

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

**AUDIT COMMITTEE MEETING
January 25, 2021
9:00 A.M.**

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 Committee 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.

OCERS Zoom Video/Teleconference information	
<p>Join Using Zoom App (Video & Audio)</p> <p>https://ocers.zoom.us/j/97097583255</p> <p>Meeting ID: 970 9758 3255 Password: 217145</p> <p>Go to https://www.zoom.us/download to download Zoom app before meeting Go to https://zoom.us to connect online using any browser.</p>	<p>Join by Telephone (Audio Only)</p> <p>Dial by your location</p> <ul style="list-style-type: none"> +1 669 900 6833 US (San Jose) +1 253 215 8782 US (Tacoma) +1 346 248 7799 US (Houston) +1 929 436 2866 US (New York) +1 301 715 8592 US (Germantown) +1 312 626 6799 US (Chicago) <p>Meeting ID: 970 9758 3255 Password: 217145</p>
<p>A Zoom Meeting Participant Guide is available on OCERS website Board & Committee meetings page</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.

CALL MEETING TO ORDER AND ROLL CALL

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. 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 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

Updated Audit Committee Meeting Minutes
Audit Committee Meeting Minutes

October 13, 2020
December 17, 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 Committee’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 AUDIT OF SECURITIES LENDING

Presentation by David Kim, Director of Internal Audit and Louis Musto, Director of Business Risk, RSM

Recommendation: Receive and file.

A-3 AUDIT OF INVESTMENT ACCOUNTING PROCESS

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

Recommendation: Receive and file.

A-4 CONSIDERATION OF 2021 RISK ASSESSMENT AND 2021 AUDIT PLAN

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file

INFORMATION ITEMS

I-1 STATUS UPDATE OF 2020 AUDIT PLAN

Written Report

I-2 MANAGEMENT ACTION PLAN VERIFICATION

Written Report

CLOSED SESSION

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

Title: Chief Executive Officer

Adjourn pursuant to Government Code section 54957(b) to evaluate the performance of the Chief Executive Officer.

Recommendation: Take appropriate action.

B PUBLIC EMPLOYEE PERFORMANCE EVALUATION (GOVERNMENT CODE §54957(b))

Title: Director Internal Audit

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

DISABILITY COMMITTEE MEETING

February 16, 2021

8:30 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

2223 E. WELLINGTON AVENUE, SUITE 100

SANTA ANA, CA 92701

REGULAR BOARD MEETING

February 16, 2021

9:30 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

2223 E. WELLINGTON AVENUE, SUITE 100

SANTA ANA, CA 92701

INVESTMENT COMMITTEE MEETING

February 24, 2021

9:30 A.M.

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

AVAILABILITY OF AGENDA MATERIALS - Documents and other materials that are non-exempt public records distributed to all or a majority of the members of the OCERS Board or Committee of the Board in connection with a matter subject to discussion or consideration at an open meeting of the Board or Committee of the Board are available at the OCERS' website: <https://www.ocers.org/board-committee-meetings>. If such materials are distributed to members of the Board or Committee of the Board less than 72 hours prior to the meeting, they will be made available on the OCERS' website at the same time as they are distributed to the Board or Committee members. Non-exempt materials distributed during an open meeting of the Board or Committee of the Board will be made available on the OCERS' website as soon as practicable and will be available promptly upon request.

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 25, 2021
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **UPDATED OCTOBER 13, 2020 MINUTES**

Background/Discussion

The minutes to the October 13, 2020 Audit Committee meeting have been updated to further clarify the direction provided by the Audit Committee regarding the Quarterly Audit of Final Average Salary Calculations (Action Item A-4). Specifically, the underlined wording below has been added:

Upon discussion of the errors identified during Internal Audit's review resulting in a 6% error rate among the population audited, the Audit Committee directed Member Services to review a sample of the remaining Q1/Q2 population not reviewed by Internal Audit and to report their findings back to the Committee. Internal Audit will continue to test from the sample of Q3/Q4 population.

Submitted by:

DK - Approved

David Kim
Director of Internal Auditor

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

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

MINUTES

OPEN SESSION

The Chair called the meeting to order at 9:00am.

Attendance was as follows:

Present via Zoom Video conference pursuant to Executive Order N-29-20 issued by Governor Newsom on March 17, 2020:

Frank Eley, Chair; Shari Freidenrich, Vice Chair; Charles Packard;

Also Present via Zoom:

David Kim, Director of Internal Audit; Steve Delaney, Chief Executive Officer; Gina Ratto, General Counsel; Suzanne Jenike, Assistant CEO, External Operations; Brenda Shott, Assistant CEO, Internal Operations; Matt Eakin, Director of Information Security; Jenny Sadoski, Director of Information Technology; Mark Adviento, Internal Auditor; Sonal Sharma, Recording Secretary; Anthony Beltran, Audio Visual Technician.

PUBLIC COMMENT

None.

C-1 APPROVE AUDIT COMMITTEE MINUTES

Updated Audit Committee Meeting Minutes	January 13, 2020
Audit Committee Meeting Minutes	June 4, 2020

MOTION was made by Packard, **seconded** by Vallone to approve the minutes.

The motion passed **unanimously**.

A-2 REVIEW OF CLOUD RISK AND READINESS ASSESSMENT

Presentation by David Kim, Director of Internal Audit and RSM

Recommendation: Receive and file.

MOTION was made by Packard, **seconded** by Vallone to receive and file.

Audit Committee Meeting
October 13, 2020

The motion passed **unanimously**.

A-3 ACTUARIAL EXTRACT AUDIT

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

MOTION was made by Packard, **seconded** by Freidenrich to receive and file.

The motion passed **unanimously**.

A-4 QUARTERLY AUDIT OF FINAL AVERAGE SALARY CALCULATIONS

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

Upon discussion of the errors identified during Internal Audit's review resulting in a 6% error rate among the population audited, the Audit Committee directed Member Services to review a sample of the remaining Q1/Q2 population not reviewed by Internal Audit and to report their findings back to the Committee. Internal Audit will continue to test from the sample of Q3/Q4 population.

Recommendation: Receive and file.

MOTION was made by Freidenrich, **seconded** by Packard to receive and file.

The motion passed **unanimously**.

A-5 REVIEW OF CONTROLS IMPACTED BY TELECOMMUTING

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

MOTION was made by Packard, **seconded** by Vallone to receive and file.

The motion passed **unanimously**.

A-6 ETHICS, COMPLIANCE, AND FRAUD HOTLINE UPDATE

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

MOTION was made by Packard, **seconded** by Freidenrich to receive and file.

The motion passed **unanimously**.

INFORMATION ITEMS

Audit Committee Meeting
October 13, 2020

I-1 AUDIT COMMITTEE AGENDA - INTERNAL AUDIT REPORT PRESENTATIONS

Presentation by David Kim, Director of Internal Audit

I-2 MANAGEMENT ACTION PLAN VERIFICATION

Written Report

I-3 STATUS UPDATE OF 2020 AUDIT PLAN

Written Report

The Committee recessed into Closed Session at 11:46am.

The Committee resumed at 12:16am.

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.

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

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

The Chair adjourned the meeting at 11:15 am.

Submitted by:

Approved by:

Steve Delaney
Secretary to the Board

Frank Eley
Chair

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

**AUDIT COMMITTEE MEETING
December 17, 2020
10:00 a.m.**

MINUTES

OPEN SESSION

The Chair called the meeting to order at 10:01am.

Attendance was as follows:

Present via Zoom Video conference pursuant to Executive Order N-29-20 issued by Governor Newsom on March 17, 2020:

Frank Eley, Chair; Shari Freidenrich, Vice Chair; Charles Packard;

Also Present via Zoom:

David Kim, Director of Internal Audit; Steve Delaney, Chief Executive Officer; Gina Ratto, General Counsel; Suzanne Jenike, Assistant CEO, External Operations; Brenda Shott, Assistant CEO, Internal Operations; Jenny Sadoski, Director of Information Technology; Mark Adviento, Internal Auditor; Sonal Sharma, Recording Secretary; Anthony Beltran, Audio Visual Technician.

PUBLIC COMMENT

None.

C-1 APPROVE AUDIT COMMITTEE MINUTES

Audit Committee Meeting Minutes

October 13, 2020

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

The motion passed **unanimously**.

A-2 EXTERNAL AUDITOR PERFORMANCE REVIEW AND CONTRACT EXTENSION

Presentation by Brenda Shott, Assistant CEO, Finance and Internal Operations and Jim Doezie, Contracts, Risk and Performance Administrator

Recommendation: Approve an amendment to the MGO contract to exercise the one year optional extension for auditing the financial statements of OCERS for the year ending December 31, 2020. The one year extension has a cost not to exceed \$128,011.

Audit Committee Meeting
December 17, 2020

MOTION was made by Freidenrich, **seconded** by Packard to approve the staff recommendation.

The motion passed **unanimously**.

The Committee recessed into Closed Session at 10:29am.

The Committee resumed at 11:29am.

OPEN SESSION

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

Title: Director of Internal Audit

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

Recommendation: Take appropriate action.

The Audit Committee took no reportable action.

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

The Chair adjourned the meeting at 11:32 am.

Submitted by:

Approved by:

Steve Delaney
Secretary to the Board

Frank Eley
Chair



Memorandum

DATE: January 25, 2021
TO: Members of the Audit Committee
FROM: D. Kim, Director of Internal Audit
SUBJECT: **AUDIT REPORT – AUDIT OF SECURITIES LENDING**

Recommendation

Receive and file.

Background/Discussion

As per the 2020 Audit Plan, RSM under the direction of OCERS Internal Audit performed an audit of State Street Bank & Trust's controls to ensure the profit distribution from securities lending are calculated completely and accurately and the OCERS collateral is sufficient to offset the risk of securities lending.

There were no observations identified in the audit.

The full audit report is attached.

Submitted by:

DK - Approved

David Kim
Director of Internal Audit



Audit of Securities Lending

Report Date: January 25, 2021

Internal Audit Department

**RSM US LLP, on behalf of:
David Kim, Director of Internal Audit
Mark Adviento, Internal Auditor**

**OCERS Internal Audit
Audit of Securities Lending
January 25, 2021**

Contents

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Audit Objective and Scope

The objective of the Securities Lending Audit was to assist OCERS in reviewing the top-level manager's controls in place over their bottom level manager who is performing the work on their behalf. This included controls around committed capital and including fees.

The scope of the audit included a review of State Street Bank & Trust's (State Street) organizational structure, monthly reporting process, collateral and credit file retention, and wiring and cash movement processes as of June 30, 2020. Testing procedures included walkthroughs with State Street individuals, reviewing State Street's System and Organization Controls (SOC-1) report for any control coverage, and performing testing over the monthly reports sent to OCERS from State Street for completeness and accuracy as it relates to the terms of the securities lending agreement. Additionally, we summarized the key controls related to the processes covered in our review.

The audit was performed by RSM on behalf of OCERS' Internal Audit. 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>Satisfactory</i>

Overall, there were processes in place to verify that State Street had an appropriate organizational structure, furnished complete and accurate monthly reporting, maintained custody over collateral and credit files, and processed wires and cash accurately based on walkthroughs, testing, and a review of the State Street SOC-1 Report.

RSM did not identify any observations as a result of this review.

Background

State Street provides services including institutional custody, accounting, trade settlement, income collection, corporate actions procession, investment analytics, foreign exchange, and investment manager relations (cash sweep) to OCERS. The relationship is subject to an executed Securities Lending Agreement and Service Level Agreement. The agreements authorize State Street to lend OCERS securities to persons on the State Street Approved Borrowers list. As part of their role, State Street is required to furnish a monthly performance report summarizing portfolio returns. RSM confirmed this monthly performance report agreed to the sum of contract level detail and RSM's recalculations. The audit included the review of the State Street Global Fund Accounting and Custody (GFAC) SOC-1 report validating the complete and accurate reporting of security holdings and cash balances; prospective borrowers are adequately reviewed; on-loan security

positions are accurately recorded; reconciliation of cash collateral; and cash disbursements were appropriately authorized.

This Audit of Securities Lending was the first audit in recent history. The accuracy of commission calculations was a concern driven by the Audi Committee and addressed in the scope of this review.

Copies to:

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

Audit Committee Members

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 25, 2021
TO: Members of the Audit Committee
FROM: D. Kim, Director of Internal Audit
SUBJECT: **AUDIT REPORT – AUDIT OF INVESTMENT ACCOUNTING PROCESS**

Recommendation

Receive and file.

Background/Discussion

As per the 2020 Audit Plan, Internal Audit performed an audit of OCERS Finance Department's controls over the investment accounting process to ensure investment activity is accurately and completely recorded to the General Ledger.

There were no observations identified in the audit.

The full audit report is attached.

Submitted by:

DK - Approved

David Kim
Director of Internal Audit



Audit of Investment Accounting Process

Report Date: January 25, 2021

Internal Audit Department

David Kim, Director of Internal Audit

Mark Adviento, Internal Auditor

OCERS Internal Audit
Audit of Investment Accounting Process
January 25, 2021

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Audit Objective and Scope

The objective of this audit was to provide an independent review of the adequacy of the internal controls in place to ensure that investment activity is accurately and completely recorded to the General Ledger.

The scope of the audit included internal controls as documented in OCERS Finance Department's Investment Accounting Risk and Control Matrix (RACM) and the Finance Department Investment Accounting procedure documents. The scope included investment accounting activity recorded to the General Ledger from 1st Quarter 2019 through 2nd Quarter 2020.

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: *Satisfactory*

During our review, Internal Audit did not note any Observations. The Finance Department's internal controls are operating as documented to ensure investment activity is recorded to the General Ledger both accurately and completely.

Background

As of June 30, 2020 OCERS investment portfolio was valued at \$17 billion. OCERS has diversified its portfolio across nearly 150 investment managers through eight major asset classes. State Street Bank and Trust maintains custody of OCERS investments and provides monthly reporting of investment activity to OCERS Finance Department for recording in OCERS General Ledger. In addition, OCERS Finance Department reconciles its General Ledger to investment manager financial statements on a quarterly basis.

Copies to:

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

T. Bowman
L. Barker
Audit Committee Members

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 25, 2021
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: CONSIDERATION OF 2021 RISK ASSESSMENT AND 2021 AUDIT PLAN

Recommendation

Approve the 2021 Risk Assessment and the 2021 Audit Plan.

Background/Discussion

Attached are Internal Audit’s 2021 Risk Assessment and the 2021 Audit Plan. Projects include:

1st half of 2021

- Contributions Transmittals Employer Audit - Sheriff’s Department (Carryover): 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).
 - Finalizing audit results and reporting
- IT Audit – Vulnerability and Patch Management Audit (Carryover): Evaluate OCERS' vulnerability and patch management (V&PM) processes and controls to verify unexpected changes and vulnerabilities within an environment are identified and addressed to mitigate operational information security risks. Performed by RSM.
 - Finalizing audit reporting
- Private Equity Consultant Review: Review TorreyCove's controls that verify completeness and accuracy of OCERS share of PE funds' capital calls/distributions and PE fund fees charged to OCERS along with the OCERS Investment's review controls.
- Contributions Transmittals Employer Audit (OC Cemetery District): Review the controls when setting up new members or changes, eligibility of members for pay items, compliance at employers of OCERS membership eligibility policy (e.g. contract workers).

2nd half of 2021

- Audit of Cash/Wire Process: Review the controls in OCERS Finance Department and Investments Division to ensure that cash/wire transfers are properly authorized, and are completely and accurately recorded to the General Ledger.



Memorandum

- Dependent Eligibility and Survivor Claims: Review Member Services' controls that help confirm dependent eligibility, and ensure the accuracy and completeness of survivor benefit payments.
- Cost of Living Adjustments (COLA): Review Member Services' controls that help ensure accuracy and completeness of COLA adjustments to benefit payments.
- IT Audit Program: Oversee RSM performance of IT review engagements of the following processes:
 - IT Automated Controls
 - Center for Internet Security (CIS) Controls Self-Assessment

On-Going throughout 2021

- Continuous Audit – FAS Benefit Calculation: Ongoing continuous audit of FAS calculations.
 - Sample testing on a quarterly basis
 - Carryover of Q3/Q4 2020 – IA testing is complete, reviewing results with Management
- Management Action Plan Verification: Confirm management action plans from prior audits have been implemented.

Submitted by:

DK - Approved

David Kim

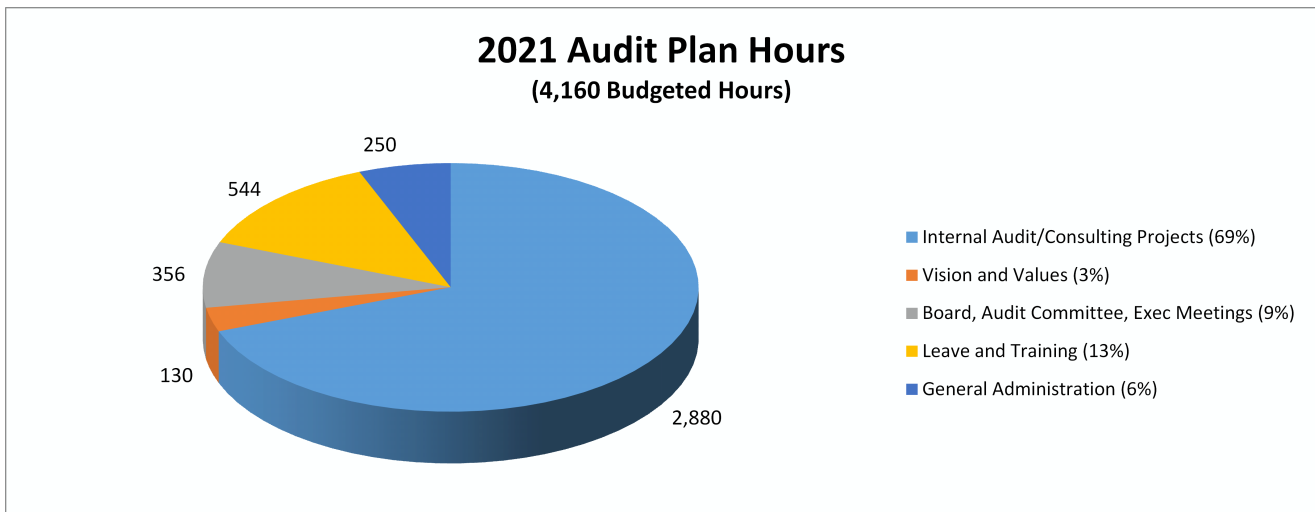
Director of Internal Audit

Orange County Employees Retirement System
2021 Internal Audit Plan

Audit Activity	Description	Planned Hours	Comments
Internal Audit/Consulting/Planning/QAIP		2,880	
Internal Audits - Assurance		2,220	
Contribution transmittals Employer (OC Sheriff) Carryover	Review employer's supporting documentation to verify accuracy and completeness of payroll data transmitted to OCERS pension administration system; review employer's controls to ensure compliance with OCERS Membership Eligibility Requirements Policy.	50	Finalizing audit fieldwork and reporting
IT Audit - Vulnerability and Patch Management - Carryover	Evaluate OCERS' vulnerability and patch management (V&PM) processes and controls to verify unexpected changes and vulnerabilities within an environment are identified and addressed to mitigate operational information security risks. Performed by RSM	20	Finalizing audit reporting
Private Equity Consultant Review	Review TorreyCove's controls that verify completeness and accuracy of OCERS share of PE funds' capital calls/distributions and PE fund fees charged to OCERS along with the OCERS Investment's review controls.	300	
Cash/Wire Process	Review the controls in OCERS Finance Department and Investments Division to ensure that cash/wire transfers are properly authorized, and are completely and accurately recorded to the General Ledger.	300	
Dependent Eligibility/Survivor Claim	Review Member Services Department controls that help confirm dependent eligibility, and ensure the accuracy and completeness of survivor benefit payments.	390	Audit program covers two audit topics of Dependent Eligibility and Survivor Claims
COLA Adjustments	Review Member Services Department controls that help ensure accuracy and completeness of COLA adjustments to benefit payments.	300	
Contribution transmittals Employer (OC Cemetery District)	Review employer's supporting documentation to verify accuracy and completeness of payroll data transmitted to OCERS pension administration system; review employer's controls to ensure compliance with OCERS Membership Eligibility Requirements Policy.	300	First time auditing this Employer
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 - FAS Benefit Calculation	Continuous audit of the FAS calculation with criteria for manual adjustments to the FAS. Sample on quarterly basis	400	Continuation of FAS quarterly calculation reviews, including carryover of Q3/Q4 - IA testing is complete, reviewing results with Management
Internal Audits - Consulting		270	
IT Audit Program	IT Automated Controls Audit and CIS Controls Self-Assessment Advisory	110	Outsourced to a third party.
Consulting/Ad-hoc projects	Open for any ad-hoc project TBD	160	

Orange County Employees Retirement System
2021 Internal Audit Plan

Audit Activity	Description	Planned Hours	Comments
Internal Audits - Planning		250	
Annual Audit Planning	Review and update Risk and Control Matrix.	100	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	150	
Internal Audits - Quality Assurance and Improvement Program		140	
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program	60	
	Use of hotline reporting system.	80	
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
Board, AC, OCERS Executive Meetings		356	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	290	
	Weekly meetings with CEO	26	
	Monthly meeting with Audit Committee Chair	40	
General admin time		250	
	General admin time	250	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>	



Internal Audit 2021 Risk Assessment Matrix

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
0070 - INFORMATION TECHNOLOGY	Network Security	5	5	5	5	5	5	5.0
0090 - INFORMATION SECURITY	Event, Incident, and Problem Management	5	5	5	5	4	5	4.8
0090 - INFORMATION SECURITY	Information Security	5	5	5	4	5	5	4.8
0011 - INVESTMENTS	Private Equity Consultant Review	5	4	4	4	5	5	4.5
0080 - INTERNAL AUDIT	Action plan follow-up	5	5	5	3	4	5	4.5
0090 - INFORMATION SECURITY	Data Privacy and Protection	5	5	3	4	5	5	4.5
0001 - BOARD	Governance	5	5	3	3	5	5	4.3
0010 - EXECUTIVE	Ethics Policy	5	5	3	3	5	5	4.3
0011 - INVESTMENTS	Operations of investment managers	5	5	3	4	5	4	4.3
0011 - INVESTMENTS	Investment consultant review	5	5	3	4	5	4	4.3
0030 - MEMBER SERVICES	Final Average Salary Policy Review	5	5	5	5	5	1	4.3
0040 - FINANCE	Budgeting	5	4	4	4	4	5	4.3
0010 - EXECUTIVE	Business continuity / disaster recovery	5	5	4	5	5	1	4.2
0011 - INVESTMENTS	Asset allocation/rebalancing	5	5	4	4	5	2	4.2
0011 - INVESTMENTS	Risk management	5	5	4	5	4	2	4.2
0020 - LEGAL	Compliance review	3	4	4	4	5	5	4.2
0030 - MEMBER SERVICES	Contribution transmittals Plan Sponsors (OCFA)	5	5	3	5	5	2	4.2
0040 - FINANCE	Payroll for retirees	5	5	4	5	5	1	4.2
0011 - INVESTMENTS	Due diligence	5	5	4	4	5	1	4.0
0011 - INVESTMENTS	Derivatives	4	4	4	3	4	5	4.0
0011 - INVESTMENTS	Cash/Wire Processing	5	5	4	3	4	3	4.0
0030 - MEMBER SERVICES	Benefit setup (including eligibility, pension spiking)	5	5	3	5	5	1	4.0
0030 - MEMBER SERVICES	Dependent eligibility	4	4	2	5	4	5	4.0
0030 - MEMBER SERVICES	Survivor claims	5	5	3	3	3	5	4.0

Internal Audit 2021 Risk Assessment Matrix

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
0040 - FINANCE	Spreadsheet controls	5	4	2	4	4	5	4.0
0040 - FINANCE	Cash management	5	5	4	4	3	3	4.0
0060 - ADMINISTRATIVE SERVICES	Succession Planning	2	5	4	3	5	5	4.0
0070 - INFORMATION TECHNOLOGY	Data security 3rd party vendors	5	5	4	3	5	2	4.0
0070 - INFORMATION TECHNOLOGY	IT Vendor / Third Party Management	5	5	3	4	5	2	4.0
0011 - INVESTMENTS	Reporting to the Board	5	5	3	4	5	1	3.8
0030 - MEMBER SERVICES	COLA adjustments	5	4	2	3	4	5	3.8
0030 - MEMBER SERVICES	Contribution transmittals Plan Sponsors (Superior Court)	4	5	3	4	5	2	3.8
0030 - MEMBER SERVICES	Contribution transmittals Plan Sponsors (OCTA)	4	5	3	4	5	2	3.8
0030 - MEMBER SERVICES	Contribution transmittals Plan Sponsors (County)	5	5	3	4	5	1	3.8
0040 - FINANCE	Contributions - member, employer	5	5	4	4	4	1	3.8
0040 - FINANCE	Investment accounting and valuation	5	5	4	4	4	1	3.8
0060 - ADMINISTRATIVE SERVICES	Physical security	4	4	3	2	5	5	3.8
0010 - EXECUTIVE	RFP process	4	4	1	3	5	5	3.7
0010 - EXECUTIVE	Vendor contract compliance	4	4	2	3	4	5	3.7
0020 - LEGAL	Record management and retention	3	4	3	3	4	5	3.7
0030 - MEMBER SERVICES	Disability process	4	4	3	4	5	2	3.7
0030 - MEMBER SERVICES	IRS 415 benefit payment limits	3	3	3	3	5	5	3.7
0030 - MEMBER SERVICES	Contribution transmittals Plan Sponsors (Sanitation District)	4	5	3	4	5	1	3.7
0030 - MEMBER SERVICES	Contribution transmittals Plan Sponsors (All other active plan sponsors)	4	5	3	3	3	4	3.7
0040 - FINANCE	General Ledger	5	5	4	4	3	1	3.7
0070 - INFORMATION TECHNOLOGY	Software Development Life Cycle / Change Management	4	4	5	4	3	2	3.7

Internal Audit 2021 Risk Assessment Matrix

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
0080 - INTERNAL AUDIT	QAIP (Internal)	1	3	5	3	5	5	3.7
0010 - EXECUTIVE	Actuarial extract	5	5	2	3	5	1	3.5
0011 - INVESTMENTS	Personal Trading Policy compliance	2	3	4	3	4	5	3.5
0030 - MEMBER SERVICES	1099 reporting	5	3	1	4	3	5	3.5
0060 - ADMINISTRATIVE SERVICES	HR Processes	2	4	3	4	3	5	3.5
0011 - INVESTMENTS	Investment reconciliations	5	5	2	4	3	1	3.3
0030 - MEMBER SERVICES	Interest posting / crediting	5	4	1	3	2	5	3.3
0030 - MEMBER SERVICES	Lump sum payments (death benefits, refunds)	4	3	2	4	2	5	3.3
0030 - MEMBER SERVICES	IRS 401 contribution limits	3	3	3	3	3	5	3.3
0040 - FINANCE	Accounts Payable	3	3	3	4	2	5	3.3
0040 - FINANCE	Financial reporting	5	4	2	4	4	1	3.3
0060 - ADMINISTRATIVE SERVICES	Hiring	2	4	3	3	3	5	3.3
0060 - ADMINISTRATIVE SERVICES	Contract administration	4	3	3	3	2	5	3.3
0070 - INFORMATION TECHNOLOGY	IT Asset Management	3	5	4	4	2	2	3.3
0070 - INFORMATION TECHNOLOGY	Data Retention and Backup	4	4	4	3	4	1	3.3
0010 - EXECUTIVE	Procurement	3	3	2	3	3	5	3.2
0030 - MEMBER SERVICES	Member Enrollment	3	5	3	3	4	1	3.2
0030 - MEMBER SERVICES	Service Credit Purchases	3	3	3	4	3	3	3.2
0070 - INFORMATION TECHNOLOGY	IT Governance, Strategy, and Planning	3	5	4	2	3	2	3.2
0070 - INFORMATION TECHNOLOGY	IT Availability and Capacity	3	4	2	2	3	5	3.2
0011 - INVESTMENTS	Custodian bank fees	2	5	3	4	3	1	3.0
0030 - MEMBER SERVICES	Death matching process	3	3	3	3	3	3	3.0

Internal Audit 2021 Risk Assessment Matrix

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
0030 - MEMBER SERVICES	Reciprocity	3	3	2	4	3	3	3.0
0070 - INFORMATION TECHNOLOGY	Knowledge Management	2	3	3	4	1	5	3.0
0080 - INTERNAL AUDIT	QAIP (External)	1	3	5	3	5	1	3.0
0020 - LEGAL	Domestic Relations Orders	2	3	2	3	2	5	2.8
0070 - INFORMATION TECHNOLOGY	IT Operations	3	4	2	3	4	1	2.8
0030 - MEMBER SERVICES	Retiree Rehires (PEPRA)	3	2	2	1	5	2	2.5
0040 - 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.



Memorandum

DATE: January 25, 2021
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: STATUS UPDATE OF 2020 AUDIT PLAN

Written Report

Background/Discussion

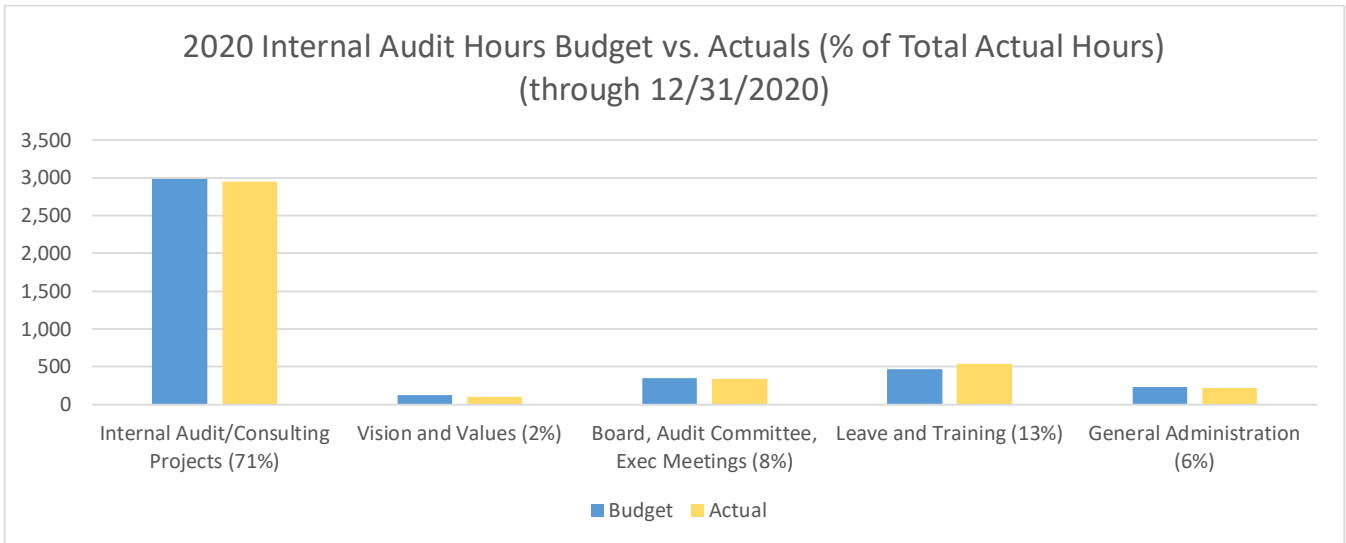
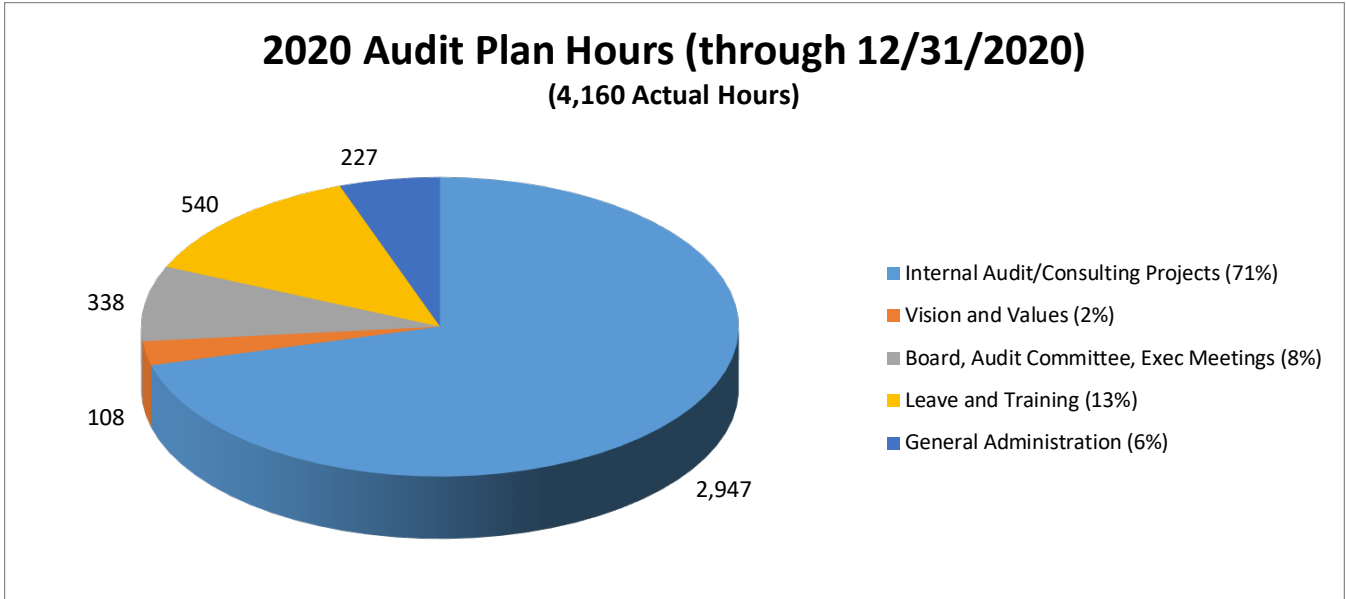
Attached is a comparison of budgeted 2020 audit plan hours versus the completed program actual hours, by project.

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
Internal Audits/Consulting/Planning/QAIP		2,980	2,947	70	
Internal Audits - Assurance		2550	2489	70	
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	235	0	Complete
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	36	0	Complete
Investment manager fees/Private Equity Consultant Review	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	0	Moved to 2021
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	95	0	Complete
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	290	0	Complete
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	250	50	Finalizing audit fieldwork and reporting
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	290	0	Complete
IT Audit Program	Vulnerability and Patch Management, IT Automated Controls	80	90	20	Outsourced to a third party. Carryover to 2021
Actuarial Extract	Determine the adequacy of the internal controls in place to ensure accurate and complete data transmitted for the actuarial valuation.	320	328	0	Complete
Ad-hoc project	Open for any ad-hoc project TBD	100	92	0	Request by AC to review controls possibly impacted by remote work situation. Reviewed draft CAFR. Reviewed other system AC agenda format for Action/Informational items.
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	160	150	0	Ongoing review of implemented MAPs from completed audits.

2020 Internal Audit Plan

Audit Activity	Description	Planned Hours - Original Budget	Actual Hours	Projected Remaining Hours	Comments
Continuous Audit - FAS Benefit Calculation	New for 2020 - Set up a continuous audit of the FAS calculation with criteria for manual adjustments to the FAS. Sample on quarterly basis	270	553	0	Q3 and Q4 IA testing complete, reviewing results with Management
Limited Access Death Master File (LADMF) - National Technical Information Service (NTIS) Certification	Managing the request for a vendor to perform the National Technical Information Service (NTIS) certification for access to the Limited Access Death Master File.	80	80	0	Testing complete, finalizing certification request submission
Internal Audits - Consulting		60	78	0	
IT Audit Program	Cloud Risk and Readiness Assessment	40	58	0	Outsourced to a third party. Complete
Consulting - Annual Employer Report	Provide guidance to management on the preparation of the Annual Employer report of key financial information on OCERS' employers based upon 2019 audited financial statements.	20	20	0	
Internal Audits - Planning		250	250	0	
Annual Audit Planning	Review and update Risk and Control Matrix.	100	100	0	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	150	150	0	
Internal Audits - Quality Assurance and Improvement Program		120	130	0	
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program	60	60	0	
	Use of hotline reporting system.	60	70	0	
Vision and Values		130	108	0	
	Vision and Values - Continuous Improvement Program	50	50	0	Route to appropriate parties, report to OCERS executives
	Vision and Values Committee (Internal OCERS Committee)	80	58	0	Internal committee to promote a positive culture at OCERS - Chair of the committee
Board, AC, OCERS Executive Meetings		356	338	0	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	290	270	0	
	Weekly meetings with CEO	26	26	0	
	Monthly meeting with Audit Committee Chair	40	42	0	
General admin time		230	227	0	
	General admin time	230	227	0	6% of 2020 budget
Leave (Holiday/Annual) and Training		464	540	0	
	Holidays (12 days), Annual Leave (15 days)	352	311	0	
	Training and Continuing Education	112	229	0	
Grand Total Hours		4,160	4,160	70	



Memorandum

DATE: January 25, 2021
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: MANAGEMENT ACTION PLAN VERIFICATION

Written Report

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 prior 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.

The follow-up on management action plans (MAPs) involves:

- 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:

- 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 (YTD), Internal Audit has confirmed the MAPs have been implemented and operating effectively during the current year.
- For the MAPs noted as Closed – No Further Action Required (Prior Years), MAPs that have been implemented and confirmed as operating effectively prior to the current year.

Submitted by:

DK - Approved

David Kim
Director of Internal Auditor



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
EXECUTIVE,
FINANCE.

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REPORTING FOR: 2018, 2019, 2020, ARCHIVED	OPEN	Closed - No Further Action Required (YTD)	Closed - No Further Action Required (Prior Years)	Total
Process Owner				
EMPLOYER	1	0	12	13
EXECUTIVE	0	0	4	4
FINANCE	1	0	19	20
INFORMATION TECHNOLOGY	15	0	2	17
INVESTMENTS	1	2	6	9
MEMBER SERVICES	13	0	18	31
Total Count:	31	2	61	94



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
EXECUTIVE,
FINANCE.

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Project: Audit of the Benefit Setup Process (2012)

Report Date: 12/04/2012

Total Observations: 6

Open Observations: 2

Closed: 4

Observation #1 - Manual FAS override

OPEN

Process Owner: Member Services

Due Date:

Action Plan: 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.

IA Follow-Up: IA to confirm action plan has been implemented in Q3 2019 and to perform testing in Q3 2021.

Observation #8 - Manual FAS supporting documentation

OPEN

Process Owner: Member Services

Due Date:

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: IA to confirm action plan has been implemented in Q3 2019 and to perform testing in Q2 2021.

Observation #3 - Benefit setup checklist

CLOSED

Process Owner: Member Services

Completion Date: 05/21/2019

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: 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

CLOSED

Executed: 1/8/2021 4:31:10 PM
Executed By: OCERS\dkim

Doc. No. 0080-0120-R0001
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Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
EXECUTIVE,
FINANCE.

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Process Owner: Member Services

Completion Date: 06/05/2019

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: 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

CLOSED

Process Owner: Member Services

Completion Date: 05/21/2019

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.

IA Follow-Up: IA has verified the signature requirement process with benefit setup audits performed after the V3 go-live date in December 2014.

Observation #9 - FAS audit trail

CLOSED

Process Owner: Member Services

Completion Date: 04/27/2020

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: IA confirmed an audit trail function exists in V3 noting the original and new FAS, change date and Changed by.

Project: 1901 - Finance Contributions audit

Report Date: 05/16/2019

Total Observations: 1

Open Observations: 1

Closed: 0

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.

OPEN

Process Owner: Information Technology

Executed: 1/8/2021 4:31:10 PM
Executed By: OCERS\dkim

Doc. No. 0080-0120-R0001
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Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
EXECUTIVE,
FINANCE.

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Due Date: 07/31/2020

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: Internal Audit will continue to follow-up with management.

Project: Review of OCERS' Derivatives Investments (2014)

Report Date: 07/10/2014
Total Observations: 3
Open Observations: 0
Closed: 3

Observation #1 - OCERS is not in compliance with the Investment Policy Statement regarding the speculative use of derivatives.

CLOSED

Process Owner: Investments

Completion Date: 09/25/2019

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: Internal Audit reviewed the minutes of the June 25, 2014 Investment Committee meeting and the updated Investment Policy Statement

Observation #2 - Annual reporting of derivatives to the Investment Committee

CLOSED

Process Owner: Investments

Completion Date: 08/10/2020

Action Plan: 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.
 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.
 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]."

Executed: 1/8/2021 4:31:10 PM
 Executed By: OCERS\dkim

Doc. No. 0080-0120-R0001
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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Process Owner(s): EMPLOYER, EXECUTIVE, FINANCE.

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IA Follow-Up: Internal Audit reviewed the 2019 Security Report reviewed and approved by the Investment Department. The Investment Team provided an update to the action plan. The quarterly Derivatives Report had been discontinued for a number of years and is no longer reported to the Investment Committee. For the action plan, Investments reviews the derivative information in preparation of the CAFR, which is presented to the Audit Committee. Internal Audit to follow-up during the Investment teams review of the derivative information as part of the 2019 CAFR preparation.
 Updated 8/10/20
 Investments provided the "Derivatives List - 2019.xls" file which includes the securities inventory that Investments provides to Finance with the investment types and leveling of assets.

Observation #3 - Counterparty risk reporting

CLOSED

Process Owner: Investments

Completion Date: 05/21/2020

Action Plan: 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. 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. 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. This report should be included with the derivatives report to the Investment Committee.

IA Follow-Up: Internal Audit reviewed the 2019 Counterparty Risk Report reviewed and signed by the CIO.

Project: Audit of OCERS' Private Equity Managers Abbott Capital and Pantheon (2016)

Report Date: 03/21/2016

Total Observations: 4

Open Observations: 1

Closed: 3

Observation #4 - Consideration of ILPA best practices

OPEN

Process Owner: Investments

Due Date:

Action Plan: 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. 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.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
EXECUTIVE,
FINANCE.

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IA Follow-Up: Investment Team is working on compiling best practices to develop a guide with a tracking mechanism to monitor terms, market changes and erosion of terms. IA to review once the analysis and guide are complete.

Observation #1 - Estimated management fees

CLOSED

Process Owner: Finance

Completion Date: 04/29/2019

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: 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

CLOSED

Process Owner: Finance

Completion Date: 05/03/2019

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: 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

CLOSED

Process Owner: Finance

Completion Date: 04/29/2019

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



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
EXECUTIVE,
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Project: Audit of OCERS' Practices and Procedures for the Recording and Reconciliation the Investments (2013)

Report Date: 02/18/2013

Total Observations: 6
Open Observations: 0
Closed: 6

Observation #1 - Automated journal voucher entries

CLOSED

Process Owner: Finance

Completion Date: 05/03/2019

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: 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

CLOSED

Process Owner: Finance

Completion Date: 05/07/2019

Action Plan: 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: 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

CLOSED

Process Owner: Finance

Completion Date: 05/07/2019

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: 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.

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Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Observation #4 - Finance manager signoff for reconciliations

CLOSED

Process Owner: Finance

Completion Date: 05/03/2019

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: 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

CLOSED

Process Owner: Finance

Completion Date: 05/07/2019

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

Observation #6 - State Street bank - customer services issues

CLOSED

Process Owner: Finance

Completion Date: 05/03/2019

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: 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.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Project: Audit of City of San Juan Capistrano Payroll Transmittals (2017)

Report Date: 03/22/2017

Total Observations: 4
Open Observations: 0
Closed: 4

Observation #1 - Manual transmittal file adjustments

CLOSED

Process Owner: Employer

Completion Date: 08/11/2020

Action Plan: Management agreed to the following recommendation: 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: IA noted that SJC has submitted manual payroll adjustments into V3 required by OCERS.

Observation #2 - Contribution basis dates

CLOSED

Process Owner: Employer

Completion Date: 04/27/2020

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: IA examined a recent V3 payroll transmittal exception report for PP#2, 2020 and noted there were no exceptions related to reported contribution basis dates.

Observation #3 - Earnable salary records

CLOSED

Process Owner: Employer

Completion Date: 08/11/2020

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: IA noted that SJC has submitted manual payroll adjustments for employees Away On Leave into V3, as required by OCERS.

Observation #4 - Incorrect age of entry

CLOSED

Process Owner: Member Services

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Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Completion Date: 05/21/2019

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: 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.

Project: Audit of OCERS' Death Match Process (2016)

Report Date: 06/24/2016

Total Observations: 6

Open Observations: 5

Closed: 1

Observation #1 - Overpayment to deceased members

OPEN

Process Owner: Member Services

Due Date:

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: 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

OPEN

Process Owner: Member Services

Due Date:

Action Plan: 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: 5-21-2019 - Investigation is still ongoing by Member Services

Observation #3 - Certification letters

OPEN

Process Owner: Member Services



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
EXECUTIVE,
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Due Date:

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: 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

OPEN

Process Owner: Member Services

Due Date:

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

Observation #5 - Member banking information within V3

OPEN

Process Owner: Member Services

Due Date:

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: 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

CLOSED

Process Owner: Member Services

Completion Date: 04/17/2020

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: OCERS' Board Policy Write Off Policy now provides guidelines regarding when OCERS is permitted to forgo collection of amounts overpaid by or owing to OCERS, and when OCERS will not be required to make corrective distributions to OCERS members or their beneficiaries.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER, EXECUTIVE, FINANCE.

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Project: Audit of OCERS' Due Diligence Process (2015)
Report Date: 08/06/2015
Total Observations: 5
Open Observations: 0
Closed: 5

Observation #1 - No Due Diligence Policy

CLOSED

Process Owner: Investments
Completion Date: 01/07/2021
Action Plan: 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.
IA Follow-Up: The CIO and Investment Team developed Investment due diligence procedural documents including the Contract Due Diligence Checklist Procedure document and the Contract Due Diligence Checklist document.

Observation #2 - Operational Due Diligence

CLOSED

Process Owner: Investments
Completion Date: 02/13/2020
Action Plan: 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.
IA Follow-Up: In discussions with CIO, and review of the September Investment Committee meeting minutes, confirmed OCERS no longer requires the use of a special operational due diligence consultant. The consultant was not used or required when initially contracts.

Observation #3 - Due diligence for RFP managers

CLOSED

Process Owner: Investments
Completion Date: 02/13/2020
Action Plan: 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.
IA Follow-Up: Due Diligence would apply to all managers, not just under an RFP process. Internal Audit observed due diligence process during Investment Consulting engagement.

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Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Observation #4 - Manager RFP standardized questioning

CLOSED

Process Owner: Investments

Completion Date: 01/07/2021

Action Plan: 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.

IA Follow-Up: Investments included in the Contract Due Diligence Checklist document and the Compliance Report document steps to validate operational infrastructure of money managers.

Observation #5 - Consultant due diligence documentation

CLOSED

Process Owner: Investments

Completion Date: 02/13/2020

Action Plan: 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. 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.

IA Follow-Up: As part of the investment consulting engagement, Internal Audit was able to observe the due diligence process which included reviewing the materials from the investment consultants.

Project: Audit of V3 Benefit Setup Process (2016)

Report Date: 07/21/2016

Total Observations: 2

Open Observations: 0

Closed: 2

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

CLOSED

Process Owner: Member Services

Completion Date: 04/01/2020

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: IA reviewed the FAS recalculations performed by Member Services.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Observation #2 - V3 workflow process

CLOSED

Process Owner: Member Services

Completion Date: 04/02/2020

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 workflows 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: IA confirmed worksteps are completed and V3 enhancements were implemented.

Project: Audit of OCERS' Service Credit Purchase Process (2016)

Report Date: 11/29/2016

Total Observations: 2

Open Observations: 1

Closed: 1

Observation #1 - Work in Process reporting

OPEN

Process Owner: Member Services

Due Date:

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: 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 2021.

Observation #2 - Reconfigure V3 data entry sheet

CLOSED

Process Owner: Member Services

Completion Date: 06/04/2019

Action Plan: Management agreed to investigate the costs versus benefits of reconfiguring V3's SCP datasheet for faster data entry.

IA Follow-Up: IA verified that OCERS has implemented an automated data entry process for SCP calculations.



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Process Owner(s): EMPLOYER, EXECUTIVE, FINANCE.

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Project: Audit of OCERS' Bank Wire and ACH Transfer Process (2016)

Report Date: 11/30/2016
 Total Observations: 5
 Open Observations: 0
 Closed 5

Observation #1 - Finance review of new manager fundings

CLOSED

Process Owner: Finance
Completion Date: 04/23/2019
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: 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

CLOSED

Process Owner: Finance
Completion Date: 05/03/2019
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: 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

CLOSED

Process Owner: Finance
Completion Date: 05/03/2019
Action Plan: 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.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER, EXECUTIVE, FINANCE.

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IA Follow-Up: 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

CLOSED

Process Owner: Finance

Completion Date: 04/23/2019

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: 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

CLOSED

Process Owner: Finance

Completion Date: 05/03/2019

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

Project: Audit of Orange County Superior Court Payroll Transmittal (2018)

Report Date: 11/08/2018

Total Observations: 6

Open Observations: 1

Closed: 5

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

OPEN

Process Owner: Employer

Due Date:

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: Internal Audit has spoken with management about this action plan and will verify when policies are updated, 2Q 2021.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Observation #1 - CRR Pay Certification

CLOSED

Process Owner: Employer

Completion Date: 04/03/2019

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: 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

CLOSED

Process Owner: Employer

Completion Date: 04/03/2019

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: 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 PEPR 960 hour rule limit.

CLOSED

Process Owner: Employer

Completion Date: 04/10/2019

Action Plan: 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: 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

CLOSED

Process Owner: Employer

Completion Date: 04/23/2019



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Process Owner(s): EMPLOYER, EXECUTIVE, FINANCE.

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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: 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.

CLOSED

Observation #6 - Member Affidavit

Process Owner: Member Services
Completion Date: 04/03/2019
Action Plan: 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.
IA Follow-Up: Confirmed missing Member Affidavit was received and Member Services has scheduled the Missing Member Affidavit to be run on a monthly basis.

Project: Audit of OCERS' Reciprocity Process (2017)
Report Date: 08/02/2017
Total Observations: 3
Open Observations: 0
Closed: 3

CLOSED

Observation #1 - Member educational efforts

Process Owner: Member Services
Completion Date: 05/21/2019
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.
IA Follow-Up: 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.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Observation #2 - Calculation of OCFA reciprocity refunds

CLOSED

Process Owner: Member Services

Completion Date: 06/05/2019

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

Observation #3 - Write off

CLOSED

Process Owner: Member Services

Completion Date: 06/05/2019

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

Project: Audit of Orange County Fire Authority (2018)

Report Date: 10/23/2018

Total Observations: 8

Open Observations: 1

Closed 7

Observation #6 - V3 contribution rate configurations SOD

OPEN

Process Owner: Information Technology

Due Date:

Action Plan: 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: Internal Audit has spoken with management about this action plan and will verify when duties are transitioned in time for the 2020 annual rate change in V3. ETA mid-2021.

Observation #1 - Contributions - Vacation Excess Pay

CLOSED

Executed: 1/8/2021 4:31:10 PM
Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
EXECUTIVE,
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Process Owner: Member Services
Completion Date: 04/02/2019
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: 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

CLOSED

Process Owner: Member Services
Completion Date: 04/02/2019
Action Plan: 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. 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.
IA Follow-Up: Internal Audit confirmed OCERS management sent a memo to OCFA on the On Call contributions.
IA confirmed that both OCFA and Legacy OCFA employees are paying contributions directly on (On Call) Pay.

Observation #3 - Contribution Discrepancy Tracking Report

CLOSED

Process Owner: Information Technology
Completion Date: 04/02/2019
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: 1. IA confirmed that modifications to the report were made, tested, and put into production.
2. IA obtained user testing documentation indicating that the modifications were made, tested, approved and put into production. IT also pulled a recent report with these modifications incorporated.

Observation #4 - OCFA's MOU for employer paid pickups of Legacy employee contributions does not reflect actual payroll processes.

CLOSED

Process Owner: Employer



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Completion Date: 04/02/2019
Action Plan: 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.
IA Follow-Up: Internal audit verified that OCFA employer paid pickups of employee contributions are properly classified as § 31581.2 pickups on the transmittal files.

Observation #5 - Transition to OCFA Payroll Manager

CLOSED

Process Owner: Employer
Completion Date: 04/02/2019
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: Internal audit confirmed that maintenance of the spreadsheets has transitioned to OCFA's payroll manager.

Project: Audit of Orange County Transportations Authority (2018)
Report Date: 11/12/2018
Total Observations: 1
Open Observations: 0
Closed: 1

Observation #1 - Contributions on PTO cashouts

CLOSED

Process Owner: Member Services
Completion Date: 04/02/2019
Action Plan: 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 PEPRA members. OCERS intends to present this policy to the OCERS Board for review and approval by 1st quarter of 2019.

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.
IA Follow-Up: Internal Audit confirmed the circular letters have been posted to the OCERS website.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

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Project: Disability Payment Audit (2018)
Report Date: 01/28/2019
Total Observations: 1
Open Observations: 1
Closed: 0

Observation #1 - Disability payment calculation

OPEN

Process Owner: Member Services

Due Date:

Action Plan: Member Services will be continuing to review with increased diligence or newly implementing to ensure accuracy of Disability benefits that are setup:

- 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: IA to confirm action plan has been implemented in Q4 2019 and to perform testing in Q1 2021.

Project: External Quality Assessment (2018)
Report Date: 02/07/2019
Total Observations: 1
Open Observations: 0
Closed: 1

Observation #1 - Strengthen the management of IAD performance by developing and maintaining a formal QAIP.

CLOSED

Process Owner: Internal Audit

Completion Date: 11/01/2019

Action Plan: ?We agree with observation and recommendation that a Quality Assurance and Improvement Program needs to be implemented within the Internal Audit department. The implementation of a QAIP has been budgeted within the 2019 Audit Program.

IA Follow-Up: An internal QAIP has been implemented.



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Project: 1943 2019 BCDR Audit
Report Date: 10/17/2019
Total Observations: 8
Open Observations: 2
Closed: 6

Observation #3 - 3. A formal process involving critical OCERS stakeholders is not in place to test the recovery of dependent IT applications.

OPEN

Process Owner: Information Technology

Due Date: 07/31/2020

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.

IA Follow-Up:

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

OPEN

Process Owner: Information Technology

Due Date: 04/30/2020

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

IA Follow-Up:

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

CLOSED

Process Owner: Finance

Completion Date: 12/13/2019

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 retitle 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: IA confirmed the Business Continuity Program documents has been formally approved by the CMT.



Management Action Plan Status Re

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Observation #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.

CLOSED

Process Owner: Finance
Completion Date: 02/26/2020
Action Plan: We concur with the observation and will formalize the approval of the document.
IA Follow-Up: IA confirmed the Business Continuity Standard Operating Procedure document has been formally approved by the CMT.

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.

CLOSED

Process Owner: Executive
Completion Date: 12/06/2019
Action Plan: 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.
IA Follow-Up: 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.

CLOSED

Process Owner: Executive
Completion Date: 12/13/2019
Action Plan: 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. 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.
IA Follow-Up: IA was able to confirm:
- 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



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Observation #7 - 7. The identification of alternative facility locations has not been formally documented and approved in the BCDR system.

CLOSED

Process Owner: Executive

Completion Date: 12/13/2019

Action Plan: 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: 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.

CLOSED

Process Owner: Executive

Completion Date: 12/06/2019

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

Project: 1971-IT General Controls

Report Date: 06/04/2020

Total Observations: 6

Open Observations: 5

Closed 1

Observation #1 - Administrator access granted to the financial reporting and intranet portal applications present a higher than normal risk due to segregation of duties concerns.

OPEN

Process Owner: Information Technology

Due Date: 06/30/2021



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER, EXECUTIVE, FINANCE.

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Action Plan: As OCERS is in the process of issuing an RFP for a new financial accounting system, we will defer changes to our current financial accounting system, and focus on building a secure segregated system with the appropriate controls and check and balances as part of the new system to be implemented in 2021.

Due to the size of the OCERS IT Programming group, team members share many administrative responsibilities and needs to be able to cover for other team member assignments and responsibilities when out of the office.

Both the intranet portal and the intranet portal source code repository provide account auditing features that track all changes are made, along with the user that made the change. This information is reported daily to the IT Programming Supervisor, so that he and the IT Management team have complete visibility into any administrative operations that are performed and by whom.

In addition to this audit trail, we have implemented a mandatory workflow process with each IT Programming Request that requires the review of a secondary team member when making changes to the intranet portal or source code in the intranet portal source code repository. This serves as an additional validation and backup to protect against segregation of duties concerns.

IA Follow-Up:

Observation #2 - OCERS should formalize a process to annually obtain and review SOC reports for relevant IT vendors.

OPEN

Process Owner: Information Technology

Due Date: 06/30/2020

Action Plan: OCERS has developed criteria to identify IT vendors and technology service providers' requiring SOC2 reports, and will enhance our systems to notify staff to request and review SOC2 reports annually. Process and review documentation is being developed along with updates to our procurement process to mandate SOC2 reports as a deliverable

IA Follow-Up:

Observation #3 - OCERS does not maintain data flow diagrams or other documentation of information flow both internally and to external parties.

OPEN

Process Owner: Information Technology

Due Date: 12/31/2020

Action Plan: Phase one of OCERS Data Classification project, will identify data elements in our V3 system and include the creation of data flow diagrams for data elements classified as "sensitive". In addition, OCERS IT Programming team will develop data flow diagrams of their internal datasets and reporting platform.

Additional data flow diagrams may be developed along with process flow diagrams as part of future lean process improvements.

IA Follow-Up:

Observation #5 - A formalized, integrated IT vendor risk assessment and management process is not in place to evaluate vendor risks in a streamlined, holistic manner.

OPEN

Process Owner: Information Technology

Due Date: 09/30/2020



Management Action Plan Status Re

Project(s): ALL
Mgmt. Status: ALL

Process Owner(s): EMPLOYER,
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Action Plan: Currently OCERS engages in vendor due diligence, cyber monitoring, credit monitoring and performance review activities as appropriate for our organization.

OCERS is enhancing the IT vendor procurement process to help identify risk posed by potential IT vendors. This project is scheduled to be in place by 3Q 2020. This endeavor will be enterprise-wide endeavor (including IT, Information Security, Operational Support Services and Executive Management). This will be performed in addition to annual SOC 2 reviews, as noted in the Management Action Plan for Observation #2

The results of these activities will be recorded in a centralized system and will be reported to the Operational Risk Management Committee.

IA Follow-Up:

Observation #6 - OCERS IT does not maintain a formal project management methodology for technology related projects.

OPEN

Process Owner: Information Technology

Due Date: 08/31/2020

Action Plan: OCERS will establish formal Project Management protocols and best practices to be followed for all IT Project implementations.

IA Follow-Up:

Observation #4 - Evidence of testing of Intranet portal changes are not retained.

CLOSED

Process Owner: Information Technology

Completion Date: 06/12/2020

Action Plan: Currently, OCERS IT Programming records all requested changes to its intranet portal environment in an IT Programming Request list located on OCERS Intranet site. The list includes automated notifications sent to stakeholders and approval workflows generated for approvals and sign off of requests.

To better capture evidence of testing performed prior to implementing changes to the intranet portal or hosted reports, this ticketing system has been modified to include a field for 'Testing Performed'. This field will be used to specifically capture testing that was performed by the developer and/or the end user prior to the implementation of the change. In addition, this field will include instructions the 'attach supporting testing documentation as necessary'.

IA Follow-Up: Internal Audit confirmed the creation and use of the "Testing and Validation Performed" field in the IT Programming Requests to document the review of Intranet Portal Changes.



Management Action Plan Status Re

Project(s): ALL
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Project: 1945- FAS Pay Items Audit
Report Date: 06/04/2020
Total Observations: 5
Open Observations: 3
Closed: 2

Observation #1 - A formal reconciliation was not performed to ensure the pay items reported to the Board accurately and completely corresponded with the configuration in V3.

OPEN

Process Owner: Member Services

Due Date: 01/29/2021

Action Plan: Member Services will address the variances noted in the audit, which includes making the appropriate configuration updates to the V3 system, communicating the updates to the Employers and following procedures in the OCERS' Overpaid and Underpaid Plan Contributions Policy in regards to the over and underpayment of contributions of the variances noted. At the next update to the Board, Member Services will include the corrections identified in this audit for pensionable attributes of relevant pay items. Going forward, Member Services will develop a process to perform a full reconciliation of the pay item file presented to the Board with the pay item configurations in the V3 system periodically, at least prior to the annual presentation to the Board to ensure accurate and complete reporting of pay items to the Board. Any discrepancies identified by the reconciliation will be addressed as needed.

IA Follow-Up:

Observation #3 - A process does not exist to identify updates to Employer documentation that may impact the list of pay items.

OPEN

Process Owner: Member Services

Due Date: 10/30/2020

Action Plan: Member Services is in the process of documenting all current MOU's and will draft an update to the pay item review procedure to include a section on monitoring MOU's for adjustments made by Employers to ensure Employers have obtained OCERS approval prior to implementing a new pay item.

Currently, the Employer is required to submit a "pay item request form" to OCERS for approval in order to add a new or adjust an existing pay item. This is required to be done at least two pay periods prior to implementation of the pay item in the Employer payroll. If however an Employer attempts to pass a pay item that has not been added for that Employer, the system will produce an error for the Employer when they submit the payroll. This process assists Member Services in monitoring the implementation of pay items directly by the Employer.

IA Follow-Up:

Observation #5 - A formal project management methodology for the Pay Item Review was not documented.

OPEN

Process Owner: Member Services

Due Date: 07/31/2020



Management Action Plan Status Re

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Action Plan: Member Services team will establish formal project management protocols and best practices on all future projects which will include:

- Designated Project Manager;
- Project Plan;
- Documented roles and responsibilities;
- Documented work breakdown schedules; and
- Quality assurance standards and procedures.

IA Follow-Up:

Observation #2 - Member Services does not have written procedures in regards to the processing, review and authorization of Employer pay items into V3.

CLOSED

Process Owner: Member Services

Completion Date: 09/16/2020

Action Plan: Member Services has since implemented a process to review the configurations made by OCERS IT to ensure every new or updated Pay Item is configured accurately in OCERS V3 Pension Administration System. This process will include a post review notification to all stakeholders from Member Services (IT, Member Services Director, and the Assistant CEO of External Operations) that will be kept in the same Network Directory as the rest of the supporting documentation (e.g. New Pay Item Submission Form, MOU/Side Letter Agreements, New Pay Item approvals)

In addition to the above procedure, Member Services is working with our third party vendor (Vitech) to implement a process for submitting and approving pay items within the V3 Pension Administration Software. Early analysis began prior to the work from home order.

IA Follow-Up: IA confirmed the review process of pay codes in V3 was implemented and documented. The review consisted of walking through a pay item.

Observation #4 - Member Service management does not formally approve Pay Item Request forms via signature.

CLOSED

Process Owner: Member Services

Completion Date: 09/16/2020

Action Plan: Member Services is working with our third party vendor (Vitech) to implement a process for submitting and approving pay items within the V3 Pension Administration Software. Early analysis began prior to the work from home order.

Until V3 updates can be made, Member Services will update our process to include electronic signatures on all future Pay Item Request Forms as presented to and formally approved by the Board

IA Follow-Up: Internal Audit confirmed the Pay Item Request process and form include electronic signatures.



Management Action Plan Status Re

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Project: 2032 - Actuarial Extract Audit
Report Date: 10/13/2020
Total Observations: 7
Open Observations: 7
Closed: 0

Observation #1 - 1. The pension administration system's actuarial extract reporting does not extract the correct status (e.g. Active, Deferred, Retired, Terminated) of a member under certain scenarios, resulting in the need to manually correct the actuarial extract report

OPEN

Process Owner: Information Technology

Due Date: 12/31/2020

Action Plan: OCERS is working with pension administration vendor to correct issues associated with the member status logic used for the actuarial export and subsequent data cleanup.

IA Follow-Up:

Observation #2 - 2. IT Programming performs logical testing of the programming code behind its actuarial extract validation process but does not keep formalized documentation evidencing the testing.

OPEN

Process Owner: Information Technology

Due Date: 12/31/2020

Action Plan: The IT Programming team will formalize and document the process by which logical testing of our actuarial validation code will be performed.

IA Follow-Up:

Observation #3 - 3. Formal documentation of the approval of validation programming code changes does not exist.

OPEN

Process Owner: Information Technology

Due Date: 12/31/2020

Action Plan: The IT Programming team will formalize and document the process of how actuarial extract validation code changes will be approved, including how all approvals will be tracked and logged within our system.

IA Follow-Up:

Observation #4 - 4. Numerical thresholds under which further investigation of validation results are no longer considered necessary are not formally defined.

OPEN



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Process Owner: Information Technology

Due Date: 12/31/2020

Action Plan: The IT Programming team will work with OCERS Management to develop acceptable thresholds to use when reviewing the actuarial validation results.

IA Follow-Up:

Observation #5 - 5. Member Services does not have policies and procedures related to the use of the pension administration system member data validation queries.

OPEN

Process Owner: Member Services

Due Date: 12/31/2020

Action Plan: The Member Services team will document and formalize policies and procedures related to the pension administration system data queries created by the OCERS IT Department. We will also document the personnel structure responsible for the process as well as the timing and scheduling cycles for the annual review.

IA Follow-Up:

Observation #6 - 6. A minor variance noted and addressed during the validation process was not accurately updated in the data extract file sent to the actuary.

OPEN

Process Owner: Information Technology

Due Date: 12/31/2020

Action Plan: The IT Programming team will enhance its process to incorporate all validation review updates and related data cleanup changes to ensure all updates are included in the final export to OCERS Actuary.

IA Follow-Up:

Observation #7 - 7. OCERS Actuarial Extract Processing Guide does not describe Informational queries which do not require investigation unless requested by Segal.

OPEN

Process Owner: Information Technology

Due Date: 12/31/2020

Action Plan: The IT Programming team will add a section to the Actuarial Extract Processing guide that will describe the additional Informational queries available to OCERS staff to preview potential member datasets based on annual actuarial review question posed by OCERS actuary.

IA Follow-Up:



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Project: 2031 - Audit of Orange County Sanitation District (OCSD) Payroll Transmittals

Report Date: 06/04/2020
Total Observations: 1
Open Observations: 0
Closed 1

Observation #2031 - An employee in our sample was not entitled to receive a pensionable premium pay item, resulting in an overpayment of that pensionable premium pay item (and contributions paid to OCERS).

CLOSED

Process Owner: Employer

Completion Date: 05/21/2020

Action Plan: Development Pay requests are manually tracked in Excel, and entered in the FIS system. OCSD staff has begun using an exception report to compare the records from these two data sources, to ensure the number of employees listed on the Excel tracking sheet match the number of employees receiving Development Pay per the FIS system. Secondly, the Development Pay program will be audited bi-annually to capture and correct any administrative errors that may have occurred. Additionally, data entered in the FIS system is now done by using an employee identification (ID) number rather than an employee's last name to ensure the correct record is being updated each time. Lastly, in the past 4 years, we've had 5 different staff members administer the Development Pay program due to staff turnover. We now have a dedicated staff member that is knowledgeable in the program and is solely responsible for entering requests in the Excel worksheet and the FIS system, and a supervisor overseeing the function. OCSD is also working with the employee on a repayment plan to reimburse OCSD for the pensionable pay granted in error. Once this is finalized, the Development Pay for the impacted employee will be reversed and an adjustment entry (for contributions) will be done in V3 for each pay period affected.

IA Follow-Up: IA confirmed the correct employee qualified for the certification pay, the premium payment in error was corrected with collections and the semi-annual audit has been implemented.

Project: 1944 - Finance Benefits Audit

Report Date: 01/13/2020
Total Observations: 4
Open Observations: 1
Closed 3

Observation #2 - Finance does not systematically delete V3's ACH files containing beneficiaries' banking information from local hard drives.

OPEN

Process Owner: Finance

Due Date: 06/30/2021

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.

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IA Follow-Up: IA confirmed with the Finance team the deletion of the ACH file from the local hard drive is now being performed by management. IA reviewed the procedures updated to reflect this practice. Due to COVID, the cost/benefit analysis has been moved to 2021.

Observation #1 - V3's Pre Disbursement Register report contains payee's full social security numbers and full names.

CLOSED

Process Owner: Finance

Completion Date: 12/09/2019

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: IA confirmed the updated Disbursement Schedule Detail Report and Pre-Disbursement Register Report now display the OID numbers in place of SSNs.

Observation #3 - Finance procedures manual related to benefit and lump sum payments (i.e. payroll) do not reflect all current procedures.

CLOSED

Process Owner: Finance

Completion Date: 10/05/2020

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.

IA Follow-Up: Internal Audit reviewed the documented lump sum payroll procedures.

Observation #4 - General Ledger entries to transfer employee contribution reserves were not booked timely.

CLOSED

Process Owner: Finance

Completion Date: 12/20/2019

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: IA confirmed the Finance Risk and Control Matrix (RACM) was updated to include additional documentation requirement.