are safeguarded; compliance is maintained with prescribed laws, Board, and management policies; the reliability and integrity of OCERS' data is maintained; and procedures and operating efficiency are enhanced.

The scope of Internal Audit includes the examination and evaluation of the adequacy of OCERS' system of internal controls, risk management and governance processes. The scope includes:

1. Reviewing the reliability and integrity of financial and business information systems, and the means used to identify, measure, classify and report such information;
2. Reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws, and regulations that are fundamental to the operations of OCERS and could have a significant impact on operations, financial reports, and disclosures;
3. Reviewing the means of safeguarding assets and verifying the existence of such assets;
4. Monitoring and evaluating the effectiveness of OCERS' risk management systems, including identifying internal and external risks;
5. Auditing the accuracy of data transmitted to OCERS by external parties.
6. Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit;
7. For consulting and advisory services, Internal Audit may provide assessments and advice to identify risks and internal controls for projects.



OCERS Board Charter Internal Audit Charter

Authority and Responsibility

6. The Internal Audit Department is established by the OCERS Board of Retirement pursuant to applicable laws and regulations, customs of corporate governance, and best practices. This Charter and all future amendments are approved by the Audit Committee and adopted by the Board of Retirement by a majority vote.

The responsibility of OCERS Internal Audit is to serve the Board of Retirement in a manner that is consistent with the International Professional Practices Framework of the Institute of Internal Auditors, as required by California Government Code 1236. In addition, when appropriate, OCERS Internal Audit follows professional standards promulgated by the Government Accountability Office, the American Institute of Certified Public Accountants, and the Information Systems Audit and Control Association.

OCERS Internal Audit is responsible for:

1. Establishing policies and procedures for auditing, and directing and performing its technical and administrative functions;
2. Developing and executing a comprehensive audit program for the evaluation of internal controls established over OCERS' financial and business activities;
3. Preparing an annual audit plan that identifies audit projects addressing areas of highest risk to OCERS operations;
4. Auditing management's stewardship of OCERS' trust funds and resources and their compliance with policies and procedures;
5. Recommending improvements in internal controls to help:
 - a. Safeguard trust funds and resources,
 - b. Ensure data is not compromised,
 - c. Ensure compliance with laws and regulations;
6. Auditing procedures and records for accuracy and completeness to accomplish and report on intended objectives;
7. Producing reports on the results of audits, including findings and recommendations;
8. Following-up on actions taken to correct reported deficiencies;
9. Creating and maintaining a mechanism (i.e., OCERS' Ethics, Compliance, and Fraud Hotline) for reporting financial statement fraud, other fraud, and inappropriate activities;
10. Conducting special investigations and analysis as needed.

Internal Audit Access to Personnel and Information

7. Except where prohibited by law, Internal Audit will have complete and unrestricted access to all OCERS personnel, records, files, information systems, and assets. The Director of Internal Audit will



OCERS Board Charter Internal Audit Charter

inform the Audit Committee whenever significant barriers or resistance to access to personnel or information occurs.

Charter History

- 8. The Audit Committee will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.
- 9. The OCERS Internal Audit Charter was adopted by the Board of Retirement on November 18, 2002 and amended on August 19, 2008, January 17, 2012, July 20, 2015, April 17, 2017 and January 13, 2020.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney, Secretary of the Board

1/13/20

Date



Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **REVIEW OF OCERS' ETHICS, COMPLIANCE, AND FRAUD HOTLINE POLICY**

Recommendation

Approve, and recommend that the Board approve, revisions to the Ethics, Compliance and Fraud Hotline Policy as presented.

Background/Discussion

Attached for the Committee's triennial review is the OCERS' Ethics, Compliance and Fraud Hotline Policy. The Policy was last updated on January 1, 2017.

Internal Audit recommends the following revisions to the Policy:

- Update the definition of fraud as defined by the Association of Certified Fraud Examiners.

Submitted by:

DK - Approved

David Kim
Director of Internal Auditor



OCERS Board Policy

Ethics, Compliance, and Fraud Hotline

Purpose and Background

1. The OCERS Ethics, Compliance, and Fraud Hotline (the Hotline) was established in October 2012 to aid management in the detection of activities that are unethical, fraudulent, or not in compliance with the policies of OCERS. The Hotline facilitates anonymous reporting by employees, contractors, members, and the general public to report concerns about potential misconduct or inappropriate activities, including but not limited to, harassment, conflict of interest, violation of policy, fraud, and waste of resources.
2. The Hotline reinforces OCERS efforts to ensure transparency, accountability, fairness, and integrity in the workplace.

Policy Objectives

3. The purpose of this document is to establish a policy for conducting an investigation when a report of potential misconduct or inappropriate activity is made through the Hotline, and for assigning responsibility for taking appropriate actions as a result of the investigation.

Policy Guidelines

4. OCERS management is responsible for the implementation of procedures and controls designed to prevent and detect fraud, misappropriations, deception, wrongdoing, and other inappropriate conduct. Fraud is defined by the Association of Certified Fraud Examiners as a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment~~any intentional act to deprive another of property or money by acts of guile, deception, or other unfair means~~. Fraud can include conflict of interest, theft, or breach of fiduciary duty. Each member of the OCERS management team must be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.
5. All allegations of potential misconduct or inappropriate activity raised by any source will be taken seriously and properly investigated. Retaliation against anyone who reports suspected misconduct or inappropriate activity will not be tolerated.
6. OCERS Director of Internal Audit will be responsible for conducting an investigation as a result of a report being filed on the Hotline. The investigation will be conducted without regard to the alleged wrongdoer's length of service, position, title, or relationship with OCERS.
7. If an accusation is made against the Director of Internal Audit, then the Director of Internal Audit or Internal Auditor, as appropriate, will inform the Chief Executive Officer, who will then be responsible for directing an investigation.
8. Depending on the nature of the complaint, some investigations regarding human resources matters such as matters related to performance appraisals or harassment may be turned over to the Manager of Administrative Services. Internal Audit may also seek the assistance of Legal or other informed parties in conducting an investigation.



OCERS Board Policy Ethics, Compliance, and Fraud Hotline

9. The Chief Executive Officer will make the final determination regarding action to be taken against the accused individual upon completion of the investigation.
10. In some cases, the final report of the outcome of an investigation may be submitted to the Audit Committee, or Chair of the Audit Committee. This may occur if an accusation has been against executive management, or if the results of an investigation indicate criminal acts have occurred, or there are high-level policy implications resulting from an investigation. The Audit Committee will make the determination for corrective action, if any, as it deems appropriate.
11. If a report to the hotline indicates that illegal acts may have been committed, Internal Audit will refer those reports to the appropriate law enforcement agency or the district attorney. If a report to the hotline indicates that a violation of the Political Reform Act has occurred, such as a conflict of interest, illegal acceptance of gifts or honorarium, or restrictions on activities of former investment officials, then Internal Audit will refer the report to the California Fair Political Practices Commission (FPPC).
12. OCERS will maintain the confidentiality, to the extent that it is legally possible, of any individual reporting any detected or suspected fraudulent activity, ethics violations, or compliance failures.

Policy Review

13. This policy will be reviewed every three years.

Policy History

14. The Board adopted this policy on June 06, 2013, and amended on January 1, 2017 and January 13, 2020.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney
Secretary of the Board

1/13/2017/17

Date



OCERS Board Policy Ethics, Compliance, and Fraud Hotline

Purpose and Background

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7. If an accusation is made against the Director of Internal Audit, then the Director of Internal Audit or Internal Auditor, as appropriate, will inform the Chief Executive Officer, who will then be responsible for directing an investigation.
8. Depending on the nature of the complaint, some investigations regarding human resources matters such as matters related to performance appraisals or harassment may be turned over to the Manager of Administrative Services. Internal Audit may also seek the assistance of Legal or other informed parties in conducting an investigation.



OCERS Board Policy Ethics, Compliance, and Fraud Hotline

-
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 - 10. In some cases, the final report of the outcome of an investigation may be submitted to the Audit Committee, or Chair of the Audit Committee. This may occur if an accusation has been against executive management, or if the results of an investigation indicate criminal acts have occurred, or there are high-level policy implications resulting from an investigation. The Audit Committee will make the determination for corrective action, if any, as it deems appropriate.
 - 11. If a report to the hotline indicates that illegal acts may have been committed, Internal Audit will refer those reports to the appropriate law enforcement agency or the district attorney. If a report to the hotline indicates that a violation of the Political Reform Act has occurred, such as a conflict of interest, illegal acceptance of gifts or honorarium, or restrictions on activities of former investment officials, then Internal Audit will refer the report to the California Fair Political Practices Commission (FPPC).
 - 12. OCERS will maintain the confidentiality, to the extent that it is legally possible, of any individual reporting any detected or suspected fraudulent activity, ethics violations, or compliance failures.

Policy Review

- 13. This policy will be reviewed every three years.

Policy History

- 14. The Board adopted this policy on June 06, 2013, and amended on January 1, 2017 and January 13, 2020.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney
Secretary of the Board

1/13/20

Date



Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: D. Kim, Director of Internal Audit
SUBJECT: AUDIT REPORT – BENEFIT AND LUMP SUM PAYMENT ACCOUNTING

Recommendation

Receive and file.

Background/Discussion

As per the 2019 Audit Plan, Internal Audit performed an audit of OCERS Finance Department's internal controls over the Benefit and Lump Sum Payment Accounting.

There were four observations directed towards OCERS management. Further details on the observations and management's responses are provided in the audit report.

The full audit report is attached.

Submitted by:

DK - Approved

David Kim
Director of Internal Audit



Audit of Benefit and Lump Sum Payment Accounting

Report Date: December 17, 2019

Internal Audit Department

David Kim, Director of Internal Audit

Mark Adviento, Internal Auditor

**OCERS Internal Audit
Audit of Benefits and Lump Sum Accounting
December 17, 2019**

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Audit Objective and Scope

The objective of this audit was to provide an independent review of the OCERS Finance Department's ("Finance") controls that help ensure the accuracy, completeness and proper supporting documentation over the recording of benefit payments to OCERS' members and their beneficiaries.

The scope of the audit included benefit payments paid between January 2017 through April 2019.

The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

Conclusion / Executive Summary

Opinion: <i>Opportunities for Improvement</i>
--

Overall, controls are in place to ensure that the recording of benefit payments (e.g. payroll) to OCERS' Dynamics General Ledger (GL) are complete, accurate and timely. OCERS' current pension administration system, V3, was implemented in December 2015. Since then, Finance has continued to develop checks and balances within its processes to help ensure the accuracy of payroll. There were four Important Observations, which included the need for Finance to strengthen controls protecting the privacy of members' personal and banking information found on payroll documentation. We also noted opportunities to formally update the Finance policies and procedures over payroll and to strengthen controls around the GL journal entry process.

Background

OCERS' payroll process for paying and recording monthly retiree and disability pension benefits in addition to lump sum benefits is a complex process requiring: Finance's analysis of various V3 and Dynamics GL reports both before and after running payroll; reconciliation to Member Services' payroll log; and analysis/reconciliation of all 3rd party payroll deductions (e.g. insurance premiums/tax withholding).

For the November 2019 monthly payroll, OCERS paid approximately \$61 million in net benefits to 18,420 payees (18,322 were paid electronically; 98 were paid via check) and remitted an additional \$13 million in payroll deductions to various 3rd parties. OCERS also paid a total of \$1 million in lump sum payments (e.g. refunds/rollovers) to 72 members. For the nine months ending September 31, 2019 OCERS has paid over \$663 million in pension benefits, in addition to \$11 million of contribution refunds and rollovers. For the

prior year ending December 31, 2018, OCERS paid over \$813 million in net benefits and \$14 million of contribution refunds and rollovers.

Important Observations

- ▶ **V3's Pre-Disbursement Register report contains payee's full social security numbers.** The Pre-Disbursement Register report contains payees' full name, full social security number (SSN), gross pay, net pay, federal/state tax withholding amounts, and form of payment (i.e. check or EFT). Although this is an internal use report, there is no business or operational need for having the SSN as a key identifier instead of OCERS' ID number (OID) on this particular report. As a result, payees' privacy could be compromised were such a report lost, stolen or inadvertently released to the public. In response to our observation, Finance has implemented a design change in V3 to replace full SSN with the OID on this report.
- ▶ **Finance does not systematically delete V3's ACH files containing beneficiaries' banking information from local hard drives.** Before Finance uploads V3's monthly retiree payroll ACH file to Wells Fargo Bank, the ACH file is first loaded directly onto a local hard drive (e.g. laptop or desktop) before it is copied onto Finance's secured network folder. However, if the above monthly ACH file were to remain inadvertently stored on a computer's hard drive, the file would become susceptible to loss or theft, exposing the banking data of over 18,000 of OCERS' payees. In response to our observation, Finance has established procedures to delete each copy of the ACH text files from the local hard drive after the file has been uploaded to Wells Fargo. Additionally, Finance will work with IT to assess the cost/benefit of having V3 directly download the ACH file to a secured network folder, instead of to a local hard drive.
- ▶ **Finance procedures manual related to benefit and lump sum payments (i.e. payroll) do not reflect all current procedures.** Updated written Finance payroll policies and procedures, which include enhanced data validity/data integrity checks and reasonability analysis, remain in draft and have not been formally approved and published. The lack of updated, management approved, policies and procedures documentation available to the Finance team members increases the risk of retiree and lump sum payroll not being processed in a complete, timely and accurate manner. Furthermore, turnover due to employee separation or retirement may result in a loss of processes that were not timely documented. In response to our observation, Finance will create and update stand-alone procedures for all of its processes as part of an organization-wide 2020 Business Plan Initiative.
- ▶ **General Ledger entries to transfer employee contribution reserves were not booked timely.** The monthly journal entry to transfer employee contribution balances from the employee reserve account to the annuity reserve account was not performed from February 2018 through August 2018 during the Finance Manager's extended leave; upon return to work in September 2018, the Finance Manager performed a true up journal entry. The decision to not perform the entries due to the temporary lack of adequate staffing, the time needed to

prepare the journal entry, and its determination of materiality relating to the entry was not formally documented by Finance. As a result, the supplementary Schedule of Plan Reserves accompanying OCERS' un-audited financial statements was not updated for these two reserve accounts for the first three quarters of 2018. If journal entries are not performed timely, OCERS' financial statements and/or supporting schedule could be reported incorrectly. Finance noted that the other processes with material impact to operations and financials were performed timely during this period. In response to our observation, Finance will document approval of decisions to postpone processes due to extenuating circumstances noting impact and materiality of postponement.

Copies to:

S. Delaney
S. Jenike
M. Murphy
G. Ratto
B. Shott

T. Bowman
L. Barker
S. Kang
J. Reyes
J. Sadoski

Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
Important Observations	
<p>1. V3's Pre-Disbursement Register report contains payee's full social security numbers.</p> <p>The Pre-Disbursement Register report is an internal use report that contains payees' full name, full unencrypted social security number (SSN), gross pay, net pay, federal/state tax withholding amounts, and form of payment (i.e. check or EFT). There is no business or operational need for having the SSN as a key identifier instead of OCERS' ID number (OID) on this particular report.</p> <p>Furthermore, the Accountant/Auditor II's reconciliation of the Pre-Disbursement Register report to the Final Disbursement Register Export report would be made easier were the SSN's replaced with OID's as the primary data field when using Excel to perform the reconciliation.</p> <p>Risk: Payees' privacy could be compromised were such a report lost, stolen or inadvertently released to the public.</p>	<p>Management Action Plan:</p> <p>Build 8.14 will include the replacement of full Social Security Numbers with OID# and/or Other Interested Parties# (OIP) on the Pre-Disbursement Register Report and Disbursement Schedule.</p> <p>MAP Responsible Party:</p> <p>Tracy Bowman, Director of Finance</p> <p>Completion Date:</p> <p>Completed - Build 8.14 was delivered on December 6, 2019 and reports confirmed.</p>
<p>2. Finance does not systematically delete V3's ACH files containing beneficiaries' banking information from local hard drives.</p> <p>Before Finance uploads V3's retiree payroll Automated Clearing House (ACH) file to Wells Fargo Bank, the ACH file is first loaded directly onto a local</p>	<p>Management Action Plan:</p> <p>Management will establish procedures to delete copies of the ACH text files from local hard drives after a copy of the file has been uploaded to Wells Fargo.</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>hard drive (e.g. laptop or desktop computer) when Finance uses the V3 download function. Finance then copies the ACH files to Finance's secured network folder to be uploaded to Wells Fargo using encryption. However, the original unencrypted downloaded file on the local hard drive is not deleted in a timely manner. The monthly retiree payroll ACH file contains full names, bank account numbers and bank routing numbers for over 18,000 payees.</p> <p>Risk: If the monthly ACH file were to inadvertently remain stored on a computer's hard drive, it would become susceptible to loss or theft.</p>	<p>Finance will work with IT and Vitech to consider the cost/benefit of changing the ACH file process to directly upload an ACH file once it has been created in V3 and directly downloading the file to a secured network folder in the Finance directory.</p> <p>MAP Responsible Party: Tracy Bowman, Director of Finance</p> <p>Completion Date: Deletion of ACH text file after upload was implemented August 23, 2019. Procedures will be updated to reflect this change by June 30, 2020.</p> <p>A V3 direct upload to Finance's secured network folder will be evaluated during 2020 for possible implementation by year-end.</p>
<p>3. Finance procedures manual related to benefit and lump sum payments (i.e. payroll) do not reflect all current procedures.</p> <p>OCERS' payroll process for paying monthly retirement/disability benefits in addition to lump sum benefits (e.g. death benefits, contribution refunds) is a complex process requiring Finance's coordination with Member Services, Administrative Services and third parties. Prior to actually paying benefits, Finance ensures the accuracy and completeness of:</p> <ul style="list-style-type: none"> • Insurance premium, tax withholding, and miscellaneous payroll deductions. 	<p>Management Action Plan: Finance will be creating and updating stand-alone procedures for all of its processes as part of an organization-wide 2020 Business Plan Initiative.</p> <p>MAP Responsible Party: Tracy Bowman, Director of Finance</p> <p>Completion Date: June 30, 2020 and on-going for any updates or new processes.</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<ul style="list-style-type: none"> • Reconciliation between Member Services' payroll log against V3's detailed/summary payroll disbursement reports. • Reconciliation of V3 payroll totals and payee counts against the electronic ACH and Positive Pay files to be uploaded to Wells Fargo Bank (OCERS' operating bank account). • Validation of payee counts, gross dollar amounts, and net dollar amounts throughout various V3 payroll reports, both before and after the actual processing of payroll. • Data entry of payroll journal entries into the General Ledger. • Investigation and resolution of any variances noted during the above processes. <p>To help ensure that the above objectives are completed, the Accountant/Auditor II assigned to the monthly and lump sum payroll over the past three years has worked with management to add several data validity/data integrity checks and reasonability analysis.</p> <p>However, these additional procedures are not completely documented in Finance's procedures documentation. Currently, an out of date procedures document is located on SharePoint (e.g. OCERS' intranet).</p>	

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>Risk: Without updated and management approved procedures documentation, turnover due to employee separation or retirement increases the risk of payroll not being processed completely and accurately.</p>	
<p>4. General Ledger entries to transfer employee contribution reserves were not booked timely.</p> <p>During a Finance Manager's extended leave of absence in 2018, Management did not formally document a business decision, in light of its other objectives, to <u>not</u> book one of the monthly General Ledger entries assigned to the Finance Manager. This entry pertains to reclassification of active employee contribution reserves to retired employee annuity reserves; per discussions with Management the entry was not booked due to:</p> <ul style="list-style-type: none"> • Temporary lack of adequate staffing, • Journal entry preparation is time consuming, and • Management's judgement of materiality pertaining to the entry. <p>The <i>Schedule of Total Plan Reserves</i> provides a breakdown of OCERS' financial Net Position, which was \$14.8 billion as reported in the December 31, 2018 CAFR.</p> <p>Since the above monthly entry was not recorded for seven consecutive months, Active Employee Contribution Reserves and Retired Employee Annuity Reserves within the <i>Schedule of Total Plan Reserves</i> were misclassified between each other in the amounts below although the schedule was correct in total:</p>	<p>Management Action Plan:</p> <p>In the instance noted here, processes with material impact to operations and financials were performed during the unforeseen long-term leave of absence of one of the Finance Managers, but in the future, Management will document approval of decisions to postpone processes due to extenuating circumstances noting impact and materiality of postponement. The documentation process will be noted in the updated Finance Risk and Control Matrix.</p> <p>MAP Responsible Party:</p> <p>Tracy Bowman, Director of Finance</p> <p>Completion Date:</p> <p>Completed - Finance Risk and Control Matrix has been updated with the Action Plan.</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>1st Q 2018 - \$43 million</p> <p>2nd Q 2018 - \$159 million</p> <p>3rd Q 2018 - \$146 million</p> <p>CAFR 2018 – no misclassification</p> <p>The <i>Schedule of Total Plan Reserves</i> is only required to be disclosed in the CAFR and is provided for informational purposes on a quarterly basis.</p> <p>Risk: If journal entries are not performed in a timely manner, OCERS' financial statements and/or supporting schedules could be reported incorrectly.</p>	

Categories of Observations (Control Exceptions):

Priority Observations:

These are observation(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 Priority Observations brought to its attention immediately.

Important Observations:

These items are important to the process owner and they do impact the control environment and/or could be observations for improving the efficiency and/or effectiveness of OCERS' operations. Management is expected to address within six to twelve months.

Management's Responsibility for Internal Control

Management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure are the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and self-assessment of control risks.

Internal Control Limitations

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with OCERS' policies.

Audit Report Opinions:

Satisfactory:

No issues or a limited number of “Important Observations”.

Opportunities for Improvement:

Multiple issues classified as “Important Observations” with limited or no “Priority Observations”.

Inadequate:

Usually rendered when multiple issues are classified as “Priority”, together with one or more other issues classified as “Important Observations”. The Priority Observations identified have a major effect on processes, plan sponsors/members, financials, and/or regulatory requirements.



Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: D. Kim, Director of Internal Audit
SUBJECT: INVESTMENT DIVISION CONSULTING ENGAGEMENT

Recommendation

Receive and file.

Engagement Objective

At the request of OCERS Chief Investment Officer (CIO), Internal Audit performed an advisory engagement over management's controls and activity reporting to the Investment Committee.

The engagement was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

Engagement Scope

Specifically, the scope of the engagement included the Investment Division's ("Investments") internal due diligence process, delegation of authority related reporting (e.g. manager selection/termination reports, Placemat Report), and the Year-In-Review report to the Investment Committee (IC). The engagement did not include an evaluation of the investment portfolio performance returns or of the business decisions made by the IC or Investment Division.

Internal Audit was able to conduct a series of interviews with management and staff as well as perform walkthroughs of how staff compiles the reports noted in the scope of our review.

Background

At the May 2019 Investment Committee, OCERS' CIO informed the IC that Internal Audit was requested to provide consultative guidance to improve upon its internal controls ensuring the fiduciary accuracy and details of IC reporting. Additionally, these improvements would allow the controls to be audited in future years by the Internal Audit Department. Such audits will provide additional comfort to the committee in light of the Delegation of Authority granted by the committee to the CIO in 2018. Although Delegation of Authority was granted to the CIO in 2018, the committee and the CIO had since engaged in several discussions over the most optimal reporting metrics to give the committee comfort that the CIO and staff were properly executing the committee's approved investment plan. The metrics are now reflected in the monthly Placemat report, manager selection/termination reports, and the Year-In-Review report included in the engagement scope subject to this review.

The Investment Division has controls in place around the due diligence process, which includes external legal counsel review of contracts; and IC reporting as noted in our audit scope above. As part of the due diligence process, for example, management has just recently implemented a formalized electronic Contract Due Diligence Checklist within the new Customer Relationship Management (CRM) software, Backstop. The Contract Due



Memorandum

Diligence Checklist also requires dual signature authorization from Senior Executives which complies with OCERS' Procurement Policy. The Investment Division drafted formal operational procedures that were not yet finalized at the conclusion of our engagement. **Management has indicated the procedural draft documents were completed at the end of 2019. The final procedural document will be finished in 2020.**

During our review, Internal Audit worked with the Investment Division by providing examples of procedural documents and templates as requested by Investments for reference as they develop their documents. Internal Audit will work with the CIO on the timing of future audits when the formalized operational procedures have been approved and operational.

Outcome

As Investments finalizes their procedural documents, IA advised Investments to consider enhancing their controls to include the following, as these controls are generally what IA would expect to see were it to perform an audit of a process. Management is comfortable incorporating the recommendations as they continue with the formalization of their processes.

- **Documenting supervisory review/signoffs of the Investment due diligence work performed by internal OCERS staff.** Investment due diligence steps include reviewing due diligence questionnaires, conducting reference checks, conducting on-site due diligence visits or teleconferences, reviewing OCERS investment consultant's due diligence reports, creating a manager summary for the Investment Committee, and evaluating, as a whole, all due diligence materials and discussions held with the consultants and the manager. Management should consider how best to document the execution of the investment due diligence activities to clearly evidence performance and review.
- **Enhancing the documentation controls over the specific IC reports reviewed by Internal Audit.** Specifically, the monthly Placemat report, manager selection/termination reports, and the Year-In-Review reports, specifically.
 - **Cross-referencing supporting documentation, internally, used in IC reports.** The monthly Placemat report, manager selection/termination reports, and the Year-In-Review reports all draw information from manager, consultant, and internal documentation. The supporting documentation, with the relevant cross-references used to compile the reports should be readily accessible, either electronically or via hard copy, to provide an audit trail for potential future audits.
 - **Evidencing the review currently performed by the Investment Division of the investment consultant meeting materials used to create the noted IC reports.** Internal Audit recognizes that the Investment Division does perform a reasonability check of the meeting materials provided by the consultants hired by the IC. However, Investments should consider formalizing the review/reasonability check of consultant materials.
 - **Adding a disclaimer footnote to the Placemat report date.** For the private markets investment space, it is standard practice to have lagged financial statement reporting to OCERS' custodian bank, State Street.
- **Consider implementing procedures documentation and formalized supervisory reviews for future processes.** Management recognizes the need for more formalized operational procedures as the Investment Division has more than doubled over the past seven years.



Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: PRIOR INTERNAL AUDIT MANAGEMENT ACTION PLAN VERIFICATION REPORT

Recommendation

Receive and file.

Background/Discussion

Under the International Standards for the Professional Practice of Internal Auditing (“Standards”), Internal Audit must establish and maintain a system to monitor the disposition of results communicated to management. This includes a follow-up process to monitor and ensure that management action plans have been implemented or that management and the Audit Committee has accepted the risk of not taking action.

Internal Audit has developed a process to follow-up on management action plans (MAPs):

- Confirming management has implemented an action plan and no further action is required.
- Internal Audit has tested the operational effectiveness MAP.

The following report contains the status of the MAPs that have been reported to the Audit Committee. The report has two main sections:

- For the MAPs noted as Open, Internal Audit will continue to work with the respective parties until the MAP is closed and verified.
- For the MAPs noted as Closed – No Further Action Required, Internal Audit has confirmed the MAP has been implemented and operating effectively.

Submitted by:

DK - Approved

David Kim
Director of Internal Auditor



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
FINANCE,
INFORMATION TECHNOLOGY.

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<u>TOTAL ACTIVITY (as of 1/2/2020)</u>	Open	Closed - No Further Action Required	Total
Process Owner			
EXECUTIVE	0	4	4
FINANCE	3	17	20
INFORMATION TECHNOLOGY	4	1	5
INVESTMENTS	8	1	9
MEMBER SERVICES	13	12	25
PLAN SPONSOR	4	8	12
Total Count:	32	43	75

2019 MANAGEMENT ACTION PLAN ACTIVITY

	Open		Closed - No Further Action Required (FY2019)	Total
	Carried Over From 2018	Open in 2019		
Process Owner				
EXECUTIVE	0	0	4	4
FINANCE	0	3	17	20
INFORMATION TECHNOLOGY	1	3	1	5
INVESTMENTS	8	0	1	9
MEMBER SERVICES	13	0	12	25
PLAN SPONSOR	4	0	8	12
Total Count:	26	6	43	75



Management Action Plan Status Report

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Open

Finance

1943 2019 BCDR Audit

Report Date: 10/17/2019

Total Number of Observations: 1

Observation:	2 - 2. The Business Continuity Program Standard Operating Procedures document has existed since 2015 but the documentation of the approvals by the Crisis Management Team were not formalized.
MAP Responsible Party:	Brenda Shott, Assistant CEO, Finance and Internal Operations
Management Action Plan:	We concur with the observation and will formalize the approval of the document.

1944 - Finance Benefits Audit

Report Date: 01/13/2020

Total Number of Observations: 2

Observation:	2 - Finance does not systematically delete V3's ACH files containing beneficiaries' banking information from local hard drives.
MAP Responsible Party:	Tracy Bowman, Director of Finance
Management Action Plan:	Management will establish procedures to delete copies of the ACH text files from local hard drives after a copy of the file has been uploaded to Wells Fargo. Finance will work with IT and Vitech to consider the cost/benefit of changing the ACH file process to directly upload an ACH file once it has been created in V3 and directly downloading the file to a secured network folder in the Finance directory.
IA Follow-Up Summary:	IA confirmed with the Finance team the deletion of the ACH file from the local hard drive is now being performed by management. IA will review the procedures after it has been updated to reflect this practice.
Observation:	3 - Finance procedures manual related to benefit and lump sum payments (i.e. payroll) do not reflect all current procedures.
MAP Responsible Party:	Tracy Bowman, Director of Finance
Management Action Plan:	Finance will be creating and updating stand-alone procedures for all of its processes as part of an organization-wide 2020 Business Plan Initiative.

Information Technology

Audit of Orange County Fire Authority (2018)

Report Date: 10/23/2018

Total Number of Observations: 1

Observation:	6 - V3 contribution rate configurations SOD
MAP Responsible Party:	
Management Action Plan:	

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Management Action Plan Status Report

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Management agreed to the following recommendation: OCERS' management should re-assign the duties of configuring updated rates in V3 from OCERS' Director of IT to the appropriate personnel for cross-training, process documentation, and backup purposes.
The revised process will encompass multiple departments, and will segregate duties related to preparing the rate schedules, data input into V3 and verification/audit of contribution rates.

IA Follow-Up Summary:

Internal Audit has spoken with management about this action plan and will verify when duties are transitioned in time for the 2019 annual rate change in V3. ETA mid-2019.

1901 - Finance Contributions audit	Report Date: 05/16/2019	Total Number of Observations: 1
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Observation: 1 - A formal periodic review of proper user access to OCERS applications and network is not documented by the appropriate members of the business.

MAP Responsible Party: Jenny Sadoski, Director of Information Technology

Management Action Plan:

Per IT Governance and Information Security action items to address Center for Internet Security (CIS) Control 16: Account Monitoring and Control, OCERS IT and the Executive management team are establishing the following:

1. Develop Account Management and Access Control Policies.
2. Create an annual User Account review process and supporting documentation.
3. Setup means for staff to review and enter data in SharePoint with associated workflow to complete and track reviews initiated with IT managed systems.

IA Follow-Up Summary:

Management is delayed. Internal Audit will continue to follow-up with management.

1943 2019 BCDR Audit	Report Date: 10/17/2019	Total Number of Observations: 2
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Observation: 3 - 3. A formal process involving critical OCERS stakeholders is not in place to test the recovery of dependent IT applications.

MAP Responsible Party: Jenny Sadoski, Director of Information Technology

Management Action Plan:

OCERS IT will formalize and adopt a new Business Continuity and Disaster Recovery test plan that will include test activities, confirmation, and sign-off by the various business units within OCERS.

Observation: 6 - 6. Recovery procedures for dependent IT applications are not documented in the recovery plans.

MAP Responsible Party: Jenny Sadoski, Director of Information Technology

Management Action Plan:

End User documents are being developed for the purpose of providing recovery instructions to the crisis management team, in the event IT staff are not available in the event of an emergency. The documents will provide simple easy to follow instructions on how to failover and/or recover sites or systems in the event of a technology failure. These documents will be included in OCERS IT Backup and Recovery test plan stored in Catalyst to ensure procedures are complete and can be followed by non- IT staff

Investments		
Review of OCERS' Derivatives Investments (2014)	Report Date: 07/10/2014	Total Number of Observations: 2

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Management Action Plan Status Report

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Observation:	2 - Annual reporting of derivatives to the Investment Committee	
MAP Responsible Party:		
Management Action Plan:	<p>Currently, the quarterly Derivatives Report provides information relating to the separately managed accounts. The commingled fund investments do not provide similar level of transparency, therefore the quarterly report does not include commingled funds data.</p> <p>The Investments staff has created a template (undergoing internal review) which could be used as a tool to receive information relating to derivatives directly from the investment managers. Such a disclosure and declaration is outside the norm, so it is difficult to predict how many or if the investment managers will comply. As soon as the template is finalized, staff will send it out to gather responses from the various investment managers. Our current expectation is that OCERS will not be able to impose periodic reporting requirements of our own on certain managers, and that in some if not most cases, we will be compelled to accept data as it can be provided by them on their annual cycles. Efforts will be made to achieve more-frequent reporting, but at this time there can be no assurance that such efforts will be successful.</p> <p>The Investment Policy Statement, approved at the 6/25/14 Investment Committee meeting, was amended in part to include the following: "The compliance report for separate account managers will be reviewed with the Investment Committee on a quarterly basis. The CIO shall report to the Committee annually on the staff and consultants' surveillance of diversification and risk controls associated with [derivatives]."</p>	
IA Follow-Up Summary:	Internal Audit to follow-up during the Investment Consulting Engagement.	
Observation:	3 - Counterparty risk reporting	
MAP Responsible Party:		
Management Action Plan:	<p>Management has agreed to the recommendation: Counterparty risk, the risk that a financial institution will not honor the terms of a derivative contract due to poor financial health, is a key risk for derivatives. The Board is not getting complete information on the counterparty risks of all investment managers. Because many of OCERS' investment managers use the same institutions as counterparties, if a counterparty fails, it would affect several investment managers in the OCERS' portfolio simultaneously. Therefore, reporting on total counterparty risk to OCERS would be useful for accessing a concentration of risk with a single counterparty.</p> <p>OCERS' custodian bank, State Street, provides data on investment holdings and counterparty holdings that can be used to create a compilation of counterparties in the OCERS portfolio, though this will only include the OCERS' separately managed accounts.</p> <p>OCERS should request that State Street on a quarterly basis provide a report listing derivatives holdings by counterparty with amounts of currency forward contracts, swaps, and total fair value. The report should also include a credit rating agency's rating.</p> <p>This report should be included with the derivatives report to the Investment Committee.</p>	
IA Follow-Up Summary:	Internal Audit to follow-up during the Investment Consulting Engagement.	
Audit of OCERS' Due Diligence Process (2015)		Report Date: 08/06/2015
Total Number of Observations: 5		
Observation:	1 - No Due Diligence Policy	
MAP Responsible Party:		
Management Action Plan:	<p>Management has agreed to the recommendation: The CIO and his staff should create written procedures that specifically document the steps necessary to conduct adequate due diligence. We concur with the recommendation that written procedures are desirable, and staff is working on the development of a document that would fulfill this objective.</p>	
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Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

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IA Follow-Up Summary:	
Internal Audit to follow-up during the Investment Consulting Engagement.	
Observation:	2 - Operational Due Diligence
MAP Responsible Party:	
Management Action Plan:	
<p>Management has agreed to the recommendation: For non-traditional pension fund managers that have not undergone an operational due diligence review from the OCERS' investment consultants, OCERS should consider the following on a case-by-case basis or at the CIO's discretion. A criteria or threshold (e.g., a dollar amount of an investment) should be set by the CIO to trigger when such a review will occur. Management agrees that a "deeper dive" could be appropriate for certain non-traditional managers, but only if a majority of the Board considers such measures to be necessary, cost-beneficial or justifiable on a risk-vs-cost basis. Cost-sharing strategies and outsourcing-versus-internal capacity should be explored and considered, along with a prioritization protocol.</p>	
IA Follow-Up Summary:	
Internal Audit to follow-up during the Investment Consulting Engagement.	
Observation:	3 - Due diligence for RFP managers
MAP Responsible Party:	
Management Action Plan:	
<p>Management has agreed to the recommendation: For RFP-sourced managers, there should be consistent narrative due diligence reporting provided to the Investment Committee. Investments should consider using a checklist to make sure all documents are included for the Investment Committee to consider. We agree that our written procedures and future practices should include routine reporting of internal due diligence when the RFP channel is deployed for manager selection. The Director of Investment Operations has already included this step in the working draft of written procedures we are formulating and refining.</p>	
IA Follow-Up Summary:	
Internal Audit to follow-up during the Investment Consulting Engagement.	
Observation:	4 - Manager RFP standardized questioning
MAP Responsible Party:	
Management Action Plan:	
<p>Management has agreed to the recommendation: Future RFP questionnaires should include interrogatories regarding a manager's operational infrastructure and negative findings disclosed from their annual external audit. We agree that future RFPs should include standard (first-stage or second stage) provisions and questions that are relatively uniform regarding due diligence, operations, and related legal, regulatory and compliance risks. The cited incident was an oversight that need not recur. Written procedures and a process to review those routinely will be helpful to assure consistency.</p>	
IA Follow-Up Summary:	
Internal Audit to follow-up during the Investment Consulting Engagement.	



Management Action Plan Status Report

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Observation:	5 - Consultant due diligence documentation	
MAP Responsible Party:		
Management Action Plan:	<p>Management has agreed to the recommendation: As part of its due diligence process, OCERS' Investments staff should obtain and review NEPC's Investment Due Diligence Research Report for all managers NEPC recommends to OCERS.</p> <p>We agree that consultant documentation or pertinent summaries of their due diligence should routinely and consistently be included in Committee materials when managers are presented, or subsequently as a validating consent agenda item if their work follows a provisional approval.</p>	
IA Follow-Up Summary:	Internal Audit to follow-up during the Investment Consulting Engagement.	
Audit of OCERS' Private Equity Managers Abbott Capital and Pantheon (2016)		
	Report Date: 03/21/2016	Total Number of Observations: 1
Observation:	4 - Consideratin of ILPA best practices	
MAP Responsible Party:		
Management Action Plan:	<p>OCERS should implement Institute of Limited Partners Association (ILPA) best practices in LPAs with direct investment private equity funds if OCERS goes into direct private equity program. In considering whether OCERS should adopt a direct private equity program, OCERS' Investments management should consider the cost of implementing the ILPA best practices.</p> <p>OCERS investment staff will first work with our private equity fund of funds managers to monitor their use of ILPA guidelines and best practices, as we further our own internal education about these evolving standards.</p>	
IA Follow-Up Summary:	Internal Audit to follow-up during the Investment Consulting Engagement.	
Member Services		
Audit of the Benefit Setup Process (2012)		
	Report Date: 12/04/2012	Total Number of Observations: 3
Observation:	1 - Manual FAS override	
MAP Responsible Party:		
Management Action Plan:	<p>Management agreed to the following recommendation: Subsequent changes made to FAS after the initial benefit setup process should require a supervisory approval prior to making an override in the system. Additionally, management should use a system-generated report from V3 that lists all manual overrides to identify all such changes made in the system. Management should review and sign off on each manual override on that report for propriety and accuracy to mitigate the risk of unauthorized or incorrect amounts being entered in the system.</p>	
IA Follow-Up Summary:	IA to confirm action plan has been implemented in Q3 2019 and to perform testing in Q4 2019.	
Observation:	8 - Manual FAS supporting documentation	

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Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
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MAP Responsible Party:	
Management Action Plan:	
Management agreed to the following recommendation: All manual overrides to data should be fully documented with the staff that made the change, date the change was made, prior amount, revised amount, and reason for the change with supervisory approval documented in V3 in accordance with the current method of maintaining supporting documentation for benefits calculation. Member Services personnel are required to document V3 via note for any member file that requires a manual override.	
IA Follow-Up Summary:	
IA to confirm action plan has been implemented in Q3 2019 and to perform testing in Q4 2019.	
Observation:	9 - FAS audit trail
MAP Responsible Party:	
Management Action Plan:	
Management agreed to the following recommendation: We recommend that the new pension administration system (V3) include an audit trail within the system for manual override and other changes made to records. There should be a better audit trail in the new pension administration system to account for changes made in the system instead of relying only on records scanned into LibertyNET or similar imaging software for an explanation.	
IA Follow-Up Summary:	
IA to confirm action plan has been implemented in Q3 2019 and to perform testing in Q4 2019.	
Audit of OCERS' Death Match Process (2016)	
Report Date: 06/24/2016	
Total Number of Observations: 6	
Observation:	1 - Overpayment to deceased members
MAP Responsible Party:	
Management Action Plan:	
The deceased members identified by Internal Audit will be processed immediately according to the specific circumstances of the accounts. Overpayments will be processed according to policy and beneficiaries will be contacted regarding lump sum payment options for refunds. Management will investigate possible options for instituting a multi-step review process to ensure entries are made into V3 or a quarterly/annually comparison of the database with the information from a death match service provider.	
IA Follow-Up Summary:	
Member Services has repaid or wrote off \$421,402 of the \$990,694 of the 24 deferred members. Additionally, Member Services has recovered \$16,008 of the \$20,620 from the four deceased payees.	
Observation:	2 - Manual query of V3 until new report is created
MAP Responsible Party:	
Management Action Plan:	



Management Action Plan Status Report

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The overpayment to the specific member and DRO payee identified by Internal Audit will be dealt with immediately according to current policy. As V3 is currently configured the system will prevent future overpayments from occurring by suspending the benefit once a death date is entered. The items on the overpayment log need to be reconciled with V3 as a post-go live project but it was envisioned that V3 will replace the need for a manual spreadsheet outside of the system. A query or report may be needed during the transition period.

IA Follow-Up Summary:

5-21-2019 - Investigation is still ongoing by Member Services

Observation: 3 - Certification letters

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: OCERS' management should consider sending a certification letter to payees over a selected age to confirm the status of the payee. Management should consider stopping benefit payments if OCERS does not receive a response after a reasonable number of attempts in order to incentivize the payee to return the letter. OCERS' management should also consider the costs/benefits of hiring a third party to perform random physical alive and well checks with payees that meet a given profile. However clear communication will need to be developed as the payees within this demographic may be the hardest to reach. In addition, the implications to payee's medical insurance needs to be considered any time a benefit is suspended.

IA Follow-Up Summary:

Member Services management to discuss formulating a formal policy addressing when such certification letters should be sent and to whom after the result of a cost benefit analysis to be performed.

Observation: 4 - Death data vendors

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: OCERS management should consider using only death audit vendors that hire external auditors to review its client data security controls. OCERS should require that death audit vendors provide copies of the audit report and the audit results to OCERS on an annual basis for review. OCERS management should consider using the RFP process to compare the services of death audit vendors and obituary review service vendors. Quality of services, price, and data security controls of vendors should be compared.

IA Follow-Up Summary:

Management to discuss the approach for obtaining and reviewing vendor security report.

Observation: 5 - Member banking information within V3

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: To reduce the possibility of fraudulently diverting benefit payments for deceased members, OCERS should implement automated checks and balances within the V3 system to ensure that no one employee can unilaterally change a payee's banking information without supervisory approval. The resulting change to V3 may require an additional change order to reconfigure the V3 system. However, the headline risk to OCERS outweighs the financial cost of making such a change.

IA Follow-Up Summary:

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Management Action Plan Status Report

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Member Services to work with IT to discuss the creation of automated reports identifying abnormal changes to members' banking information for follow up purposes.

Observation: 7 - Debt collection versus debt forgiveness

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: For overpayments in which Member Services has exhausted internal collection efforts, Member Services should inquire of the CEO and/or Board to forgive or partially forgive overpayments to these deceased payees or possibly make use of a collections agency for additional collection efforts.

IA Follow-Up Summary:

Member Services management to discuss a formal policy to address overpayments that have both exhausted currently in place internal collection efforts and are beyond the thresholds set forth in OCERS' Write-Off Policy.

Audit of V3 Benefit Setup Process (2016)

Report Date: 07/21/2016

Total Number of Observations: 2

Observation: 1 - Use of 2,088 hours for benefit calculation

MAP Responsible Party:

Management Action Plan:

Management will follow up with staff regarding the applicability of 2,088 to all retiring members and will review all benefits established in V3 to ensure the appropriate salary was used regardless of status. The part-time member's benefit identified by Internal Audit as being incorrect will be recalculated to reflect the salary associated to 2,088 hours.

IA Follow-Up Summary:

IA to test implemented action plan.

Observation: 2 - V3 workflow process

MAP Responsible Party:

Management Action Plan:

The workflow module in V3 was an area that contained defects when we went live with the new system which prevented effective use. The majority of the defects have been addressed and staff is utilizing the workflow as part of their daily operations. However, we have found that a workflow can be completed without all of the steps being marked individually and as a result additional modifications to the overall configuration are being discussed. Management will work with staff to ensure that proper use of the workflow is being followed for all benefit setups. In addition, we will review the workflow steps as currently configured and make enhancements as needed to ensure all critical steps in the process are appropriated captured.

IA Follow-Up Summary:

IA to test implemented action plan.

Audit of OCERS' Service Credit Purchase Process (2016)

Report Date: 11/29/2016

Total Number of Observations: 1

Observation: 1 - Work in Process reporting



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MAP Responsible Party:	
Management Action Plan:	
	OCERS' management agrees to initiate discussions with Vitech for best cost-benefit solutions to building work-in-process reporting to track the status of buybacks throughout its business processes to provide additional management oversight of staffing and resources; track compliance with business goals; and improve customer service response times to members.
IA Follow-Up Summary:	
	IA has verified that OCERS has implemented a work-in-process tracking database within SharePoint. OCERS yet to implement SCP workflow processes within V3. IA to verify later in Q3 2019.

Disability Payment Audit (2018)		Report Date: 01/28/2019	Total Number of Observations: 1
Observation:	1 - Disability payment calculation		
MAP Responsible Party:			
Management Action Plan:	Member Services will be continuing to review with increased diligence or newly implementing to ensure accuracy of Disability benefits that are setup: <ul style="list-style-type: none"> • Ensure that all disability benefits are peer audited (FAS calc) before benefit setup, including disability recalculations (from Service Retirement to SCD, Service Retirement to NSCD, NSCD to SCD) • Verify selected data points on the "New Benefit Setup Validation Report" (which will contain a subset of 16 reports – expected to be ready by Q3 2019) • Additional training will be provided to the RPS assigned to the disability department (this was a new position in 2018). These types of benefits are more specialized than regular retirement setups, and the Disability RPS will be trained to look for specific factors that affect the benefit, such as gaps in service, measuring period compression, manual calculations of FAS, recalculation issues. 		
IA Follow-Up Summary:			
	IA to confirm action plan has been implemented in Q4 2019 and to perform testing in Q1 2020.		

Plan Sponsor

Audit of City of San Juan Capistrano Payroll Transmittals (2017)		Report Date: 03/22/2017	Total Number of Observations: 3
Observation:	1 - Manual transmittal file adjustments		
MAP Responsible Party:			
Management Action Plan:	Management agreed to the following recommendation: San Juan Capistrano should consider the costs and benefits of adjusting GEMS or making manual adjustments to the transmittal file to continue reporting to OCERS pay records, including zero contributions, for employees who have reached the IRS rule 401 (a) limit. San Juan Capistrano will submit manual payroll adjustments into V3 that contain the payroll records required by OCERS for every subsequent pay period until year-end.		
IA Follow-Up Summary:			
	Internal Audit to follow-up with plan sponsor.		
Observation:	2 - Contribution basis dates		

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MAP Responsible Party:	
Management Action Plan:	
San Juan Capistrano's V3 transmittal file should reflect the correct reciprocal start date or the correct enrollment date with OCERS in the transmittal file field labeled "Reported Contribution Basis Date" in order to prevent these payroll exceptions from occurring again in V3. San Juan Capistrano concurs with this recommendation, which has been addressed based on information provided by OCERS' Member Services to SJC's Payroll Accountant.	
IA Follow-Up Summary:	
Internal Audit to follow-up with plan sponsor.	
Observation:	3 - Earnable salary records
MAP Responsible Party:	
Management Action Plan:	
San Juan Capistrano will submit manual payroll adjustments into V3 that contain earnable salary payroll records required by OCERS during each pay period that the employee is out on leave of absence.	
IA Follow-Up Summary:	
Internal Audit to follow-up with plan sponsor.	

Audit of Orange County Superior Court Payroll Transmittal (2018)		Report Date: 11/08/2018	Total Number of Observations: 1
Observation:	4 - Superior Court's HR Department does not have policies and procedures in place to determine if the independent contractor status for its independent contractors complies with IRS rules		
MAP Responsible Party:			
Management Action Plan:			
Superior Court to review independent contractors working for court reporting services, court language services and court technology to determine if their independent contractor status complies with IRS rules defined for independent contractors.			
IA Follow-Up Summary:			
Internal Audit has spoken with management about this action plan and will verify when policies are updated, 3Q 2019.			



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
FINANCE,
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Closed - No Further Action Required

Executive

1943 2019 BCDR Audit

Report Date: 10/17/2019

Total Number of Observations: 4

Observation:	4 - The tabletop exercise did not fully validate the organization's preparedness at an entity or department level in the event of a disaster.
MAP Responsible Party:	Jon Gossard, Information Security Manager and Jim Doezie, Contracts Administrator
Management Action Plan:	
<p>We believe the program is ready to enhance future exercises by including more functional testing. As an example, during our July 2019 tabletop, a component of the Finance team was asked to work from home in order to test their connectivity and functionality. In future exercises, we will expand the scenarios to encompass various departments within the organization such that over time, all departments with a recovery plan will have participated in a functional exercise. For upcoming exercises, we will create scenarios which allow us to include departments which have not yet participated in an exercise. We have added an item to the October 2019 Crisis Management Team meeting to discuss timing of the expansion of functional testing efforts as well as the importance of referring to the Crisis Management Plan and Department Recovery Plans during exercises. Our recommendation will be to conduct IT testing as part of our January exercises and deeper functional testing as part of our July exercises.</p>	
IA Follow-Up Summary:	
IA confirmed the Q4 CMT meeting discussed expanding the functional testing with plans to start with IT testing in January.	
Observation:	5 - Management personnel are not consistently updating the relevant information in the Business Impact Analysis and Department Recovery Plan documents in a timely manner.
MAP Responsible Party:	Steve Delaney, CEO
Management Action Plan:	
<p>The CMT Leader, OCERS CEO, will remind the CMT at least two weeks prior to the quarterly Business Continuity meetings to update the appropriate Business Continuity documents to reflect any changes in personnel, technology or vendors since the last meeting. Additionally, the CMT Leader will add as a standing agenda item for the quarterly meetings a reminder that the CMT should update the appropriate Business Continuity documents. The plan owners will update the necessary documents based on the reminder at least on a quarterly basis.</p> <p>The CMT Leader will also work with Administrative Services to add a workstep in the off-boarding and on-boarding processes for the plan owners to assess the organizational impact of the terminated or new employee to the Business Continuity documentation. Based on the assessment, the plan owner will update the documentation accordingly.</p>	
IA Follow-Up Summary:	
<p>IA was able to confirm:</p> <ul style="list-style-type: none"> - the BCDR CMT Meeting email contained a reminder for the CMT to review/update their documents - the agenda did contain an item notifying CMT members to update their documents - a workstep was added to the on-boarding and off-boarding checklist 	
Observation:	7 - 7. The identification of alternative facility locations has not been formally documented and approved in the BCDR system.
MAP Responsible Party:	Jon Gossard, Information Security Manager and Jim Doezie, Contracts Administrator
Management Action Plan:	



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

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The Business Continuity Coordinator team is currently working with the County of Orange to formalize an agreement to use County facilities as an alternate workspace location in the event of a localized disaster at OCERS headquarters. The County requested OCERS to complete a questionnaire, which was completed and sent back to the County on August 8, 2019. The most recent conversations with the County occurred on August 21, 2019; we will schedule a follow-up call with County representatives in the very near future. Once the agreement is formalized, all program documentation will be updated to include the alternate workspace site information and an action item to review the alternate workspace location on an annual basis will be created. This action item will serve to ensure that the alternate workspace location is still viable. The BC Coordinator team will continue to refine the alternate workspace options for additional scenarios. In addition, the BC Coordinators will create a schedule detailing space needs over time.

IA Follow-Up Summary:

IA confirmed the Alternate Facility plan has been formally approved. Additionally, the BC Coordinator follow-ed up with the County contact. Progress is being made to secure a location for OCERS.

Observation:

8 - 8. Key members of the Crisis Management Team (CMT) are not consistently taking the assigned electronic resources when traveling from the office.

MAP Responsible Party:

Steve Delaney, CEO

Management Action Plan:

The CMT Leader, OCERS CEO, will remind the CMT at the quarterly Business Continuity meetings of the importance of taking the necessary resources (laptops) when traveling away from the office.

IA Follow-Up Summary:

IA confirmed the Q4 CMT agenda included a reminder to take the necessary resources when traveling.

Finance

Audit of OCERS' Practices and Procedures for the Recording and Reconciliation the Investments (2013)

Report Date: 02/18/2013

Total Number of Observations: 6

Observation:

1 - Automated journal voucher entries

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: Finance should consider use of State Street's General Ledger Feed software or consider building a Microsoft Access database. We are in the process of working with State Street to implement an automated process for downloading the trial balances with a goal of completing this by year end. Manual JV preparation will continue until detailed research/analysis is successfully completed with regards to automation of the GL feed with State Street in 2013. Target Completion Date: December 31, 2013.

IA Follow-Up Summary:

IA verified that Finance is no longer manually entering State Street trial balance information, but uploading a State Street spreadsheet file into the monthly Investment Journal Entry worksheet.

Observation:

2 - Update policy over manager statement reconciliations

MAP Responsible Party:

Management Action Plan:



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
FINANCE,
INFORMATION TECHNOLOGY.

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Management agreed to the following recommendation: Finance should enforce timely due dates for when quarterly investment manager reconciliations are to be completed; the policy should be updated accordingly. Due date for the quarterly investment reconciliation between investment managers and State Street will be established to reflect 45-60 days after quarter-end. Policy will be updated to include the changes effective January 2013. Finance has prepared both the 1st quarter 2012 and 2nd quarter 2012 reconciliations and are pending review and approval by management. Target Completion Date: March 31, 2013.

IA Follow-Up Summary:

IA verified that policy requires a reconciliation after Investment Managers Reports are collected from emailed statements and working trial balances are received from the State Street website. Private investment statements are often not available after the 45-60 day period.

Observation: 3 - Update Finance manual for manager statement reconciliations

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: Management should revise appropriate sections of the policy to reflect the current practice of performing quarterly, not monthly, reconciliations of investment manager statements and State Street trial balances.

IA Follow-Up Summary:

IA verified that policy requires a reconciliation after Investment Managers Reports are collected from emailed statements and working trial balances are received from the State Street website. Private investment statements are often not available after the 45-60 day period.

Observation: 4 - Finance manager signoff for reconciliations

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: Finance should revise its policy to require management signoff of the reconciliation of the general ledger to evidence review and approval. Furthermore, Finance should perform these reconciliations on a monthly basis to help ensure that reconciling items are resolved in a timely manner. The Trial Balance Reconciliation process and policy will be revised to include Management signoff requirement. The revised policy will also show that the reconciliation process will be performed on a monthly basis in 2013 and the worksheet will reflect the names of preparer, approver, and approval date. Target Completion Date: March 31, 2013.

IA Follow-Up Summary:

IA verified that internal policy now requires a management signoff review of the monthly trial balance reconciliation for investment accounts.

Observation: 5 - Manager review of CIO Investment report reconciliation

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: A supervisor should review and approve reconciliations of the CIO Investment Report. As evidence of review, the supervisor should sign and date the reconciliations, and note any discrepancies found. Finance policies and procedures should be updated accordingly. Current policy will be updated to include management signoff of the reconciliation. The reconciliation worksheet will reflect the names of preparer, approver, and approval date. Target Completion Date: December 31, 2012.

IA Follow-Up Summary:

IA verified that policy requires management signoff on the reconciliation with the worksheet reflecting the names of the preparer, approver and approval date.



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
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Observation:	6 - State Street bank - customer services issues
MAP Responsible Party:	
Management Action Plan:	
We believe management has addressed customer service issues with State Street custodian bank. We recommend that OCERS staff continue to monitor State Street's compliance with the action plan.	
IA Follow-Up Summary:	
OCERS staff continues to monitor and address any issues/discrepancies in State Street reporting. This occurs through emails and periodic meetings between OCERS investments and finance staff and State Street staff. Annually, the review of the custodial relationship with State Street is presented to the Investment Committee.	

Audit of OCERS' Private Equity Managers Abbott Capital and Pantheon (2016)	Report Date: 03/21/2016	Total Number of Observations: 3
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Observation:	1 - Estimated management fees
MAP Responsible Party:	
Management Action Plan:	
The Investments Division staff will coordinate with Finance to review the management fees for the 40 funds with OCERS' four private equity managers on a sampling or rotation basis. Finance concurs with this recommendation and will compare expected management fees provided by Investments to actual fees disclosed in the private equity managers' quarterly financial statements.	
IA Follow-Up Summary:	
Management modified the approach with approval from the Board to use the annual Investment Fee Report prepared in accordance with the Board's Investment Fee Policy as the method by which OCERS' investment management costs are and will be tracked, reported and managed.	

Observation:	2 - State Street reporting of manager fees
MAP Responsible Party:	
Management Action Plan:	
Management agreed to the following recommendation: OCERS' Finance should consult with State Street to ensure that State Street includes the management fees for Abbott Capital and Pantheon in the information for monthly journal entries provided to OCERS, since these fees are disclosed on the managers' quarterly investment statements. OCERS is currently working with State Street on the consistency of their reporting and directing them to capture all non-cash investment management fees in their custodial reports.	
IA Follow-Up Summary:	
IA verified that Finance is reconciling fees noted on the manager statements are being captured in State Street journal entries.	

Observation:	3 - CAFR fee disclosures
MAP Responsible Party:	
Management Action Plan:	



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

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Management agreed to the following recommendation: OCERS' financial management should consider stating that the "Schedule of Investment Expenses" disclosure does not include underlying fund management fees and performance fees which are netted with investment returns. Finance will consider adding this disclosure in OCERS' 2015 CAFR as part of an overall review of all investment-related disclosures with its external auditors, Macias Gini & O'Connell LLP, and ensure that any changes in the disclosures are in compliance with GASB.

IA Follow-Up Summary:

Disclosure has been added to the CAFR and confirmed by IA.

Audit of OCERS' Bank Wire and ACH Transfer Process (2016)	Report Date: 11/30/2016	Total Number of Observations: 5
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Observation: 1 - Finance review of new manager fundings

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: Before sending a written wire request to State Street to fund a new manager or rebalance the investment portfolio, the Investments Divisions should also obtain approval from authorized initiators within the Finance Division. The Finance Division should review the wire transfer request letter prepared by the Investments Division against the money manager's wire instructions or funding agreement. Management concurs that the Finance Department should review wire transfer request letters prepared by the Investment Department and compare against the investment manager's wire instructions or funding agreement for transactions related to initial funding of investments and portfolio rebalancing transfers.

IA Follow-Up Summary:

Internal Audit confirmed Finance is following proposed audit report resolution response as noted via email with appropriate attachments and inclusion of both Finance and Investments in confirmation email.

Observation: 2 - Verification call backs on all wire transfer amounts

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: Finance Division should instruct State Street to telephone OCERS' authorized verifiers to verify wire transfer request letters for amounts under \$100,000. Management concurs that all wires should be verified regardless of amount. State Street has a standard limit where call backs are not completed on wires under \$100,000. OCERS' Client Service Representative at State Street is looking into whether the limit can be removed and call backs placed on all wires.

IA Follow-Up Summary:

IA verified that under the new eCFM (State Street's web-based wire transfer system) that transfer amounts under \$100,000 require dual approval.

Observation: 3 - Timely review of bank account reconciliations

MAP Responsible Party:

Management Action Plan:



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
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Management agreed to the following recommendation: In addition to the daily reconciliations of online bank activity, the Finance Division should perform monthly bank reconciliations ideally within 30 days after month-end.
Management concurs that bank reconciliations should be performed and reviewed on a timely basis.

IA Follow-Up Summary:

IA verified that the monthly Wells Fargo bank reconciliation is being performed in a timely manner.

Observation: 4 - System limits for wire transfer amount authorizations

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: Management should consider decreasing the cumulative dollar limit for daily wire transfers within CEO Portal® to appropriate business levels. Current monthly wire transfer activity is approximately \$5.2 million.
Management concurs that the cumulative dollar limit for daily wire transfers can be reduced from its current limit of \$20 million to \$6 million.

IA Follow-Up Summary:

Cumulative daily dollar limit for wire transfers has been reduced from \$20 million to \$6 million, and has been adjusted to \$8 million based on current activity.

Observation: 5 - Encryption of payroll file

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: Management should consider encrypting the ACH file before uploading to Wells Fargo's CEO Portal® in order to add another layer of protection over payees' confidential banking information. Encrypted files intercepted by fraudsters are unreadable.

IA Follow-Up Summary:

IA verified that the monthly payroll file is encrypted before it is sent to Wells Fargo bank.

1943 2019 BCDR Audit

Report Date: 10/17/2019

Total Number of Observations: 1

Observation: 1 - OCERS Business Continuity Policy document has existed since 2015 but the documentation of the approvals were not formalized.

MAP Responsible Party: Brenda Shott, Assistant CEO, Finance and Internal Operations

Management Action Plan:

We believe that the current document titled "OCERS Business Continuity Policy" would be more accurately described as a program document. As such, our plan is to retile the document to be OCERS Business Continuity Program and review it with the CMT making updates as deemed appropriate. The Chief Executive Office will then formally approve the updated document. The updated document will be reviewed every three years for necessary changes.

As an extension to this observation, staff will also recommend to the Board of Retirement a change to the CEO Charter the next time the Charter is due for a review. The change will be to specifically delegate to the CEO the duty of implementing, testing and maintaining a Business Continuity Program.

IA Follow-Up Summary:

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Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
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IA confirmed the Business Continuity Program documents has been formally approved by the CMT.

1944 - Finance Benefits Audit		Report Date: 01/13/2020	Total Number of Observations: 2
Observation:	1 - V3's Pre Disbursement Register report contains payee's full social security numbers and full names.		
MAP Responsible Party:	Tracy Bowman, Director of Finance		
Management Action Plan:			
Build 8.14 will include the replacement of full Social Security Numbers with OCERS ID# (OID) and/or OIP# on the Pre-Disbursement Register Report and Disbursement Schedule.			
IA Follow-Up Summary:			
IA confirmed the updated Disbursement Schedule Detail Report and Pre-Disbursement Register Report now display the OID numbers in place of SSNs.			
Observation:	4 - General Ledger entries to transfer employee contribution reserves were not booked timely.		
MAP Responsible Party:	Tracy Bowman, Director of Finance		
Management Action Plan:			
In the instance noted here, processes with material impact to operations and financials were performed during the unforeseen long-term leave of absence of one of the Finance Managers, but in the future, Management will document approval of decisions to postpone processes due to extenuating circumstances noting impact and materiality of postponement.			
IA Follow-Up Summary:			
IA confirmed the Finance Risk and Control Matrix (RACM) was updated to include additiional documentation requirement.			

Information Technology

Audit of Orange County Fire Authority (2018)		Report Date: 10/23/2018	Total Number of Observations: 1
Observation:	3 - Contribution Discrepancy Tracking Report		
MAP Responsible Party:			
Management Action Plan:			
In June 2018, OCERS incorporated the necessary changes to the V3 "Contribution Discrepancy Tracking Report" within a system enhancement to V3. The cost to incorporate these changes was approximately \$7,800.			
IA Follow-Up Summary:			
1. IA confirmed that modifactions to the report were made, tested, and put into production. 2. IA obtained user testing documentation indicating that the modiciations were made, tested, approved and put into production. IT also pulled a recent report with these modifacatins incorporated.			

Investments

Review of OCERS' Derivatives Investments (2014)		Report Date: 07/10/2014	Total Number of Observations: 1
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Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
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Observation:	1 - OCERS is not in compliance with the Investment Policy Statement regarding the speculative use of derivatives.
MAP Responsible Party:	
Management Action Plan:	OCERS should either follow the current investment policy and discontinue the practice of using derivatives for speculative purposes, or amend the Investment Policy Statement to follow the current practice. Staff has clarified the language on the derivatives within the Investment Policy Statement and the Investment Committee approved the changes at the 6/25/14 meeting.
IA Follow-Up Summary:	Internal Audit reviewed the minutes of the June 25, 2014 Investment Committee meeting and the updated Investment Policy Statement

Member Services

Audit of the Benefit Setup Process (2012)		Report Date: 12/04/2012	Total Number of Observations: 3
Observation:	3 - Benefit setup checklist		
MAP Responsible Party:			
Management Action Plan:	A check list that contains all of the required forms and documents necessary for each type of benefit setup will be created and scanned into LibertyNET until we have fully implemented V3. We have configured several workflows in V3 which will act as an electronic check list to ensure that all required documents are not only received but verified and audited by supervisors.		
IA Follow-Up Summary:	IA has verified the use of a workflow process in V3 in V3 benefit setup audits performed after V3 go-live in December 2014.		
Observation:	5 - Automation with V3 system		
MAP Responsible Party:			
Management Action Plan:	Every attempt is being done to incorporate as many of the manual processes into V3 as possible so the application is automated.		
IA Follow-Up Summary:	IA has verified the implementation of automated process in V3 that were previously manual within PensionGold. Processes related to reciprocity, service credit purchases, interest postings, domestic relations orders, and initial FAS calculations were tested.		
Observation:	7 - Update written procedures		
MAP Responsible Party:			
Management Action Plan:	Member Services has agreed to revise its written procedures to explicitly state the reviewer's practice of signing and dating the spreadsheet template to indicate approval of the FAS calculation. Management recently updated to include this recommendation. However, at the time of the audit it was pending final manager sign off.		

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Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
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IA Follow-Up Summary:	
IA has verified the signature requirement process with benefit setup audits performed after the V3 go-live date in December 2014.	
Audit of OCERS' Service Credit Purchase Process (2016)	Report Date: 11/26/2016 Total Number of Observations: 1
Observation:	2 - Reconfigure V3 data entry sheet
MAP Responsible Party:	
Management Action Plan:	
Management agreed to investigate the costs versus benefits of reconfiguring V3's SCP datasheet for faster data entry.	
IA Follow-Up Summary:	
IA verified that OCERS has implemented an automated data entry process for SCP calculations.	
Audit of City of San Juan Capistrano Payroll Transmittals (2017)	Report Date: 03/22/2017 Total Number of Observations: 1
Observation:	4 - Incorrect age of entry
MAP Responsible Party:	
Management Action Plan:	
Member Services will notify the member that there was an error in the contribution basis date used to collect contributions since their date of entry. Member Services will update V3 accordingly and finalize the calculation of contributions due from the member plus interest. OCERS staff will offer the member a payment plan pursuant to our standard process and work with SJC to establish the collection via payroll deductions from the member's biweekly paycheck.	
IA Follow-Up Summary:	
IA verified that the Member Services communicated the age of entry error to the member and that the member repaid undercollected contributions via payroll adjustments.	
Audit of OCERS' Reciprocity Process (2017)	Report Date: 08/02/2017 Total Number of Observations: 3
Observation:	1 - Member educational efforts
MAP Responsible Party:	
Management Action Plan:	
Consideration will be given to the following: 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. 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. Member Services will work with Legal on the following: 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.	

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Management Action Plan Status Report

Project(s): ALL
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IA Follow-Up Summary:

IA verified that quarterly newsletters to OCERS membership discussed the benefits of establishing reciprocity with other systems as well as the steps necessary to establish reciprocity. IA verified that OCERS has put in place a self-certification process to recognize reciprocity on a go-forward basis pending verification with the reciprocal system.

Observation: 2 - Calculation of OCFA reciprocity refunds

MAP Responsible Party:

Management Action Plan:

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

IA Follow-Up Summary:

IA verified that OCERS Member Services is now calculating OCFA's reciprocity refund calculations. The calculations are reviewed by management.

Observation: 3 - Write off

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: Member Services should write off the \$36 due to immateriality or attempt to recover the \$36 overpayment from the member.

IA Follow-Up Summary:

IA verified that Member Services has written off the amount as per OCERS Write-Off policy.

Audit of Orange County Fire Authority (2018)	Report Date: 10/23/2018	Total Number of Observations: 2
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Observation: 1 - Contributions - Vacation Excess Pay

MAP Responsible Party:

Management Action Plan:

Management agreed to the following recommendation: On a go-forward basis, OCERS should now require that OCFA and its Legacy employees pay employer and employee contributions on the "Vacation Excess" pensionable pay item on a bi-weekly basis. This would also require OCERS to reconfigure the "Vacation Excess" pay item in V3 to expect bi-weekly contributions from OCFA via the bi-weekly payroll transmittal process. OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include "Vacation Excess" for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS' management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.

IA Follow-Up Summary:

Internal Audit confirmed OCERS management sent a memo to OCFA on the Vacation Excess contributions and that V3 was configured to address the bi-weekly contributions.

IA confirmed that OCFA and Legacy OCFA employees are paying contributions directly on VE (Vacation Excess) Pay.

Observation: 2 - Contributions - On Call Pay

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Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
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MAP Responsible Party:	
Management Action Plan:	
	<p>Management agreed to the following recommendation: On a go-forward basis, OCERS should now require that OCFA report "On Call" pay to Legacy members as a pensionable pay item in its automated bi-weekly payroll transmittals and that OCFA and its employees pay both employer and Legacy employee contributions on a bi-weekly basis.</p> <p>OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include "On Call" pay for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS' management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.</p>
IA Follow-Up Summary:	
	<p>Internal Audit confirmed OCERS management sent a memo to OCFA on the On Call contributions.</p> <p>IA confirmed that both OCFA and Legacy OCFA employees are paying contributions directly on (On Call) Pay.</p>

Audit of Orange County Superior Court Payroll Transmittal (2018)		Report Date: 11/08/2018	Total Number of Observations: 1
Observation:	6 - Member Affidavit		
MAP Responsible Party:			
Management Action Plan:			
	<p>Beginning in 4th quarter 2018, OCERS' Member Services will run a recently updated V3 report ("Missing Member Affidavit" report) that flags any member account without the Member Affidavit document type. OCERS' Member Services' Payroll Transmittal Team will monitor this quarterly report and contact plan sponsors to request a completed Member Affidavit for any members flagged in the above report.</p>		
IA Follow-Up Summary:			
	<p>Confirmed missing Member Affidavit was received and Member Services has scheduled the Missing Member Affidavit to be run on a monthly basis.</p>		

Audit of Orange County Transportations Authority (2018)		Report Date: 11/12/2018	Total Number of Observations: 1
Observation:	1 - Contributions on PTO cashouts		
MAP Responsible Party:			
Management Action Plan:			
	<p>OCERS is in the process of reviewing and evaluating all pay items in order to categorize and document in policy each item of compensation earnable for Legacy members and pensionable compensation for PEPRAs members. OCERS intends to present this policy to the OCERS Board for review and approval by 1st quarter of 2019.</p> <p>The majority of OCERS' plan sponsors do not apply the contribution rates to cashouts (as does OCTA); instead, they rely on the actuarial cash out assumption (Load Factor) to pay for the actuarial cost of adding vacation pay and sick pay to a Legacy member's FAS calculation upon retirement. OCERS believes this is the better approach and will incorporate this in the new policy in order to have consistency among all plan sponsors. In addition to the new policy, by 1st quarter of 2019, OCERS intends to distribute a circular letter to all plan sponsors informing them of this approach to not collect contributions on these cashouts.</p>		
IA Follow-Up Summary:			
	<p>Internal Audit confirmed the circular letters have been posted to the OCERS website.</p>		

Plan Sponsor

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Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
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Audit of Orange County Fire Authority (2018)		Report Date: 10/23/2018	Total Number of Observations: 4
Observation:	1 - Contributions - Vacation Excess Pay		
MAP Responsible Party:			
Management Action Plan:	<p>Management agreed to the following recommendation: On a go-forward basis, OCERS should now require that OCFA and its Legacy employees pay employer and employee contributions on the "Vacation Excess" pensionable pay item on a bi-weekly basis. This would also require OCERS to reconfigure the "Vacation Excess" pay item in V3 to expect bi-weekly contributions from OCFA via the bi-weekly payroll transmittal process. OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include "Vacation Excess" for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS' management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.</p>		
IA Follow-Up Summary:	<p>Internal Audit confirmed OCERS management sent a memo to OCFA on the Vacation Excess contributions and that V3 was configured to address the bi-weekly contributions.</p> <p>IA confirmed that OCFA and Legacy OCFA employees are paying contributions directly on VE (Vacation Excess) Pay.</p>		
Observation:	2 - Contributions - On Call Pay		
MAP Responsible Party:			
Management Action Plan:	<p>Management agreed to the following recommendation: On a go-forward basis, OCERS should now require that OCFA report "On Call" pay to Legacy members as a pensionable pay item in its automated bi-weekly payroll transmittals and that OCFA and its employees pay both employer and Legacy employee contributions on a bi-weekly basis.</p> <p>OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include "On Call" pay for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS' management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.</p>		
IA Follow-Up Summary:	<p>Internal Audit confirmed OCERS management sent a memo to OCFA on the On Call contributions.</p> <p>IA confirmed that both OCFA and Legacy OCFA employees are paying contributions directly on (On Call) Pay.</p>		
Observation:	4 - OCFA's MOU for employer paid pickups of Legacy employee contributions does not reflect actual payroll processes.		
MAP Responsible Party:			
Management Action Plan:	<p>OCFA agrees that this needs to be corrected, but not by a side letter. Effective pay period 21 (pay date 10/19/18) OCFA management corrected the OCFA payroll interface to the OCERS' V3 system to be consistent with the Firefighter MOU. Per CERL 31581.2 the employer paid pickup of employee contributions are to be considered vested with the employee.</p>		
IA Follow-Up Summary:	<p>Internal audit verified that OCFA employer paid pickups of employee contributions are properly classified as § 31581.2 pickups on the transmittal files.</p>		
Observation:	5 - Transition to OCFA Payroll Manager		

Executed: 1/2/2020 10:02:02 AM
Executed By: OCERS\dkim

Doc. No. 0080-0120-R0001
Page 23 of 25



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
FINANCE,
INFORMATION TECHNOLOGY.

*"We provide secure retirement and disability benefits
with the highest standards of excellence."*



MAP Responsible Party:	
Management Action Plan:	
As discussed and agreed to by OCERS Internal Auditor, this is not reflective of an internal control weakness for OCFA. The original intent of having both OCFA and OCERS staff maintain the spreadsheets was to prevent the errors that would occur due to either rounding differences or applying actuarial discounts differently. OCFA staff will take over the maintenance of the spreadsheets from OCERS Director of Technology. OCERS would need to ensure that the OCFA rates reflected in the rate spreadsheets provided by OCFA staff to OCERS are the same rates as those entered into the V3 system. The above transition from OCERS to OCFA took place beginning with Pay Period #14 in 2018.	
IA Follow-Up Summary:	
Internal audit confirmed that maintenance of the spreadsheets has transitioned to OCFA's payroll manager.	
Audit of Orange County Superior Court Payroll Transmittal (2018)	
Report Date: 11/08/2018	
Total Number of Observations: 4	
Observation:	1 - CRR Pay Certification
MAP Responsible Party:	
Management Action Plan:	
Superior Court will implement a process in October 2018 by which Court Reporters receiving CRR pay must provide proof of active certification (such as proof of training transcripts over a three year period) within 90 days or have the CRR pay removed. Record of this will be placed in the employee's electronic personnel file. Additionally, a reminder in the Court's training system will be flagged on these employees to check for certification every 3 years.	
IA Follow-Up Summary:	
IA confirmed a notification had been distributed noting the requirements for CRR pay and CRR documentation for court reporters has been recorded.	
Observation:	2 - QRR Pay Certification
MAP Responsible Party:	
Management Action Plan:	
Superior Court will implement annually signed attestations beginning October 2018. Employees currently receiving QRR pay will need to complete the annual 45 day attestation within 90 days of the announcement to maintain the QRR pay. If no attestation is received, QRR pay will be removed for that employee. The Court will verify that at least 45 days of realtime court reporting services have been worked by the employee over the course of the last year.	
IA Follow-Up Summary:	
IA confirmed a notification had been distributed noting the requirements for QRR pay and QRR documentation for court reporters has been recorded	
Observation:	3 - Superior Court does not monitor independent contractor court reporters who are OCERS' retirees for compliance with CERL and PEPRA 960 hour rule limit.
MAP Responsible Party:	
Management Action Plan:	



Management Action Plan Status Report

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EXECUTIVE,
FINANCE,
INFORMATION TECHNOLOGY.

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Superior Court will monitor hours worked for all retired independent contractor court reporters to ensure they do not work more than 960 hours in a fiscal year. A new report has been established through Superior Court's RITS tracking system and will be monitored monthly. Current retired independent contractors who have already worked more than 960 hours in the current fiscal year will not work hours until the next fiscal year

IA Follow-Up Summary:

IA confirmed Superior Court is monitoring the hourly limit for retired members and the retired members have not exceeded 960 hours.

Observation: 5 - Employees On-Leave Status

MAP Responsible Party:

Management Action Plan:

Orange County Superior Court currently uses the CAPS+ system that is administered by Orange County Auditor Controller. The current CAPS+ system has known limitations for employees in an "O" (unpaid leave) status. These employees are not included on the regular transmittal file to OCERS and thus no earnable record is generated. They do appear on the missing member report from OCERS Auditor Controller is working on a long-term solution for "O" status employees to still appear on the OCERS transmittal file. There is no current timeline for implementation. However, in the meantime, Superior Court's human resources staff will create updated employment records indicating a "Leave of Absence" in V3 for the above employees. Also, on a go-forward basis Superior Court's human resources staff will perform the same step in V3 for each employee who becomes classified with the above "O" status in CAPS+. This will allow OCERS personnel to more easily identify the reason for gaps in earnable salary records until the point in time when Auditor-Controller can correct the above CAPS+ limitations.

IA Follow-Up Summary:

Internal Audit and management agreed that currently existing controls are sufficient to address the risk of missing pay periods.
Internal Audit verified in V3 the automated messages that help the retirement specialist identify potential missing pay periods when retiring a member.



Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **CONSIDERATION OF 2020 RISK ASSESSMENT AND 2020 AUDIT PLAN**

Recommendation

Approve the 2020 Risk Assessment and the 2020 Audit Plan.

Background/Discussion

Attached are Internal Audit's 2020 Risk Assessment and the 2020 Audit Plan. Projects include:

1st half of 2020

- Pensionable Pay Item Review (Carryover): Confirm OCERS operational changes made as a result of Management's Final Average Salary project from 2018/2019. Additionally, review OCERS' controls to confirm plan sponsor transmittals are in compliance with the updates from the Final Average Salary project.
 - Complete audit fieldwork and reporting
- Outsourced Audit of IT Controls (Carryover): Develop IT Risk Assessment and review IT General Controls.
 - Finalizing management action plans and report
- Investment Manager Fees: Review the controls that the fund of funds managers have in place to ensure the distributions from the underlying funds have been performed completely and accurately.
 - Review controls at Torrey Cove
- Securities Lending Income: Review the controls at the custodian bank to ensure the profit distribution from securities lending are calculated completely and accurately and OCERS collateral is sufficient to offset the risk of securities lending.
 - Outsource to vendor
- Contributions Transmittals Employer Audit (Sanitation District): Review the controls when setting up new members or changes, eligibility of members for pay items, controls at OCERS Member Services (MS) to monitor transmittal exceptions are addressed timely, compliance at employers of OCERS membership eligibility policy (e.g. contract workers).
 - Last audited in 2014



Memorandum

2nd half of 2020

- Actuarial Extract Review: Determine the adequacy of the internal controls in place to ensure accurate and complete data transmitted for the actuarial valuation.
 - Last audited in 2013

- Investment Accounting and Valuation: Review the controls at OCERS Finance to ensure the investment financial reporting is complete and accurate and recorded to the GL timely and accurately/disclosed in the CAFR (e.g. footnotes).
 - First time auditing this process

- Contributions Transmittals Employer Audit (Sheriff's Department): Review the controls when setting up new members or changes, eligibility of members for pay items, controls at OCERS MS to monitor transmittal exceptions are addressed timely, compliance at employers of OCERS membership eligibility policy (e.g. contract workers).
 - First time auditing this Employer

On-Going through 2020

- Continuous Audit – Benefit Set-up: Establish a continuous audit of the FAS calculation with a criteria for manual adjustments to the FAS (calculations/override/additions).
 - Sample testing on a quarterly basis

- Management Action Plan Verification: Confirm management action plans from prior audits have been implemented.

- Outsourced Audit of IT Controls: Oversee IT audits of the following processes:
 - Cloud Risk and Readiness Assessment
 - Vulnerability and Patch Management Review
 - IT Automated Controls Design Assessment

Submitted by:

DK - Approved

David Kim

Director of Internal Audit

01-13-20 Audit Committee Meeting - Agenda

Internal Audit Risk Assessment Matrix for 2020

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

Department	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
INFORMATION SECURITY	Information Security	5	5	5	4	5	5	4.8
INFORMATION SECURITY	Data privacy	5	5	4	5	5	5	4.8
INFORMATION TECHNOLOGY	Network Security	5	5	4	5	5	5	4.8
INFORMATION SECURITY	Event, Incident, and Problem Management	5	5	5	5	4	5	4.8
FINANCE	Investment accounting and valuation	5	5	4	5	4	5	4.7
INVESTMENTS	Investment manager fees	5	4	4	4	5	5	4.5
MEMBER SERVICES	Contribution transmittals Plan Sponsors (County)	5	5	3	4	5	5	4.5
INTERNAL AUDIT	Action plan follow-up	5	5	5	3	4	5	4.5
MEMBER SERVICES	Contribution transmittals Plan Sponsors (Sanitation District)	4	5	3	4	5	5	4.3
EXECUTIVE	Acturial extract	5	5	3	3	5	5	4.3
BOARD	Governance	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	Risk management	5	5	4	5	4	3	4.3
MEMBER SERVICES	Final Average Salary Policy Review	5	5	5	5	5	1	4.3

01-13-20 Audit Committee Meeting - Agenda

Internal Audit Risk Assessment Matrix for 2020

Department	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
INFORMATION TECHNOLOGY	Data security 3rd party vendors	5	5	3	3	5	5	4.3
INFORMATION TECHNOLOGY	IT Vendor / Third Party Management	5	5	3	3	5	5	4.3
EXECUTIVE	Business continuity / disaster recovery	5	5	4	5	5	1	4.2
EXECUTIVE	Ethics Policy	5	5	3	2	5	5	4.2
INVESTMENTS	Asset allocation/rebalancing	5	5	4	4	5	2	4.2
INVESTMENTS	Custodian bank fees	5	5	3	4	3	5	4.2
MEMBER SERVICES	Contribution transmittals Plan Sponsors (OCFA)	5	5	3	5	5	2	4.2
FINANCE	Payroll for retirees	5	5	4	5	5	1	4.2
FINANCE	Cash management	5	5	4	4	3	4	4.2
MEMBER SERVICES	Benefit setup (including eligibility, pension spiking)	5	5	3	5	5	1	4.0
INVESTMENTS	Due diligence	5	5	4	4	5	1	4.0
INVESTMENTS	Derivatives	4	4	4	3	4	5	4.0
INVESTMENTS	Cash/Wire Processing	5	5	4	3	4	3	4.0
INVESTMENTS	Investment reconciliations	5	5	2	4	3	5	4.0
LEGAL	Compliance review	3	4	3	4	5	5	4.0
MEMBER SERVICES	Dependent eligibility	4	4	2	5	4	5	4.0
MEMBER SERVICES	Survivor claims	5	5	3	3	3	5	4.0
FINANCE	Budgeting	5	4	2	4	4	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
ADMINISTRATIVE SERVICES	Succession Planning	2	5	4	3	5	5	4.0
ADMINISTRATIVE SERVICES	Physical security	4	5	3	2	5	5	4.0
INFORMATION TECHNOLOGY	Software Development Life Cycle / Change Management	4	4	4	4	3	5	4.0
INFORMATION TECHNOLOGY	Data Retention and Backup	4	4	4	3	4	5	4.0
INVESTMENTS	Reporting to the Board	5	5	3	4	5	1	3.8
MEMBER SERVICES	Contribution transmittals Plan Sponsors (OCTA)	4	5	3	4	5	2	3.8
MEMBER SERVICES	Contribution transmittals Plan Sponsors (Superior Court)	4	5	3	4	5	2	3.8
LEGAL	Record management and retention	3	4	3	3	4	5	3.7

01-13-20 Audit Committee Meeting - Agenda

Internal Audit Risk Assessment Matrix for 2020

Department	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	Disability process	5	4	3	4	5	1	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
MEMBER SERVICES	Contribution transmittals Plan Sponsors (All other active plan sponsors)	4	5	3	3	3	4	3.7
FINANCE	General Ledger	5	5	4	4	3	1	3.7
FINANCE	Contributions - member, employer	5	5	3	4	4	1	3.7
INFORMATION TECHNOLOGY	IT Operations	3	4	2	4	4	5	3.7
INTERNAL AUDIT	QAIP (Internal)	1	3	5	3	5	5	3.7
MEMBER SERVICES	Member Enrollment	3	5	3	3	4	3	3.5
MEMBER SERVICES	1099 reporting	5	3	1	4	3	5	3.5
ADMINISTRATIVE SERVICES	HR Processes	2	4	3	4	3	5	3.5
INFORMATION TECHNOLOGY	IT Asset Management	3	5	4	2	2	5	3.5
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
FINANCE	Accounts Payable	3	3	3	4	2	5	3.3
ADMINISTRATIVE SERVICES	Hiring	2	4	3	3	3	5	3.3
ADMINISTRATIVE SERVICES	Contract administration	4	3	3	3	2	5	3.3
EXECUTIVE	RFP process	3	2	1	3	5	5	3.2
EXECUTIVE	Procurement	3	3	2	3	3	5	3.2
INVESTMENTS	Personal Trading Policy compliance	2	3	2	3	4	5	3.2
MEMBER SERVICES	Service Credit Purchases	3	3	3	4	3	3	3.2
INFORMATION TECHNOLOGY	IT Governance, Strategy, and Planning	3	5	1	2	3	5	3.2
EXECUTIVE	Vendor contract compliance	3	3	2	3	2	5	3.0
MEMBER SERVICES	Death matching process	3	3	3	3	3	3	3.0
INFORMATION TECHNOLOGY	Knowledge Management	2	3	3	4	1	5	3.0

Internal Audit Risk Assessment Matrix for 2020

Department	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
INFORMATION TECHNOLOGY	IT Availability and Capacity	3	4	2	2	2	5	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	Lump sum payments (death benefits, refunds)	4	3	2	4	2	1	2.7
MEMBER SERVICES	Retiree Rehires (PEPRA)	3	2	2	1	5	2	2.5
FINANCE	Travel expenses	2	1	1	1	5	2	2.0

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
2020 Internal Audit Plan**

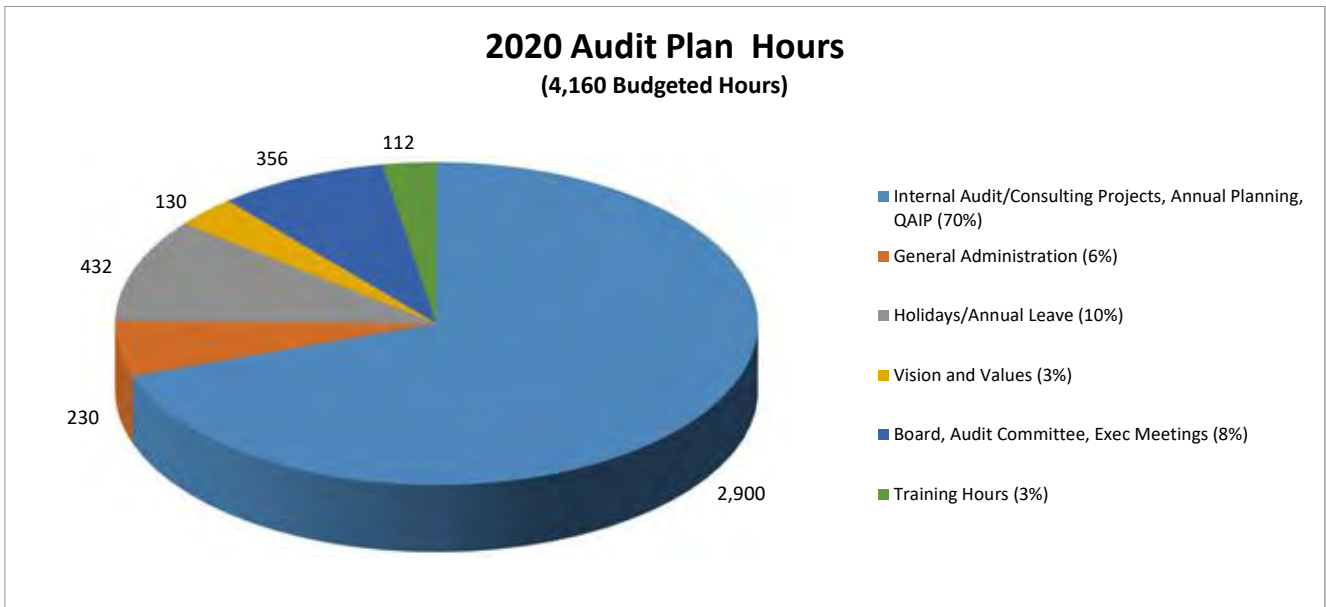
Audit Activity	Description	Planned Hours - Budget	Comments
Internal Audits/Consulting/Planning		2900	
Pay Item Review (Carryover 2019)	Confirm OCERS operational changes made as a result of Management's Final Average Salary project from 2018. Additionally, review OCERS' controls to confirm plan sponsor transmittals are in compliance with the updates from the Final Average Salary project.	210	Complete audit fieldwork and reporting
IT General Controls Audit performed by consultants (Carryover 2019)	Develop the Information Technology Risk Assessment and long term IT Audit Program, including testing of IT General Controls.	30	Finalizing management action plans and report
Investment manager fees	Review the controls that the fund of funds managers have in place to ensure the distributions from the underlying funds have been performed completely and accurately. (e.g. review the controls at TorreyCove to ensure they are reviewing the audited financial reports for the fund they have investments)	300	
Securities Lending Income	Review the controls at the custodian bank to ensure the profit distribution from securities lending are calculated completely and accurately and OCERS collateral is sufficient to offset the risk of securities lending. (Per AC Chair request)	100	To be outsourced to a third party.
Investment accounting and valuation	Review the controls at OCERS Finance to ensure the investment financial reporting is complete and accurate and recorded to the GL timely and accurately/disclosed in the CAFR (e.g. footnotes).	300	
Contribution transmittals Employer (County - Sheriffs Dept)	Review the controls when setting up the new member or changes, eligibility of the member for the pay items, controls at OCERS MS to monitor transmittal exceptions are addressed timely, compliance at employers of OCERS membership eligibility policy (e.g. contract workers).	300	
Contribution transmittals Employer (Sanitation District)	Review the controls when setting up the new member or changes, eligibility of the member for the pay items, controls at OCERS MS to monitor transmittal exceptions are addressed timely, compliance at employers of OCERS membership eligibility policy (e.g. contract workers).	300	
IT Audit Program	Cloud Risk and Readiness Assessment, Vulnerability and Patch Management, IT Automated Controls	120	Outsourced to a third party. 40 hours to oversee per audit, total of 3 IT audits

**Orange County Employees Retirement System
Internal Audit Division
2020 Internal Audit Plan**

Audit Activity	Description	Planned Hours - Budget	Comments
Actuarial Extract	Determine the adequacy of the internal controls in place to ensure accurate and complete data transmitted for the actuarial valuation.	320	
Ad-hoc project	Open for any ad-hoc project TBD	100	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	160	Ongoing review of implemented MAPs from completed audits.
Continuous Audit - Benefit setup (including eligibility, pension spiking)	New for 2020 - Set up a continuous audit of the FAS calculation with criteria for manual adjustments to the FAS (calculations/override/additions). Sample on quarterly basis	270	
Consulting - Annual Plan Sponsor Report	Provide guidance to management on the preparation of the Annual Plan Sponsor report of key financial information on OCERS' plan sponsors based upon 2019 audited financial statements.	20	
Annual Audit Planning	Review and update Risk and Control Matrix.	100	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	150	
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program	60	
	Use of hotline reporting system.	60	
Vision and Values		130	
	Vision and Values - Continuous Improvement Program	50	Route to appropriate parties, report to OCERS executives
	Vision and Values Committee (Internal OCERS Committee)	80	Internal committee to promote a positive culture at OCERS - Chair of the committee

**Orange County Employees Retirement System
Internal Audit Division
2020 Internal Audit Plan**

Audit Activity	Description	Planned Hours - Budget	Comments
Board, AC, OCERS Executive Meetings		356	
	Board meetings, Audit Committee, Investment Committee, Governance Committee, CEO weekly.	290	
	Weekly meetings with CEO	26	
	Monthly meeting with Audit Committee Chair	40	
General admin time		230	
	General admin time	230	6% of 2020 budget
Leave (Holiday/Annual) and Training		544	
	Holidays (12 days), Annual Leave (15 days)	432	
	Training and Continuing Education	112	
Grand Total Hours		<u>4,160</u>	



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

**AUDIT COMMITTEE MEETING
November 18, 2019
1:00 P.M. OR UPON ADJOURNMENT OF THE OCERS BOARD MEETING,
WHICHEVER IS LATER**

Members of the Committee

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

MINUTES

OPEN SESSION

The Chair called the meeting to order at 3:05 p.m.

Attendance was as follows:

Committee Members: Frank Eley, Chair; Charles Packard, Vice Chair; Jeremy Vallone; Shari Freidenrich

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

PUBLIC COMMENT

None.

CONSENT AGENDA

C-1 APPROVE AUDIT COMMITTEE MINUTES

Audit Committee Meeting Minutes

October 17, 2019

A **motion** was made by Mr. Packard, **seconded** by Mr. Vallone to approve the minutes.

The Committee recessed into Closed Session at 3:05p.m.

CLOSED SESSION

A. PUBLIC EMPLOYEE PERFORMANCE EVALUATION (GOVERNMENT CODE §54957(b))

Title: Director of Internal Audit

Audit Committee Meeting
November 18, 2019

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

Recommendation: Take appropriate action.

The Committee resumed into Open Session at 3:50pm.

The Chair reported no reportable action.

COMMITTEE MEMBER COMMENTS

None.

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

None.

COUNSEL COMMENTS

None.

ADJOURNMENT

The Chair adjourned the meeting at 3:51p.m.

Submitted by:

Approved by:

Steve Delaney
Secretary to the Board

Frank Eley
Chair



Memorandum

DATE: January 7, 2020
TO: Members of the Audit Committee
FROM: Brenda Shott, Assistant CEO, Internal Operations
SUBJECT: **Operational Risk Management Annual Report**

Written Report

Background/Discussion

A. Operational Risk Policy

1. The Policy Objective of OCERS' Operational Risk Policy is "to help achieve long-term sustainability by ensuring that OCES is aware of and prepared for risks facing the organization."
2. The Policy Guidelines include that "at least annually, management will report to the Audit Committee regarding operational risk management and the related responsibilities, strategies, risks identified and actions for addressing material risks facing OCERS"

B. *Operational Risk Management – Committee Charter*

As a means to carry out the Operation Risk Management program, staff created an Operational Risk Management Committee. The Committee is comprised of four of the five senior executives, and management team members from the Information Security, Internal Audit and Operations Support Services departments. The following guidelines, established by the Operational Risk Committee Charter, governs the duties and responsibilities of the Operational Risk Committee:

1. Oversee OCERS' operational risk management policies and procedures.
2. Set OCERS' overall operational risk management objectives, risk tolerance, risk targets and standards.
3. Identify, assess, manage and mitigate operational risks on an entity wide basis.
4. Develop and implement reporting of operational risk management to the Audit Committee of the Board of Retirement at least annually.
5. Ensure approved operational risk management policies and procedures are being followed.
6. Review operational risk management reports and provide direction on areas of focus.

C. *Annual Reporting*

Pursuant to both the Operational Risk Policy and the Operational Risk Management Committee Charter, the Operational Risk Committee is submitting the following annual report to the Audit Committee for review.



Memorandum

D. *Report Summary*

Based on the activities of each division focused on being aware of and prepared for risks facing the organization, a full data base of information related to operational risks has been developed to record, track and report OCERS' Operational Risks. The following is a summary of the status of the Operational Risk Management program:

1. The Operational Risk Committee Charter was adopted September, 2018
2. All departments have been evaluated for Operational Risk (note: investment related risks are outside the scope of this program).
3. A total of 62 risks have been recorded in the database by team members in each department and reviewed by the Operational Risk Management Committee.
4. The Committee's review included understanding each risk identified and approving the assigned risk score. Risk scores are based on the following:
 - i. Each risk identified is evaluated and rated on a scale of 1 to 5 for likelihood of occurring and impact the risk could have on OCERS at three distinct stages: initial (at program inception), current (at time of most recent evaluation) and target (after all identified migrating factors are implemented)
 - ii. The total risk score is calculated by multiplying the rating for likelihood times the rating for impact at the designated stage (i.e. risk score is calculated for initial, current and target)

The Committee's review also includes evaluating the categories which each risk is assigned to:

- i. Avoid/Eliminate the Process
- ii. Transfer/Outsource the Activity or Insurance
- iii. Reduce Risk through Internal Controls
- iv. Accept the Risk and Prepare for Impact

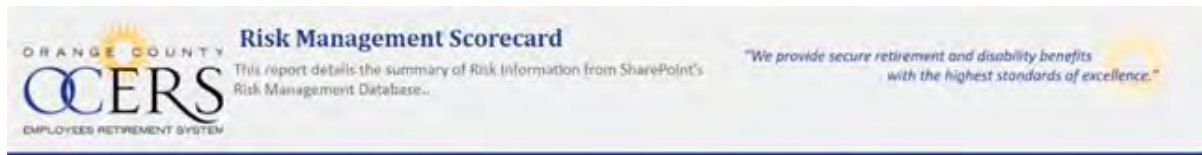
In addition, the Committee evaluated the current mitigating factors and future mitigation plans of each identified risk to determine adequacy and appropriateness. Finally, the Committee discusses whether any additional or new risks needed to be added to the data base and evaluated.

5. The initial risk score of the entire organization was 9.03 on a scale of 1 to 25
6. After current mitigating factors were considered, the overall Current Risk Score is 6.00 (Low). Please see page three below for a visual representation of the scores.
7. Divisions and departments are responsible for maintain the Information contained within the data base on an ongoing basis. The team will meet with a member of the Committee semi-annually to review each risks and to determine if any new risks should be added to the database
8. The Operational Risk Management Committee meets quarterly to review and approve the risks scores and mitigation plans. They also discuss any potential new risks that need to be tracked. All risks will be re-reviewed by the committee at least once per year.



Memorandum

All Departments – Risk Management Scorecard



9.03

Initial Risk Score

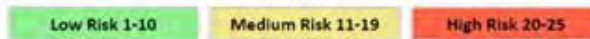
		Likelihood				
		1	2	3	4	5
Imp act	5	0	1	1	0	0
	4	1	3	12	3	0
	3	0	4	16	3	0
	2	0	2	10	2	2
	1	0	0	1	1	0

6.00

Current Risk Score

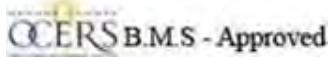
		Likelihood				
		1	2	3	4	5
Imp act	5	1	0	0	0	0
	4	5	8	4	0	0
	3	6	11	4	1	0
	2	0	10	4	2	1
	1	1	1	2	1	0

LEGEND



Submitted by: _____

Brenda Shott, CPA
Assistant CEO, Internal Operations





Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: 2019 HOTLINE SUMMARY

Written Report

Background/Discussion

Internal Audit regularly updates the Audit Committee regarding reports made to the hotline.

For 2019, Internal Audit received a total of eight (8) reports from the hotline under the following categories:

- Reported in error – Two (2) reports that were not OCERS related; called OCERS hotline in error. Closed – no further action.
- Request for customer support – Two (2) reports requesting additional information or follow-up from OCERS. Closed – no further action.
- Member status – Three (3) reports regarding the disability or employment status of a member. Closed – no further action.
- Pay Item – One (1) report on the eligibility of a pay item. Closed – no further action.

Submitted by:

DK - APPROVED

David Kim
Director of Internal Audit



Memorandum

DATE: January 13, 2020
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **STATUS UPDATE OF 2019 AUDIT PLAN**

Written Report

Background/Discussion

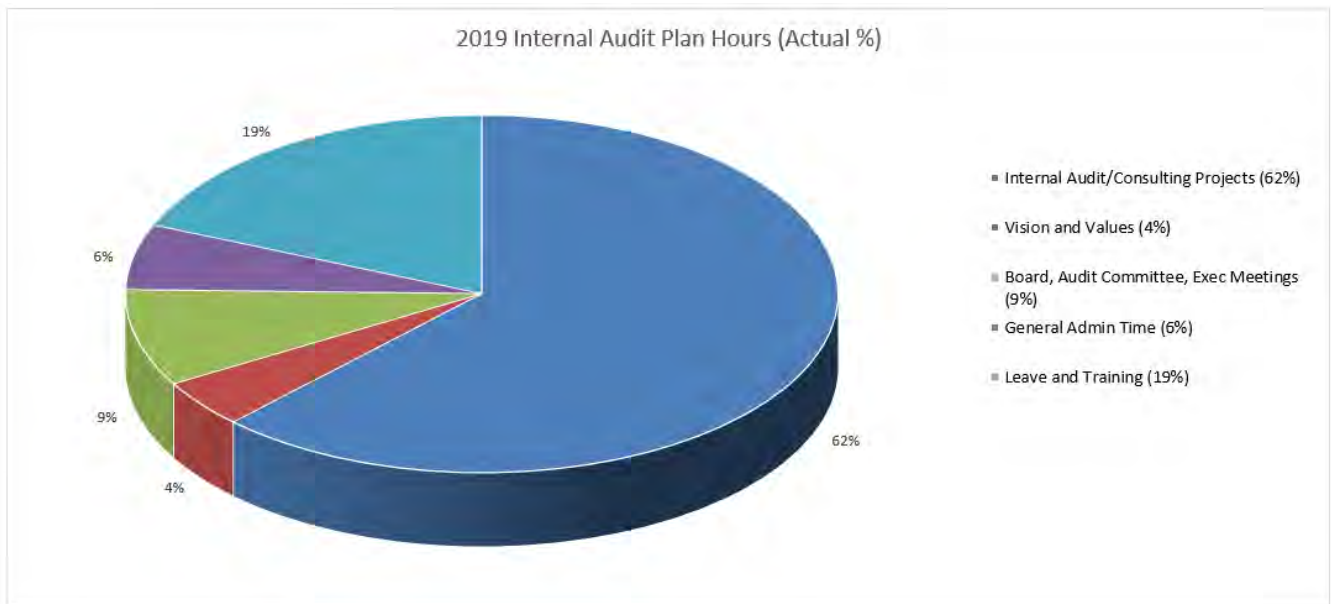
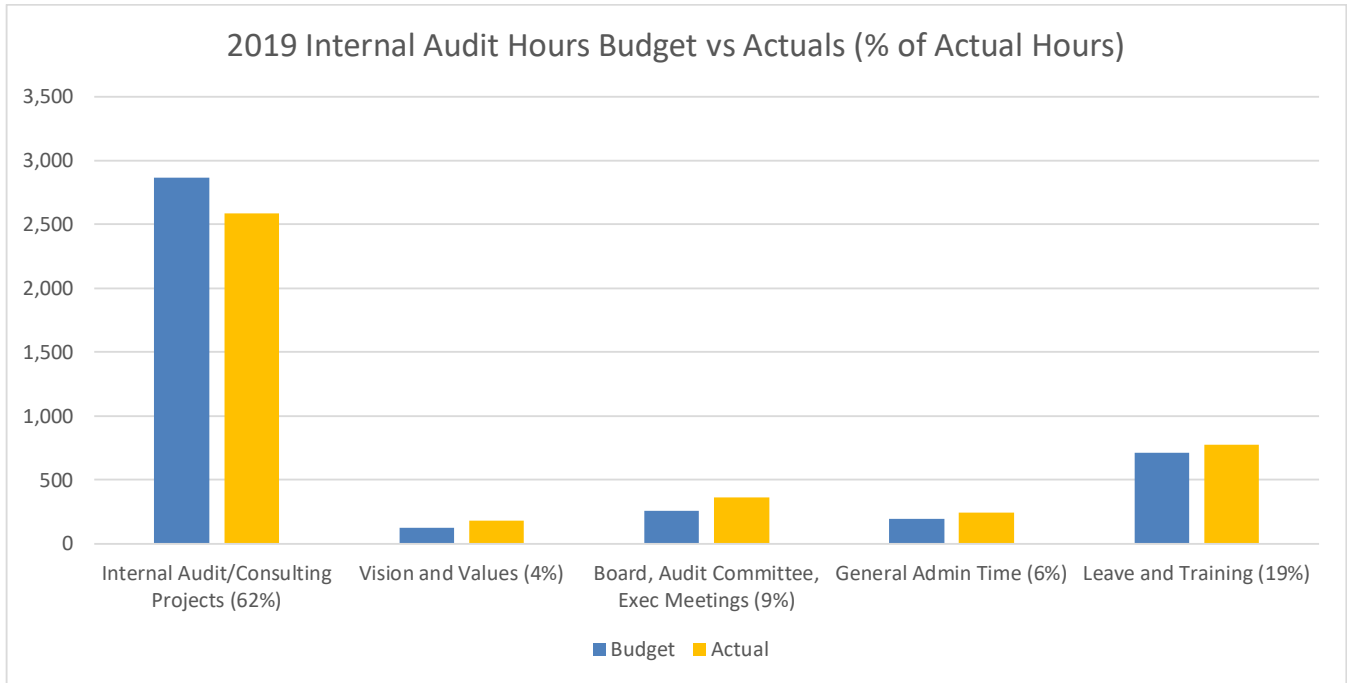
Attached is a comparison of budgeted 2019 audit plan hours versus the completed program actual hours, by project.

Submitted by:

DK - Approved

David Kim
Director of Internal Audit

2019 Internal Audit Plan



2019 Internal Audit Plan

Audit Activity	Description	Planned Hours - Original Budget	Actual Hours	Projected 2020 hours	Comments
Internal Audits/Consulting/Planning		2,870	2,590	240	
Benefit and Lump Sum Payment 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	330	0	
Contribution 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	310	0	
Business continuity / disaster recovery	Review the controls over the business continuity and disaster recovery process.	220	230	0	
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	150	210	Timing of audit was pushed back due to medical LOA
IT General Controls Audit performed by consultants	Develop the Information Technology Risk Assessment and long term IT Audit Program, including testing of IT General Controls.	180	210	30	RFP selection, coordination with mgmt. Finalizing management action plans and report
Ad-hoc project	Open for an ad-hoc project TBD	100	20	0	Ad hoc benefit reviews requested by AC Chair
Consulting - Investment	Consulting project with Investment team to review the process and related controls of the investment execution plans. Focus on the Private Equity investments.	320	210	0	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Develop a new process, implement follow-up program and escalation procedures, clear backlog, develop reporting.	180	200	0	
Consulting - Annual Plan Sponsor Report	Annual Plan Sponsor report of key financial information on OCERS' plan sponsors based upon 2018 audited financial statements.	200	210	0	Additional scope items per CEO
Audit Planning	Review and update Risk and Control Matrix.	100	80	0	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	150	160	0	
Hotline Reporting	Use of hotline reporting system.	20	40	0	Higher number of calls and more involved issues than in previous years

2019 Internal Audit Plan

Audit Activity	Description	Planned Hours - Original Budget	Actual Hours	Projected 2020 hours	Comments
Quality Assurance and Improvement Program (QAIP)	External Quality Review Audit IIA - Institute of Internal Auditors	40	40	0	Develop responses/action plans
	IA Quality Review- self assessment - Develop new process, implement QAIP program, develop metrics	160	150	0	
	IA Assessment/Modifications - perform assessment of IA Operations, incorporate feedback from external QAIP, implement changes approved by AC.	240	250	0	IA Software, status reporting, audit reporting, IA manual updates
Vision and Values		125	180	0	
	Vision and Values - Continuous Improvement Program	75	80	0	Developed a process, assigned priority levels, routed to appropriate parties, developed reporting
	Vision and Values Committee (Internal OCERS Committee)	50	100	0	Led the Vision and Values Committee due to unanticipated committee chair departure, includes planning for 2020 activities
Board, AC, OCERS Executive Meetings		257	381	0	
	Board meetings, Audit Committee, Investment Committee, Governance Committee, Executive off-site, Strategic Planning workshop	208	320	0	Includes additional Executive off-site (attendance and facilitation/preparation) and OCERS internal meetings
	Weekly meetings with CEO	25	25	0	
	Monthly meeting with Audit Committee Chair	24	36	0	
General admin time		198	231	0	
	General admin time	198	231	0	6% of 2019 actual hours
Leave (Holiday/Annual) and Training		710	778		
	Holidays (12 days), Annual Leave (15 days)	420	568	0	includes Medical LOA
	Training and Continuing Education	290	210	0	
Grand Total Hours		4,160	4,160	240	