

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

**AUDIT COMMITTEE MEETING  
April 20, 2020  
11:00 A.M. OR UPON ADJOURNMENT OF THE OCERS BOARD MEETING,  
WHICHEVER IS LATER**

**Members of the Committee**

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

**Pursuant to Executive Order N-29-20, certain provisions of the Brown Act are suspended due to a State of Emergency in response to the COVID-19 pandemic. Consistent with the Executive Order, this meeting will be conducted by video/teleconference only. None of the locations from which the Board members will participate will be open to the public.**

**Members of the public who wish to observe and/or participate in the meeting may do so via the Zoom app or via telephone. Members of the public who wish to provide comment during the meeting may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing \* 9 on your telephone keypad.**

<b>OCERS Zoom Video/Teleconference information</b>	
<p><b>Join Using Zoom App (Video &amp; Audio)</b></p> <p><a href="https://zoom.us/j/950662032">https://zoom.us/j/950662032</a></p> <p><b>Meeting ID: 950 662 032</b> <b>Password: 028597</b></p> <p>Go to <a href="https://www.zoom.us/download">https://www.zoom.us/download</a> to download Zoom app before meeting Go to <a href="https://zoom.us">https://zoom.us</a> to connect online using any browser.</p>	<p><b>Join by Telephone (Audio Only)</b></p> <p>Dial by your location</p> <ul style="list-style-type: none"> <li>+1 669 900 6833 US (San Jose)</li> <li>+1 346 248 7799 US (Houston)</li> <li>+1 253 215 8782 US</li> <li>+1 301 715 8592 US</li> <li>+1 312 626 6799 US (Chicago)</li> <li>+1 929 436 2866 US (New York)</li> </ul> <p><b>Meeting ID: 950 662 032</b> <b>Password: 028597</b></p>
<p>A <a href="#">Zoom Meeting Participant Guide</a> is available on OCERS website <a href="#">Board &amp; Committee meetings page</a></p>	

**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 Board; and (2) any matter appearing on the Consent Agenda. Members of the public who wish to provide comment at this time may do so by “raising

your hand” in the Zoom app, or if joining by telephone, by pressing \* 9 on your telephone keypad. When addressing the Board, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

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

**CONSENT AGENDA**

**C-1 APPROVE AUDIT COMMITTEE MEETING MINUTES**

Audit Committee Meeting Minutes

January 13, 2020

**ACTION ITEMS**

**NOTE:** Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Board’s discussion of the item. **Members of the public who wish to provide comment in connection with any matter listed in this agenda may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing \*9, at the time the item is called.**

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

**A-2 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.

**INFORMATION ITEMS**

**I-1 2019 FINANCIAL STATEMENT AUDIT – ENTRANCE CONFERENCE**

*Presentation by Linda Hurley and Amy Chiang, Macias Gini & O’Connell*

**I-2 STATUS UPDATE OF 2020 AUDIT PLAN**

*Written Report*

**COMMITTEE MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

**ADJOURNMENT**

**NOTICE OF NEXT MEETINGS**

**INVESTMENT COMMITTEE MEETING  
April 22, 2020  
9:30 A.M.**

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

**DISABILITY COMMITTEE MEETING  
May 18, 2020  
8:30 A.M.**

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

**REGULAR BOARD MEETING  
May 18, 2020  
9:30 A.M.**

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

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

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at [adminsupport@ocers.org](mailto: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.

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

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

**MINUTES**

**OPEN SESSION**

The Chair called the meeting to order at 9:06am.

Attendance was as follows:

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

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

**PUBLIC COMMENT**

None.

**CONSENT AGENDA**

**C-1 APPROVE AUDIT COMMITTEE MINUTES**

Audit Committee Meeting Minutes

November, 18, 2019

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

**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 **motion** was made by Freidenrich, **seconded** by Packard to 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*

Audit Committee Meeting  
January 13, 2020

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

A **motion** was made by Freidenrich, **seconded** by Packard to 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.

After discussion by the Committee, staff was directed to bring this item back to the Committee at a future meeting.

**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 **motion** was made by Packard, **seconded** by Freidenrich to 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 **motion** was made by Packard, **seconded** by Freidenrich to 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 **motion** was made by Packard, **seconded** by Freidenrich to 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.

A **motion** was made by Packard, **seconded** by Freidenrich to approve the 2020 Risk Assessment and 2020 Audit Plan

**INFORMATION ITEMS**

**I-1 OPERATIONAL RISK MANAGEMENT ANNUAL REPORT**

*Written Report*

Audit Committee Meeting  
January 13, 2020

**I-2 2019 HOTLINE SUMMARY**  
*Written Report*

**I-3 STATUS UPDATE OF 2019 AUDIT PLAN**  
*Written Report*

*The Committee took a ten minute break.*

*The Committee recessed into Closed Session at 11:00am.*

**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 \*\*\*\*\***

*The Committee resumed into Open Session at 12:05pm.*

*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 12:08pm.

Audit Committee Meeting  
January 13, 2020

Submitted by:

Approved by:

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Steve Delaney  
Secretary to the Board

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Frank Eley  
Chair



## Memorandum

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**DATE:** April 20, 2020  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** **REVIEW OF OCERS' ETHICS, COMPLIANCE, AND FRAUD HOTLINE POLICY**

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### Recommendation

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

### Background/Discussion

The Audit Committee reviewed and discussed the OCERS' Ethics, Compliance and Fraud Hotline Policy in January of this year. During the discussion, the Committee provided direction on changes to the document that have been incorporated in the draft of the OCERS' Ethics, Compliance and Fraud Hotline Policy as attached.

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;
- Add wording to reference the use of the Protocol for Handling Workplace Complaints Against Board Members and Executives Policy;
- Clarify the communication to the Audit Committee and the Audit Committee Chair regarding the results of the investigations; and
- Update the wording regarding confidentiality to be consistent with the Protocol for Handling Workplace Complaints Against Board Members and Executives Policy.

Submitted by:

**DK - Approved**

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David Kim  
Director of Internal Auditor





## OCERS Board Policy

# Ethics, Compliance, and Fraud Hotline

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### 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. Workplace complaints against members of the Board or OCERS executive staff are not covered under this policy. Workplace complaints are instead handled under the Protocol for Handling Workplace Complaints Against Board Members and Executives Policy.

### 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.



## OCERS Board Policy

# Ethics, Compliance, and Fraud Hotline

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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.
9. Except as provided in Section 10, below, 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~~ The Audit Committee or Chair of the Audit Committee will make the final determination regarding action to be taken upon completion of the investigation where:
- ~~a.~~ may occur if an the accusation ~~is has been~~ against a member of OCERS Senior Executive management;
  - ~~b.~~ or if the results of an investigation indicate criminal acts have occurred; or
  - ~~a-c.~~ 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.~~
- ~~10-11.~~ 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.~~ The final outcome of all investigations will be reviewed with the Chair of the Audit Committee and a summary will be submitted to the Audit Committee unless deemed confidential by the Director of Internal Audit in consultation with the Chief Executive Officer and the Chair of the Audit Committee.
- ~~11-13.~~ The identities of the complainant and the subject of the complaint will remain confidential to the fullest extent possible, consistent with the law and customary practice ~~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

- ~~12-14.~~ This policy will be reviewed every three years.

## Policy History

- ~~13-15.~~ The Board adopted this policy on June 06, 2013, and amended on January 1, 2017 and April 20, 2020.



## OCERS Board Policy Ethics, Compliance, and Fraud Hotline

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### 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

~~14/20/2020~~17/17

Date



## OCERS Board Policy Ethics, Compliance, and Fraud Hotline

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### 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. Workplace complaints against members of the Board or OCERS executive staff are not covered under this policy. Workplace complaints are instead handled under the Protocol for Handling Workplace Complaints Against Board Members and Executives Policy.

### 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. 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



## OCERS Board Policy Ethics, Compliance, and Fraud Hotline

the Manager of Administrative Services. Internal Audit may also seek the assistance of Legal or other informed parties in conducting an investigation.

- 9. Except as provided in Section 10, below, the Chief Executive Officer will make the final determination regarding action to be taken upon completion of the investigation.
- 10. The Audit Committee or Chair of the Audit Committee will make the final determination regarding action to be taken upon completion of the investigation where:
  - a. the accusation is against a member of OCERS Senior Executive management;
  - b. the results of an investigation indicate criminal acts have occurred; or
  - c. there are high-level policy implications resulting from an investigation.
- 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. The final outcome of all investigations will be reviewed with the Chair of the Audit Committee and a summary will be submitted to the Audit Committee unless deemed confidential by the Director of Internal Audit in consultation with the Chief Executive Officer and the Chair of the Audit Committee.
- 13. The identities of the complainant and the subject of the complaint will remain confidential to the fullest extent possible, consistent with the law and customary practice.

### Policy Review

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

### Policy History

- 15. The Board adopted this policy on June 06, 2013, and amended on January 1, 2017 and April 20, 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

4/20/2020

Date



## Memorandum

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**DATE:** April 20, 2020  
**TO:** Members of the Audit Committee  
**FROM:** Brenda Shott, Assistant CEO, Finance and Internal Operations  
**SUBJECT:** 2019 FINANCIAL STATEMENT AUDIT – ENTRANCE CONFERENCE

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### *Presentation*

#### **Background/Discussion**

Attached is the 2019 Audit Services Plan prepared by Linda Hurley, Partner at MGO. This plan includes an overview of the MGO engagement service team for the financial statement audit; scope of services; overall summary of audit responsibilities; timeline for deliverables; and highlights of MGO's audit approach.

#### Attachment

Submitted by:

**BS - Approved**

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Brenda Shott  
Assistant CEO, Finance and Internal Operations





**Orange County  
Employees Retirement  
System**

**Fiscal Year  
2019  
Audit Service Plan**

Presented By  
**Linda C. Hurley, CPA**  
Engagement Partner



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**Agenda**

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**SECTION I**

Engagement Team

**SECTION II**

Scope of Services and Deliverables

**SECTION III**

Independent Auditor Responsibilities

**SECTION IV**

Audit Timeline

**SECTION V**

Audit Approach

**SECTION VI**

Recent Developments in Accounting and Financial Reporting



FISCAL YEAR 2019 AUDIT SERVICE PLAN

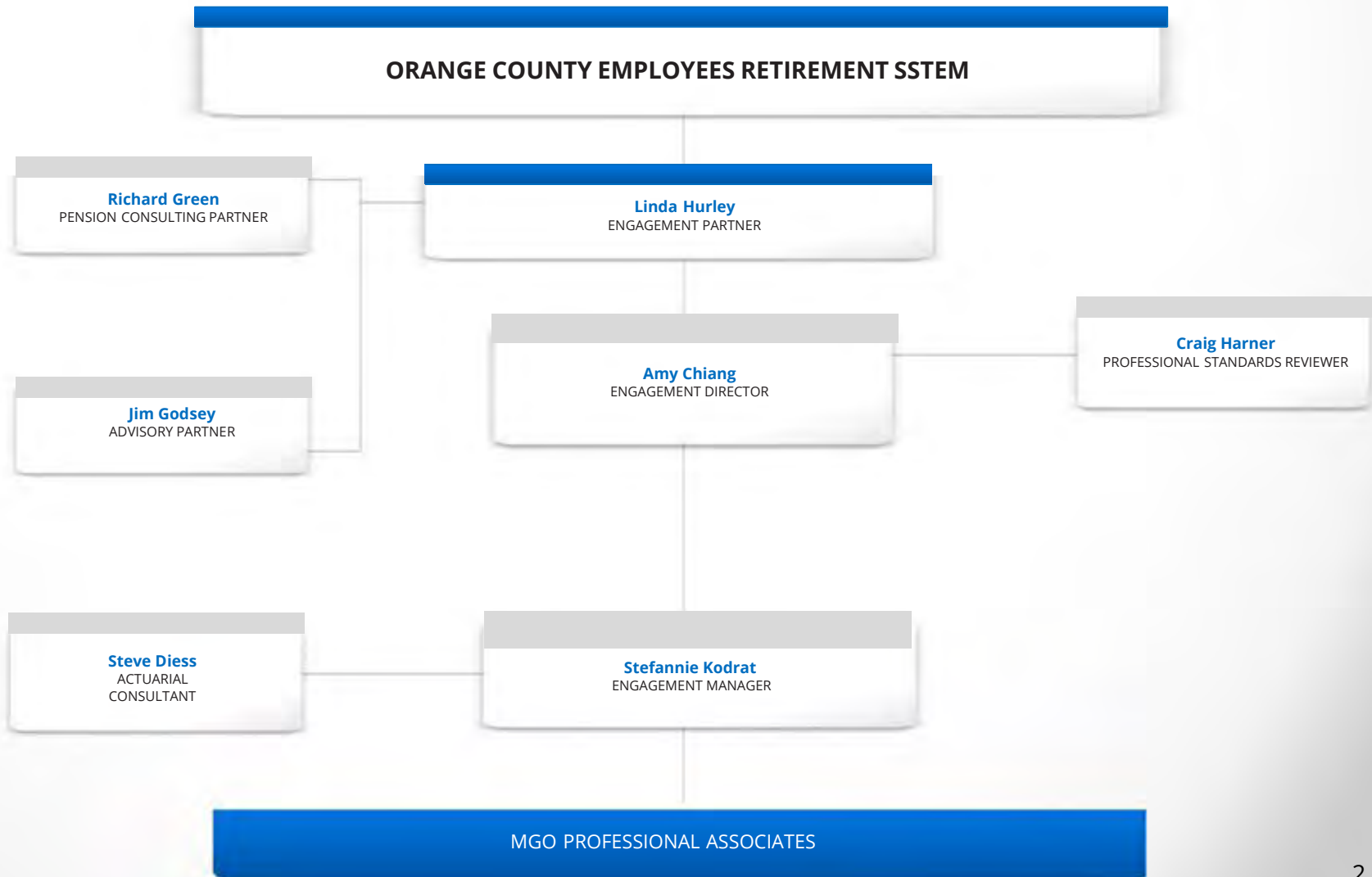
# Engagement Team

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# OCERS Engagement Team



FISCAL YEAR 2019 AUDIT SERVICE PLAN

# Scope of Services and Deliverables

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## Scope of Services and Deliverables

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### Scope of Services

- Audit of Basic Financial Statements
- Audit of the Schedule of Allocated Pension Amounts by Employer

### Deliverables

- Independent Auditor's Report
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters (required under *Government Auditing Standards*)
- Reports to the Audit Committee (Required Communication)
- Management Comments and Recommendations Letter
- Independent Auditor's Report on the Schedule of Allocated Pension Amounts by Employer

FISCAL YEAR 2019 AUDIT SERVICE PLAN

# Independent Auditor Responsibilities

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## Independent Auditor Responsibilities

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- To express an opinion as to the fair presentation of the System's financial statements, in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP)
  
- To apply certain limited procedures to required supplementary information
  - Management's Discussion and Analysis
  - Schedule of Changes in Net Pension Liability of Participating Employers
  - Schedule of Investment Returns
  - Schedule of Employer Contributions
  - Notes to the Required Supplementary Information

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## Independent Auditor Responsibilities

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- To report on the fairness of other supplementary information when considered in relation to the basic financial statements as a whole
  - Schedule of Contributions
  - Schedule of Administrative Expense
  - Schedule of Investment Expenses
  - Schedule of Payments to Consultants
  
- To express opinions as to the fair presentation on the employer allocations (Schedule of Allocated Pension Amounts by Employer) in accordance with GAAP:
  - total deferred outflows and inflows of resources
  - net pension liability
  - total pension expense (excluding employer-paid member contributions)

FISCAL YEAR 2019 AUDIT SERVICE PLAN

# Audit Timeline

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# OCERS Audit Timeline



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Description	March	April	May	June
<b>Planning</b>				
Information Gathering				
Interim and Year-end Prepared-By-Client Schedules				
Entrance Conference				
Executive and Board Member Inquiries				
Presentation of Audit Plan to the Audit Committee				
<b>Execution</b>				
Interim & Year-End Fieldwork				
Document Internal Controls and Processes				
Information Technology General Control Review (ITGC)				
Perform Risk Assessment				
Perform Test of Controls over Significant Transaction Streams				
Test of Member Census Data				
Investment Confirmations				
Audit of Year-End Balances				
<b>Completion</b>				
Report Issuance				
Independent Auditor's Report - Basic Financial Statements				
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters				
Report to the Audit Committee (Required Communications with Those Charged with Governance)				
Management Comment Letter				
Audit Committee Presentation				

FISCAL YEAR 2019 AUDIT SERVICE PLAN

# Audit Approach

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# Audit Approach

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## Planning

- Document understanding of internal and external factors affecting the System
- Update understanding of the System's internal control environment, accounting systems and control procedures
- Perform risk assessment to determine the nature, timing and extent of audit procedures
- Complete audit plan, including audit procedures to address identified risks

## Execution

- Performance of audit procedures and evaluation of results
- Review of financial statements and subsequent events
- Review the underlying data used to compile the Schedule of Allocated Pension Amounts by Employer
- Obtain management representations
- Development of organizational insights

## Reporting

- Issue opinions on the System's financial statements under U.S. generally accepted auditing standards and *Government Auditing Standards*
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters
- Issue opinions on the fair presentation of the Schedule of Allocated Pension Amounts by Employer
- Required communications at the conclusion of the audit
- Management comments and recommendations

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# Audit Approach

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Certified  
Public  
Accountants

## Significant Audit Areas

- Investments and Related Income
- Contributions
- Benefit Payments
- Actuarial Valuations
  - Compliance with Accounting Standards and Actuarial Standards of Practice
  - Reasonableness of Assumptions and Methods
  - Analysis of Changes in Discount Rates
  - Completeness and Accuracy of Member Census Data
- Schedule of Allocated Pension Amounts by Employer

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## Audit Approach

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Accountants

### Response to Significant Audit Areas

- Review of general partner audited financial statements and use of investment valuation specialists, as appropriate
- Review of service organization control reports (SSAE 18 reports) to determine reliance on controls at these organizations and extent of testing of complimentary controls in place at OCERS
- Use of data extraction software
  - Benefit payments
  - Member census data
- Review of actuarial valuations by MGO's actuarial specialist

FISCAL YEAR 2019 AUDIT SERVICE PLAN

# Recent Developments in Accounting and Financial Reporting

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## Recent Developments in Accounting and Financial Reporting

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**GASB Statement No. 84: *Fiduciary Activities*.** The requirements of this Statement are effective for periods beginning after December 15, 2018 (FY 2019 for OCERS).

- Custodial Fund (new fund type)
- Include a statement of changes in fiduciary net position as a basic financial statement

**GASB Statement No. 87: *Leases*.** The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (FY 2020 for OCERS).

- Establish a single model for lease accounting
- Required a lessee to recognize a lease liability and an intangible right-to-use lease asset
- Required a lessor to recognize a lease receivable and a deferred inflow of resources

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## Recent Developments in Accounting and Financial Reporting

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### **GASB Statement No. 92: Omnibus 2020.**

- The requirements of GASB Statement No. 87 and the requirements of Implementation Guide 2019-3 are effective for fiscal years beginning after December 15, 2019 (FY 2020 for OCERS).
- A government that reports a fiduciary activity for assets that are accumulated for purposes of providing pensions or OPEB through defined benefit pension plans or defined benefit OPEB plans that are not administered through trust should recognize a liability in the fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This requirement is effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged and is permitted to the extent that all requirements associated with an individual topic are implemented simultaneously (FY 2021 for OCERS).



Questions?  
Let's Talk.





## Memorandum

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**DATE:** April 20, 2020  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** **STATUS UPDATE OF 2020 AUDIT PLAN**

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### *Written Report*

#### **Background/Discussion**

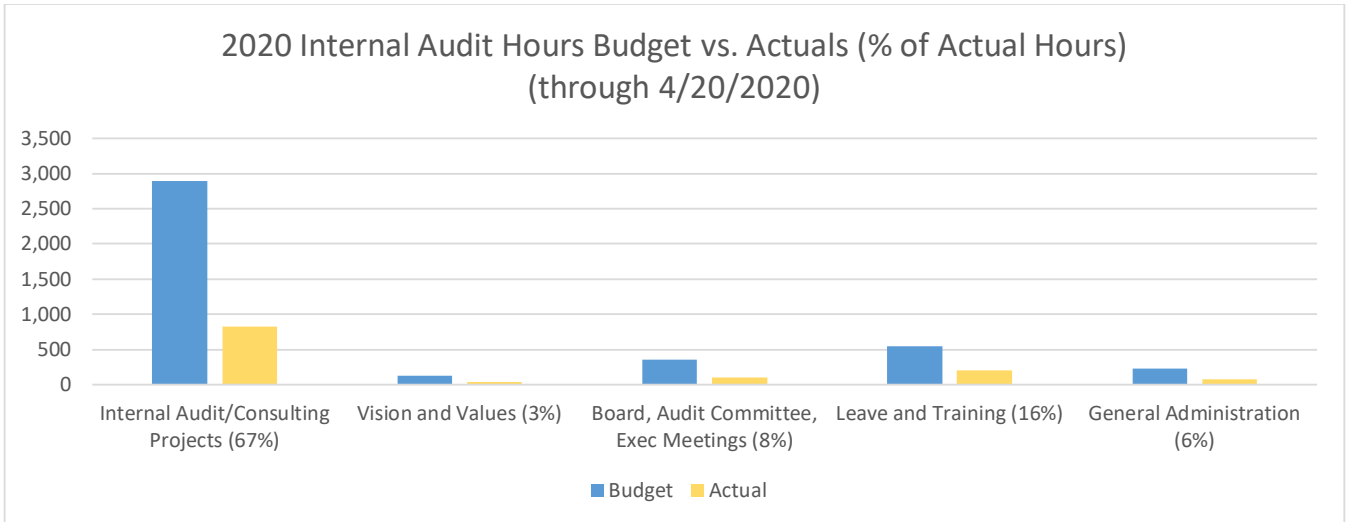
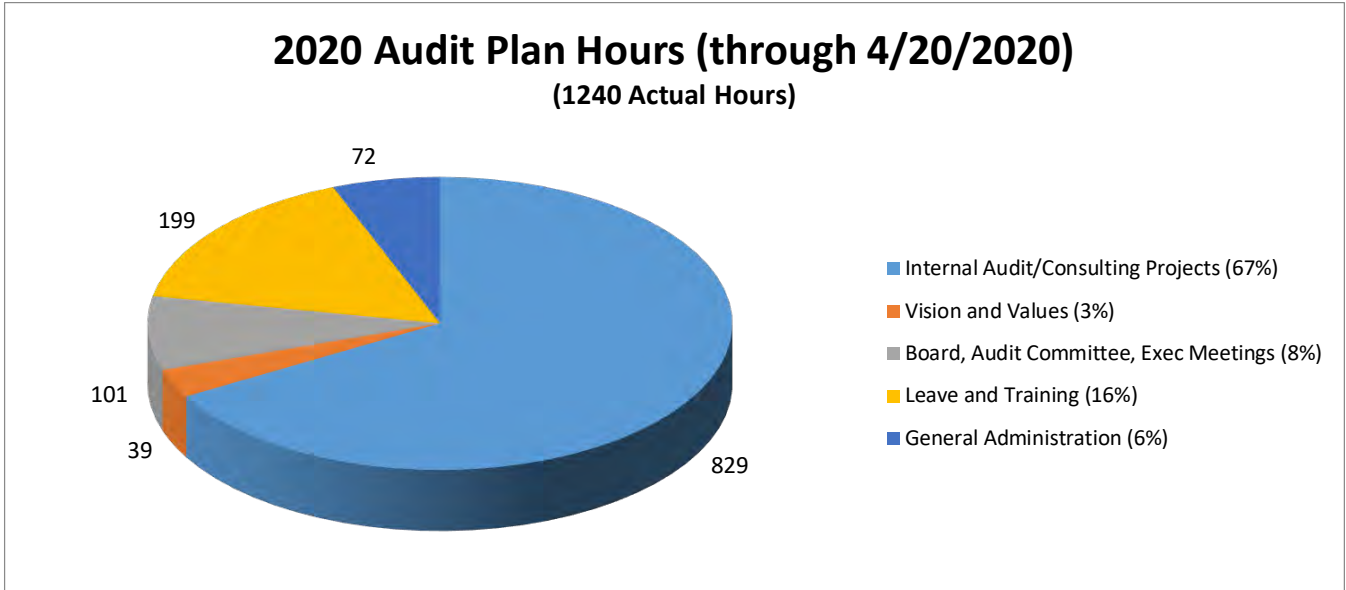
Attached is a comparison of budgeted 2020 audit plan hours versus the completed program actual hours, by project.

#### **Submitted by:**

**DK - Approved**

David Kim  
Director of Internal Audit

## 2020 Internal Audit Plan



## 2020 Internal Audit Plan

Audit Activity	Description	Planned Hours - Original Budget	Actual Hours	Projected Remaining Hours	Comments
<b>Internal Audits/Consulting/Planning</b>		<b>2900</b>	<b>829</b>	<b>2073</b>	
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	230	0	Reviewing results with management
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	32	0	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	0	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	18	82	To be outsourced to a third party. Revisit timing of audit in May.
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	0	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	0	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	270	8	Reviewing results with management
IT Audit Program	Cloud Risk and Readiness Assessment, Vulnerability and Patch Management, IT Automated Controls	120	33	87	Outsourced to a third party (RSM) 3 IT audits
Actuarial Extract	Determine the adequacy of the internal controls in place to ensure accurate and complete data transmitted for the actuarial valuation.	320	2	320	

## 2020 Internal Audit Plan

Audit Activity	Description	Planned Hours - Original Budget	Actual Hours	Projected Remaining Hours	Comments
Ad-hoc project	Open for any ad-hoc project TBD	100	6	94	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	160	65	95	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	122	148	
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	1	19	
<b>Annual Audit Planning</b>	Review and update Risk and Control Matrix.	100	10	90	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	150	30	120	
<b>Quality Assurance and Improvement Program</b>	IA Quality Review- self assessment - QAIP program	60	10	50	
	Use of hotline reporting system.	60	0	60	
<b>Vision and Values</b>		<b>130</b>	<b>39</b>	<b>91</b>	
	Vision and Values - Continuous Improvement Program	50	17	33	Route to appropriate parties, report to OCERS executives
	Vision and Values Committee (Internal OCERS Committee)	80	22	58	Internal committee to promote a positive culture at OCERS - Chair of the committee
<b>Board, AC, OCERS Executive Meetings</b>		<b>356</b>	<b>101</b>	<b>255</b>	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	290	79	211	
	Weekly meetings with CEO	26	8	18	
	Monthly meeting with Audit Committee Chair	40	14	26	
<b>General admin time</b>		<b>230</b>	<b>72</b>	<b>156</b>	
	General admin time	230	72	156	6% of 2020 budget
<b>Leave (Holiday/Annual) and Training</b>		<b>544</b>	<b>199</b>	<b>345</b>	
	Holidays (12 days), Annual Leave (15 days)	432	114	318	
	Training and Continuing Education	112	85	27	
<b>Grand Total Hours</b>		<b>4,160</b>	<b>1,240</b>	<b>2,920</b>	