

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

**AUDIT COMMITTEE MEETING  
October 3, 2022  
9:30 A.M.**

**Members of the Committee**

Frank Eley, Chair  
Shari Freidenrich, Vice Chair  
Richard Oates  
Charles Packard

Pursuant to Assembly Bill 361, signed into law on September 16, 2021 as urgency legislation; Governor Newsom’s Proclamation of a State of Emergency on March 4, 2020, which Proclamation is still in effect; and Board of Retirement Resolution 2022-09, this meeting will be conducted by video/teleconference, in compliance with Government Code section 54953 as amended by Assembly Bill 361. In addition, members of the Board and the public are welcome to participate in the meeting via Zoom from the OCERS Boardroom located at 2223 E. Wellington Ave., Santa Ana, CA. However, none of the other locations from which the Board members participate by teleconference will be open to the public.

Members of the public who wish to observe and/or participate in the meeting may do so (1) from the OCERS Boardroom or (2) via the Zoom app or telephone from any location. 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. Members of the public who participate in the meeting from the OCERS Boardroom and who wish to provide comment during the meeting may do so from the podium located in the OCERS Boardroom.

OCERS Zoom Video/Teleconference information	
<p><b>Join Using Zoom App (Video &amp; Audio)</b></p> <p><a href="https://ocers.zoom.us/j/85284869255">https://ocers.zoom.us/j/85284869255</a></p> <p><b>Meeting ID: 852 8486 9255</b> <b>Password: 551252</b></p> <p>Go to <a href="https://www.zoom.us/download">https://www.zoom.us/download</a> to download Zoom app before meeting Go to <a href="https://zoom.us">https://zoom.us</a> to connect online using any browser.</p>	<p><b>Join by Telephone (Audio Only)</b></p> <p>Dial by your location</p> <p>+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> <p><b>Meeting ID: 852 8486 9255</b> <b>Password: 551252</b></p>
<p>A <a href="#">Zoom Meeting Participant Guide</a> is available on OCERS website <a href="#">Board &amp; Committee meetings page</a></p>	

**AGENDA**

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

**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**

Audit Committee Meeting Minutes

June 2, 2022

**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 PROCUREMENT PROCESS AUDIT**

*Presentation by David Kim, Director of Internal Audit*

**Recommendation:** Receive and file.

**A-3 CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q2 2022)**

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

**Recommendation:** Receive and file

**A-4 ETHICS COMPLIANCE AND FRAUD HOTLINE UPDATE**

*Presentation by David Kim, Director of Internal Audit*

**Recommendation:** Receive and file

**A-5 REPORTABLE THRESHOLD FOR BENEFIT CALCULATIONS**

*Presentation by Suzanne Jenike, Assistant CEO of External Operations and Jeff Lamberson, Director of Member Services*

**Recommendations:** Staff recommends the Audit Committee approve the establishment of:

1. A Reportable Threshold of \$10.00 or more for reporting errors found during the Final Average Salary audits, and
2. Provide direction to Internal Audit and Member Services Management regarding the format and frequency of reporting on errors less than the reportable threshold found during the Final Average Salary Audits.

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

**WRITTEN REPORTS**

The following are written reports that will not be discussed unless a member of the Committee requests discussion.

**R-1 MANAGEMENT ACTION PLAN VERIFICATION**

*Written Report*

**R-2 STATUS UPDATE OF 2022 AUDIT PLAN**

*Written Report*

**COMMITTEE MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

**ADJOURNMENT**

**NOTICE OF NEXT MEETINGS**

**DISABILITY COMMITTEE MEETING  
October 17, 2022  
8:30 A.M.**

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

**REGULAR BOARD MEETING  
October 17, 2022  
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](mailto:adminsupport@ocers.org) or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours' notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

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

**AUDIT COMMITTEE MEETING  
March 30, 2022  
9:30 a.m.**

**MINUTES**

**OPEN SESSION**

The Chair called the meeting to order at 9:31 a.m.

Recording Secretary administered the Roll Call attendance.

Attendance was as follows:

Present: Frank Eley, Chair; Shari Freidenrich, Vice Chair; Richard Oates

Present via Zoom Video  
conference pursuant to  
Government Code § 54953,  
as amended by AB 361: Charles Packard

Also Present: David Kim, Director of Internal Audit; Steve Delaney, Chief Executive Officer; Gina Ratto, General Counsel; Brenda Shott, Assistant CEO, Internal Operations; Suzanne Jenike, Assistant CEO, External Operations; Jeff Lamberson, Director of Member Services; Tracy Bowman, Director of Finance; Laura Barker; Finance Manager; Jennifer Reyes, Financial Manager; Manuel Serpa, Staff Attorney; Mark Adviento, Internal Auditor; Jenny Sadoski, Director of Information Technology; Javier Lara, Audio Visual Technician; Marielle Horst, Recording Secretary; Carolyn Nih; Executive Secretary

**PUBLIC COMMENT**

None.

**CONSENT AGENDA**

**MOTION** by Oates, **seconded** by Packard, to approve the following Consent Agenda items:

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

Audit Committee Meeting Minutes

March 30, 2022

The motion passed **unanimously**.

**ACTION AGENDA**

Audit Committee Meeting  
June 2, 2022

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

**A-2 2021 FINANCIAL STATEMENT AUDIT**

*Introduction by Brenda Shott, Assistant CEO of Finance and Internal Operations, and Tracy Bowman, Director of Finance, OCERS*

*Presentation by Kory Hoggan and Aaron Hamilton, Moss Adams*

**Recommendations:**

1. Approve OCERS' audited financial statements for the year ended December 31, 2021;
2. Direct staff to finalize OCERS' 2021 Annual Comprehensive Financial Report (Annual Report);
3. Approve the Governmental Accounting Standards Board (GASB) Statement 67 Actuarial Valuation as of December 31, 2021; and
4. Receive and file Moss Adams LLP's "OCERS' Report to the Audit Committee for the Year Ended December 31, 2021" and their "Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards."

Ms. Shott thanked staff and Moss Adams for their hard work in preparing the Audit.

Ms. Bowman presented a summary of OCERS' financial results for the year ended December 31, 2021.

Moss Adams presented their results, issuing an unmodified opinion, noting no audit adjustments, uncorrected misstatements, illegal acts, or difficulties.

After discussion by the Committee, **MOTION** by Freidenrich, **seconded** by Packard to adopt staff's recommendation.

The motion passed **unanimously**.

**A-3 GASB 68 VALUATION AND AUDIT REPORT**

*Presentation by Brenda Shott, Assistant CEO of Finance and Internal Operations*

**Recommendations:**

1. Approve OCERS' audited Schedule of Allocated Pension Amounts by Employer as of and for the Year Ended December 31, 2021; and
2. Approve the Governmental Accounting Standards Board (GASB) Statement 68 Actuarial Valuation as of December 31, 2021 for distribution to Employers.

**MOTION** by Freidenrich, **seconded** by Packard to adopt staff's recommendation.

The motion passed **unanimously**.

Audit Committee Meeting  
June 2, 2022

*The committee recessed for break at 10:18 a.m.*

*The Committee reconvened from break at 10:36 a.m.*

*Recording Secretary administered the Roll Call.*

*Mr. Packard arrived at 10:40 a.m.*

**A-4 ACTUARIAL AUDITOR INTERVIEWS**

*Introduction by David Kim, Director of Internal Audit*

*Presentations by Buck Global, LLC; and Cheiron, Inc.*

**Recommendation:** Staff recommends (1) selecting one of the two finalists chosen to make an oral presentation at the June 2, 2022 Audit Committee meeting to serve as OCERS actuarial auditor based on the firm's presentation, responsiveness to the Audit Committee's questions, and the written proposal submitted; and (2) after conducting such interviews, that the Audit Committee recommend to the Board of Retirement to award a contract for actuarial auditor services to the selected finalist, subject to satisfactory negotiation of terms.

An interview was conducted with Buck Global.

*The committee recessed for break at 11:15 a.m.*

*The Committee reconvened from break at 11:25 a.m.*

*Recording Secretary administered the Roll Call.*

An interview was conducted with Cheiron, Inc.

After discussion by the Committee, a **MOTION** by Freidenrich, **seconded** by Oates to recommend to the Board of Retirement to award a contract for actuarial auditor to Cheiron, Inc.

The motion passed **unanimously**.

*The committee recessed for break at 12:28 p.m.*

*Mr. Packard was excused at 12:28 p.m.*

*The Committee reconvened from break at 1:17 p.m.*

*Recording Secretary administered the Roll Call.*

**CLOSED SESSION**

Audit Committee Meeting  
June 2, 2022

**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; Suzanne Jenike, Asst. 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.

Chair Eley noted no reportable action was taken in Closed Session.

**INFORMATION ITEM**

**I-1 ALAMEDA DECISION IMPLEMENTATION PROJECT UPDATE**

*Presentation by Suzanne Jenike, Assistant CEO of External Operations*

Ms. Jenike gave an update to the Committee on the status of the Alameda Project. Ms. Jenike presented a summary of the project goals, a timeline of the project milestones, risks, and mitigation strategies as well as an update on the corrective actions expected to take place for active/deferred members and retirees/payees in the upcoming months. Ms. Jenike also thanked the staff for all their efforts to make this project a success.

Mr. Eley noted the recalculations were pushed back to September because of staffing vacancies. Ms. Freidenrich inquired about the staffing vacancies.

**WRITTEN REPORTS**

**R-1 MANAGEMENT ACTION PLAN VERIFICATION**

*Written Report*

**R-2 STATUS UPDATE OF 2022 AUDIT PLAN**

*Written Report*

**COMMITTEE MEMBER COMMENTS**

Mr. Eley thanked staff for all their hard work with the new technology and hiring of a new auditor.

**CHIEF EXECUTIVE OFFICER**

Mr. Delaney commented in response to Ms. Freidenrich's inquiry regarding the vacancy rate, noting a quarterly report is provided during the Board meetings. Quarterly reports are also included in the monthly Activities and Update report. Staff has focused on the vacancy rate and there will be positive results reflected in the next report.

**STAFF COMMENTS**

Mr. Kim commented that the Internal Audit Department has had an increase in workload with the Alameda project, as they received direction from the Audit Committee Chair to test beyond a sample of Alameda related benefit recalculations. The increased testing would impact the other audits in the 2022 Audit Program scheduled for the second half of the year.



Audit Committee Meeting  
June 2, 2022

Ms. Freidenrich noted she would be comfortable with auditing only a sample of the benefit recalculations.

Mr. Eley recommended the audit should be performed on all recalculations eventually tapering off to a sampling. Mr. Eley suggested to bring on a 3<sup>rd</sup> party auditor to help with the other auditing projects.

Mr. Oates agreed with Mr. Eley, as to performing the audit on all recalculations, pending how the Alameda benefits recalculations are processed.

The Audit Committee provided further direction in which the initial set of benefit recalculations with the highest risk will be audited 100% and the results will be discussed with the Audit Committee for further instruction. Additionally, the Audit Committee provided direction to expand the resources of Internal Audit to address the increased workload.

**COUNSEL COMMENTS**

None

**ADJOURNMENT**

The Chair adjourned the meeting at 2:27 p.m.

Submitted by:

Approved by:

\_\_\_\_\_  
Steve Delaney  
Secretary to the Board

\_\_\_\_\_  
Frank Eley  
Chair



## Memorandum

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**DATE:** October 3, 2022  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** **AUDIT REPORT – THE PROCUREMENT PROCESS AUDIT**

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### Recommendation

Receive and file.

### Background/Discussion

As per the 2022 Audit Plan, Internal Audit performed an audit of the OCERS Procurement process and OCERS compliance with the Procurement and Contracting Policy (Policy). This was the first audit of this process by Internal Audit.

There were eight observations identified in this audit which included management not consistently following the selection process per Policy, due diligence was not consistently performed or documented in all instances, and for five contracts which did not have authorized signatures as per Policy. We also noted opportunities to strengthen the Legal review of contracts and the accuracy of information entered into the Contract Management System (CMS).

Additionally, the post-survey results were favorable, noting Internal Audit’s openness to feedback. The post-survey provides a feedback loop process for Internal Audit to make any necessary improvements. The audit workpapers were completed and reviewed in a timely manner.

The full audit report is attached.

### Submitted by:

**DK - Approved**

David Kim  
Director of Internal Audit



## **Audit of Procurement Process**

**Report Date: October 3, 2022**

### **Internal Audit Department**

**David Kim, Director of Internal Audit**

**Mark Adviento, Internal Auditor**

**OCERS Internal Audit  
Audit of Procurement Process  
October 3, 2022**

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### **Audit Objective and Scope**

The objective of this audit was to provide an independent review of the design and operating effectiveness of controls that help ensure OCERS' compliance with its Procurement and Contracting Policy (Policy).

The scope of the audit included contracts authorized between 2019 and 2022. Internal Audit audited for compliance with the Policy as approved by the Board of Retirement in 2018 and then again in 2021.

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**

<b>Opinion: <i>Opportunities for Improvement</i></b>
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Overall, Internal Audit identified opportunities to improve the controls to ensure the Procurement Process is in compliance with the Policy. There were eight Important Observations, which included two vendors in which the selection process did not follow Policy, due diligence was not consistently performed or documented for three vendors, and for five contracts which did not have authorized signatures as per Policy. We also noted opportunities to strengthen the Legal review of contracts and the accuracy of information entered into the Contract Management System (CMS).

Internal Audit independently tested a sample of 25 contracts and performed the following:

- Verified that Policy provisions applicable to all contracts were performed, such as the review and approval of contract terms, due diligence and performance reviews.
- Confirmed that the required search and selection process (e.g., RFP, IFB, Sole Source) was used when soliciting goods and services.
- Verified that contracts were reviewed and approved by the appropriate parties (e.g., Executives, and Legal) as per the Policy.
- Confirmed that provisions for the selection of Named Service Providers were followed in compliance with the Policy.
- Confirmed that the status of the contracts were monitored and reported to the Board in a timely manner.

## Background

The Policy establishes the guidelines of the Procurement Process to obtain goods and services, along with identifying the roles and responsibilities of those involved with the process, including the CEO, responsible Executives, the Contract Administrator and OCERS Board of Retirement. The Policy also describes the criteria used in the search and selection process when selecting a vendor, which includes an Invitation for Bid (IFB), Request for Proposal (RFP) and Sole Source. Contract signing authority along with the number of signatures required are also described in the Policy.

The Policy, which has been in place since 2002, had gone through significant updates in 2013 which included expanding the scope of the Policy beyond just Named Service Providers to include procuring all goods and services. The Policy was again updated in 2018 to clarify the roles of the Contract Administrator and the Executives responsible for managing contracts. The Policy was last updated in 2021 to further define terms used in the Policy, adjust dollar value thresholds for the different vendor selection processes, and list additional responsibilities of the Contract Administrator. Although a Policy has been in place, the processes were still being formalized during the period audited. Additionally, the audit helped to improve the communication between Contract Administration and the Legal Division.

OCERS did not have a formal contract administration process until the current Contract Administrator was hired in 2016. Key to formalizing the process was the Contract Administrator's recommendation and implementation of a Contract Management System (CMS). The Contract Administrator helped to further formalize the implementation of the Policy as well as oversee a total of 267 contracts in the CMS (166 active vendors and 101 in-active vendors). As per the Policy, the role of the Contract Administrator includes, but is not limited to, managing the contract files, coordinating contract solicitation efforts, performing due diligence for potential contractors, and overseeing the review of contractors' performance. The Contract Administrator also reviews the business, operational and legal risks associated with the vendor as part of a due diligence checklist. This includes performing a credit check, confirming the vendor is not on the US Treasury's OFAC (Office of Foreign Assets Control) sanctions list, and identifying any current litigation against the vendor.

At the August 15<sup>th</sup> Regular Board meeting, Board members raised questions about OCERS Procurement and Contracting Policy, specifically regarding the Board's role with approving vendor contracts. Senior Management plans to respond to these questions to provide additional clarification at the October 17 Board Meeting.

### Important Observations

1. **OCERS did not comply with OCERS Procurement and Contracting Policy (Policy) regarding contracts awarded to two different vendors.** In one vendor from our sample, an informal competitive search was used instead of the Request for Proposal (RFP) process as required by the Policy. With a second sample vendor, there was no documented evidence of the performance of an Invitation for Bid. The procurement of these contracts followed shortly after significant changes to the Policy in 2018. Not complying with the Policy hinders the objective that “a level of rigor should be commensurate with the importance and cost of the service or goods in question” as per Policy. In response to our observation, updates to the Policy will be recommended to add the task of communicating and educating staff on the requirements for procuring a vendor as per the Policy. Management will also begin maintaining supporting bidding documentation in the Contract Management System (CMS).
2. **The due diligence was not consistently performed or documented by the Contract Administrator, as per OCERS business practices, for three vendors in our sample.** OCERS had awarded contracts for these three vendors during 2019 and 2020, however the due diligence was not performed or documented in a manner consistent with the Policy by the Contract Administrator. In one instance, the contract had been authorized by Executives before the Contract Administrator was able to perform the due diligence. For the remaining two instances, a level of due diligence was performed, but either documentation was not maintained or the due diligence was not performed completely. Between the 2018 and 2021 Policy revisions, the Contract Administrator was in the process of formalizing the due diligence. Without such documentation, OCERS cannot document that these vendors, as required by Policy “meet all minimum qualifications set forth in the solicitation document; and meets all other standards which, in the exercise of sound business judgment, are required of the Contractor.” In response to our observation, the Contract Administrator will formalize a process to ensure the due diligence is performed and account for instances in which a contract is signed before the due diligence is complete.
3. **Authorizing signatures, as required by the Policy, were not obtained on five contracts within our sample.** The Policy establishes the number of required signatures and management position level of the signatories to approve a contract. During our review, Internal Audit noted five contracts in which either the number of signatures or level did not follow Policy. As per the Policy “The role of the Responsible Executive is to approve the purchase of goods and services for which s/he is responsible.” In response to our observation, updates to the Policy will be recommended for the Contract Administrator to validate the signatures are appropriate. Non-compliance will be addressed through the Employee Evaluation and Discipline practices as noted in the Employees Handbook.
4. **The Legal Division’s review was not obtained for an IT Consultant’s contract awarded in 2021.** A Legal review was not obtained for one sample because the Contract Administrator believed using a contract template previously approved for use by the Legal Division did not warrant further Legal review. However, upon discussion with the Legal Division, each and every draft contract should be presented to the Legal Division so that they can review the actual terms of the contract for approval, even if the approved contract template was used. Although a Policy has been in place, the processes were still being formalized during the period audited. Not presenting all contracts for the Legal Division’s review would hinder, as per the policy, “The role of General Counsel or his/her designee to: Review contracts before execution for compliance with legal requirements and to provide assessment of risk to the

agency.” In response to our observation, the Contract Administrator will forward all contracts to OCERS’ Legal for review and will maintain the approval.

5. **For two vendors in our sample, the vendor’s Certificate of Insurance (COI) provided to OCERS did not meet the dollar amount of insurance coverage as specifically stated in the executed contract.** For one vendor, the contract requires \$10 million in Errors and Omissions Insurance, but the vendor’s COI only states \$5 million of coverage. In the second vendor, the contract requires \$2 million per occurrence of Professional Liability Insurance, but the vendor’s COI only states \$1 million of coverage. In response to our observation, the Contract Administrator will implement procedures to ensure Certificates of Insurance are in accordance with the vendor contracts and address instances of non-conformance.
6. **Policy is absent guidance of when a contract is needed and how to monitor routine items that do not warrant a contract.** In discussions with management, we determined that the Policy does not sufficiently describe the circumstances in which a contract with a vendor is required, particularly regarding the purchase of routine items. Nor how to monitor current and future vendors that would not need a contract as determined by management or industry practice. Having valid contracts would help evidence that OCERS has a “A system of internal controls related to the procurement of goods and services is implemented.” In response to our observation, the Contract Administrator will work with OCERS’ Legal to identify circumstances where a contract is required and make recommendations to update the Procurement and Contracting Policy as deemed appropriate.
7. **Upon review of OCERS’ the Contract Management System (CMS), we noted data entry errors with six vendors in our sample.** Oversight when manually keying in terms of contracts within the CMS could lead to incorrect reporting to the Board or monitoring of the vendors’ lifecycle. The role of the Contract Administrator is to “Manage the Contractor files and the lifecycle management system,” and to “Monitor the expiration dates of all contracts to ensure either timely extension of the contract term or timely issuance of contract solicitation.” In response to our observation, Management has approval to hire an additional Team Member in Contract Administration. Review procedures will be created and implemented at that time.
8. **We noted potential room for improvement with either the Policy or with recommended addition of new procedures.** First, there is a gap in the policy in regard to required signature approval for contracts that do not have a pre-determined dollar threshold, such as for vendors who bill by the hour. Second, there needs clarification regarding governance over the approval of Investment related Named Service Providers between the Policy and the Investment Committee Charter. Third, the Contract Administrator should explicitly denote which potential vendor(s) are minority owned for future solicitations, as per the Policy requirement, “a diverse audience of contractors” (e.g. minority groups). In response to our observation, Management will recommend the necessary changes to the Policy and develop a process to track solicitations sent to small and diverse businesses.



**Copies to:**

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

J. Doezie  
C. Hockless  
M. Serpa  
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<b>Important Observations</b>	
<p><b>1. OCERS did not comply with OCERS Procurement and Contracting Policy (Policy) regarding contracts awarded to two different vendors.</b></p> <p><b>Vendor #1: OCERS failed to use an RFP (Request For Proposal), as required by policy, to award a contract for a medical disability evaluation service vendor.</b></p> <p>OCERS Procurement and Contracting Policy (Policy) requires a formal RFP for contracted services worth more than \$100,000. The medical disability evaluation service contract above is worth approximately \$400,000 per year in spending. The contract was awarded in 2019.</p> <p>We interviewed Member Services staff and learned that they did perform an informal competitive bid search for a medical disability evaluation service vendor, but that they were not aware that an RFP was required.</p> <p><b>Vendor #2: There was no documented evidence of the performance of an Invitation for Bid search for third-party risk management/vendor risk management vendor, as required per policy.</b></p>	<p><b>Management Action Plan:</b></p> <ul style="list-style-type: none"> <li>A. Management will communicate with all Executives the requirements for issuing an RFP and will coordinate the RFP's per Policy requirements.</li> <li>B. Management will propose changes to the Procurement Policy to include a requirement of the Contracts Administrator to educate staff and confirm Policy compliance.</li> <li>C. Proof of bids and competitive price comparisons will be retained in the Contracts Management System ("CMS") for future reference</li> </ul> <p><b>Management Action Plan Responsible Party:</b> Jim Doezie, Contract Administrator</p> <p><b>Completion Date:</b> June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>The Contract Administrator, who was also the Business Manager procuring the services, recalls using the Invitation for Bid process. However, the Contract Administrator does not have documentation evidencing that such a process was used to award the contract to the vendor. The contract was awarded in 2019 and renewed in 2021 with a yearly value of \$26,910.</p> <p>The procurement of these contracts followed shortly after significant changes to the Policy in 2018.</p> <p><b>Risk:</b> Not complying with the Policy hinders the objective that <i>“a level of rigor should be commensurate with the importance and cost of the service or goods in question”</i>.</p> <p>See Policy § I.B.5.</p>	
<p><b>2. The due diligence was not consistently performed or documented by the Contract Administrator, as per OCERS business practices, for three vendors in our sample:</b></p> <p>Due diligence is performed on a vendor prior to awarding the contract. The Contract Administrator will review the business, operational and legal risks associated with the vendor as part of the Due Diligence checklist. This includes performing a credit check, confirming the vendor is not on the OFAC</p>	<p><b>Management Action Plan:</b></p> <p>A. Management will document and implement a process to ensure due diligence is performed prior to the execution of contracts and that will account for instances that might occur whereby a contract is signed before due diligence is completed.</p> <p><b>Management Action Plan Responsible Party:</b> Jim Doezie, Contract Administrator</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>sanctions list, and identifying any current litigations against the vendor. Between the 2018 and 2021 Policy revisions, the Contract Administrator was in the process of formalizing the due diligence.</p> <p>OCERS awarded contracts for the following three vendors during 2019 and 2020, however the due diligence was not performed or documented in a manner consistent with the Policy:</p> <ul style="list-style-type: none"> <li>• Medical disability evaluation service provider. (Contract value of \$400,000). The due diligence was not performed. Management had already signed a contract before the Contract Administrator was made aware of the agreement.</li> <li>• Phone system/call center vendor. (Contract value of \$247,932). Documentation of the due diligence was not maintained.</li> <li>• Firewall installation vendor. The responsible business executive had performed a level of due diligence to confirm the vendor met the qualifications of the solicitation. However, the legal and operational risks were not addressed. (Contract value of \$93,765)</li> </ul> <p><b>Risk:</b> Without such documentation, OCERS cannot document that these vendors, as required by Policy <i>“meet all minimum qualifications set forth in the solicitation document; and meets all other standards which, in the exercise of sound business judgment, are required of the Contractor.”</i></p>	<p><b>Completion Date:</b> June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>See Policy § III.E.1.i &amp; ii.</p>	
<p><b>3. Authorizing signatures, as required by the Policy, were not obtained on five contracts within our sample.</b></p> <p>Contract guidelines in the Policy establish the number of required signatures and level of the signatories to approve a contract. During our review, Internal Audit noted five contracts in which either the number of signatures or level was not followed:</p> <ul style="list-style-type: none"> <li>• A required signature from the Asst CEO of Internal Operations was not provided on the contract for a diversity consultant. Only the Director of Human Resources' signature was found on the contract. (Contract value of \$84,500.)</li> <li>• The required signature from the CEO was not provided on the contract for the Boardroom audio/visual system vendor. The 2021 contract was signed by the Asst CEO of Internal Operations and Director of IT. (Contract value of \$367,158.)</li> <li>• A second signature was missing on the firewall installation vendor contract. The 2020 contract had only one signature from the CEO. (Contract value of \$93,765.)</li> </ul>	<p><b>Management Action Plan:</b></p> <ul style="list-style-type: none"> <li>A. Management will recommend changes to the Procurement and Contracting Policy to include a duty of the Contract Administrator to ensure the appropriate signatures for contracts are obtained.</li> <li>B. In an instance where the Procurement and Contracting Policy is not followed, Management will address these non-compliance issues through the Employee Evaluation and Discipline practices as noted in the Employees Handbook.</li> </ul> <p><b>Management Action Plan Responsible Party:</b> Jim Doezie, Contract Administrator</p> <p><b>Completion Date:</b> June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<ul style="list-style-type: none"> <li>The required signature from the CEO was not provided on the contract for an investment risk tracking software subscription. The 2020 contract was only signed by the CIO. (Contract value \$165,000.)</li> <li>A second signature from an Executive was not provided on the contract for an insurance policy. The 2021 contract was only signed by the Asst. CEO of Internal Operations. (Contract value of \$31,215).</li> </ul> <p><b>Risk:</b> As per the Policy <i>“The role of the Responsible Executive is to approve the purchase of goods and services for which s/he is responsible.”</i></p> <p>See Policy § I.C.3.i.</p>	
<p><b>4. The Legal Division’s review was not obtained for an IT Consultant’s contract awarded in 2021. (Contract value of \$126,000).</b></p> <p>Per inquiry with the Contract Administrator, a review was not obtained because the contract followed a contract template previously approved for use by the Legal Division. However, upon discussion with the Legal Division, each and every draft contract should be presented to the Legal Division so that they can review the actual terms of the contract for approval, even if the approved contract template was used.</p>	<p><b>Management Action Plan:</b></p> <p>A. All contracts, including those that do not deviate from OCERS’ form of contract, are now forwarded to the Legal Division for review. In addition, the Legal contract approval is being retained for future reference.</p> <p><b>Management Action Plan Responsible Party:</b> Jim Doezie, Contract Administrator</p> <p><b>Completion Date:</b></p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>Although a Policy has been in place, the processes were still being formalized during the period audited.</p> <p><b>Risk:</b> Not presenting all contracts for the Legal Division’s review would hinder, as per the policy, <i>“The role of General Counsel or his/her designee to: Review contracts before execution for compliance with legal requirements and to provide assessment of risk to the agency.”</i></p> <p>See Policy § I.C.5.</p>	<p>Complete</p>
<p><b>5. For two vendors in our sample, the Certificate of Insurance (COI) provided by the vendor did not meet the dollar amount coverage as specifically stated in the executed contract.</b></p> <ul style="list-style-type: none"> <li>The 2022 contract with OCERS Real Estate Investment Consultant requires \$10 million in Errors and Omissions Insurance, but the consultant’s COI only states \$5 million of coverage.</li> <li>The 2022 contract with OCERS External Auditor requires \$2 million per occurrence for Professional Liabilities, but the External Auditor’s COI states only \$1 million in coverage.</li> </ul> <p><b>Risk:</b> Oversight when reviewing contractors’ certificate of insurance could put OCER at risk if actual dollar amount coverage is not adequate or does not</p>	<p><b>Management Action Plan:</b></p> <p>A. Management will implement procedures to ensure Certificates of Insurance are in accordance with the vendor contracts. In those cases where the Insurance Certificate does not meet the contractual requirements, the contract stake holder and Legal Division will be consulted for additional action.</p> <p><b>Management Action Plan Responsible Party:</b> Jim Doezie, Contract Administrator</p> <p><b>Completion Date:</b> June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>meet the terms required of the authorized contract. The role of the Contract Administrator is to “<i>Review Contractors’ certificates of insurance to verify compliance with the contracted requirements for coverage.</i>”</p> <p>See Policy § I.C.4.vi.</p>	
<p><b>6. Policy is absent guidance of when a contract is needed and how to monitor routine items that do not warrant a contract.</b></p> <p>Throughout the audit, IA tested the Policy’s explicit requirements in terms of the authorization and the administration of vendor contracts. However, in discussions with management, we determined that the Policy does not sufficiently describe the circumstances in which a contract with a vendor is required, particularly regarding the purchase of routine items. Nor how to monitor current and future vendors that would not need a contract as determined by management or industry practice.</p> <p>The Policy does not explicitly state the criteria for when a contract is required.</p> <p><b>Risk:</b> Having valid contracts would help evidence that OCERS has a “<i>A system of internal controls related to the procurement of goods and services is implemented.</i>”</p>	<p><b>Management Action Plan:</b></p> <p>A. Management will work with the Legal Division to identify circumstances where a contract is required and make recommendations to update the Procurement and Contracting Policy as deemed appropriate.</p> <p><b>Management Action Plan Responsible Parties:</b></p> <p>Jim Doezie, Contract Administrator Manuel Serpa, Deputy General Counsel</p> <p><b>Completion Date:</b></p> <p>June 30, 2023</p>



Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
See Policy § I.B.3	
<p><b>7. Upon review of OCERS’ Contract Management System (CMS), we noted data entry errors with six vendors in our sample.</b></p> <ul style="list-style-type: none"> <li>Data Center co-location connection vendor’s 2020 contract expiration date in the CMS was incorrectly entered as one year prior to the actual expiration date on the contract. (Contract values of \$118,000)</li> <li>Firewall vendor’s 2020 contract value needed correction from \$39,765 to \$136,221.</li> <li>Copier vendor’s 2019 contract value needed correction from \$103,806 to \$94,499.</li> <li>Diversity consultant’s 2021 contract value needed correction from \$75,000 to \$84,500 (this also included one of five contracts that was not uploaded into the CMS).</li> <li>Insurance vendor’s 2021 contract needed correction from \$64,352 to \$31,215.</li> <li>Property management vendor’s 2020 contract needed correction from \$57,000 to \$27,000.</li> </ul> <p><b>Risk:</b> Oversight when manually keying in terms of contracts within the CMS could lead to incorrect reporting or monitoring of the vendors’ lifecycle. The role of the Contract Administrator is to “<i>Manage the Contractor files and the lifecycle management system,</i>”</p>	<p><b>Management Action Plan:</b></p> <p>A. Management has approval to hire an additional Team Member in this department. Review procedures will be created and implemented at that time.</p> <p><b>Management Action Plan Responsible Parties:</b>                      Brenda Shott, Assistant CEO, Internal Operations                      Jim Doezie, Contract Administrator</p> <p><b>Completion Date:</b>                      January 31, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>and to “Monitor the expiration dates of all contracts to ensure either timely extension of the contract term or timely issuance of contract solicitation.”</p> <p>See Policy § I.C.4.i. and § I.C.4.xi.</p>	
<p><b>8. We noted potential room for improvement with either the Policy or with the addition of new procedures.</b></p> <ul style="list-style-type: none"> <li>• For certain contracts the value cannot be defined ahead of time, such as for work billed by the hour or piecemeal. Since approvals are delineated in the policy by dollar amount thresholds, there appears to be an unintended gap regarding which signature approval is required for such contracts without a pre-determined contract value.</li> <li>• There needs clarification regarding governance over the approval of Named Service Providers (NSP) between the Policy and the Investment Committee Charter. The Policy states that Named Service Providers shall be approved for hire by the Board of Retirement. However, OCERS Investment Committee Charter states that the Investment Committee may approve the hiring of “managers, funds, consultants and custodians as necessary”. The Investment Committee Charter does not include a provision to recommend awarding a NSP to the Board for appointment.</li> </ul>	<p><b>Management Action Plan:</b></p> <ul style="list-style-type: none"> <li>A. Management will recommend changes to the Procurement and Contracting Policy regarding the approvals required for a contract whose value is unknown at the time of execution.</li> <li>B. Management will recommend changes to the Procurement and Contracting Policy to clarify proper approval of Named Service Providers</li> <li>C. Management will implement a process to track diverse and/or minority owned businesses in an RFP distribution sheet.</li> </ul> <p><b>Management Action Plan Responsible Party:</b></p> <p>Jim Doezie, Contract Administrator</p> <p><b>Completion Date:</b></p> <p>June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<ul style="list-style-type: none"> <li>The Contract Administrator should explicitly denote which potential vendor(s) are minority owned for future solicitations, as per the Policy, “<i>a diverse audience of contractors</i>” (e.g. minority groups) § II.A.4. As this is a new provision, the Contract Administrator should educate the OCERS Executives on this Policy requirement and ensure it is being followed.</li> </ul> <p><b><u>Risk:</u></b> Clarification of the above can help avoid potential confusion with how to comply with the Policy regarding the above three scenarios.</p>	

### **Categories of Observations (Control Exceptions):**

#### **Priority Observations:**

These are observation(s) that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise OCERS' reputation or integrity. Management is expected to address Priority Observations brought to its attention immediately.

#### **Important Observations:**

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

### **Management's Responsibility for Internal Control**

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

### **Internal Control Limitations**

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

**Audit Report Opinions:**

**Satisfactory:**

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

**Opportunities for Improvement:**

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

**Inadequate:**

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



## Memorandum

---

**DATE:** October 3, 2022  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q2 2022)

---

### Recommendation

Receive and file.

### Background/Discussion

Internal Audit's 2022 audit plan included a process of auditing Final Average Salary (FAS) calculations. Internal Audit completed a review of FAS calculations for new benefit payments setup during the 2<sup>nd</sup> quarter of 2022. There was one observation directed towards OCERS Member Services management.

Of the 41 FAS calculations reviewed from the 2<sup>nd</sup> quarter, Internal Audit noted one exception (2.4%) that required members' monthly FAS to be revised, leading to a correction of benefit payments.

The full audit report is attached.

Submitted by:

**DK – Approved**

David Kim  
Director of Internal Audit



**Continuous Audit of Final Average Salary  
Calculations (Q2 2022)**

**Report Date: October 3, 2022**

**Internal Audit Department**

**David Kim, Director of Internal Audit**

**Mark Adviento, Internal Auditor**

**OCERS Internal Audit**  
**Continuous Audit of Final Average Salary Calculations (Q2 2022)**  
**October 3, 2022**

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### **Audit Objective and Scope**

The objective of this audit was to provide an independent review of Final Average Salary (FAS) calculations used in new benefit payments setup by OCERS' Member Services, on a continuous basis.

In response to Internal Audit's 2020 Audits of FAS Calculations, Member Services reorganized the Retirement Program Specialist Team and modified the FAS calculation process including an updated retirement transaction excel spreadsheet as part of the Management Action Plan. The action plan was implemented in Q2 2021.

In this current audit's scope of Q2 2022, Member Services processed a total of 607 new service and disability retirement benefits. Internal Audit reviewed the FAS calculations for 41 of these benefits.

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**

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

During our review, Internal Audit noted opportunities exist to improve Member Services' quality control review over FAS calculations.

We noted a 2.4% error rate (one error) out of the 41 FAS calculations sampled from Q2 2022. The error resulted in a change of \$26.25 in the monthly benefit payment for the member.

Management has agreed to our finding. See below for additional detail and Management's responses.

### **Background**

To finalize each retiree's FAS, Member Services uses a retirement transaction Excel spreadsheet. In the spreadsheet, Member Services inputs a preliminary FAS number calculated by the pension administration system (PAS) software after reviewing it, and inputs other manually calculated pensionable pay amounts not captured or calculated by the PAS software. To calculate these amounts, the Retirement Program Specialist (RPS) must reference a variety of external data sources provided by employers, such as hourly rate history, timesheet data, reciprocal salary data, and relevant Employer MOUs. A Member Services Quality Assurance team member then reviews the final FAS calculated by the RPS.

Internal Audit independently tested 41 of the 607 FAS benefit calculations from the April through June 2022 benefit payroll months, and performed the following:

- Recalculated and traced the preliminary FAS used in the spreadsheet back to the preliminary FAS number calculated by the PAS software.
- Reviewed Member Service’s manual calculations of other pensionable pay item amounts (typically pensionable paid time off, or PTO) manually added to the preliminary FAS and the documentation used by Member Services to support their calculations.

Below is a summary of IA’s error rate noted in the current 2022 audit, plus error rates noted in prior 2020, 2021, and 2022 audits:

Quarter	Benefit Applications	Tested by Internal Audit (IA)	IA Error Count	IA Error Rate
Q1/2020	149	82	6	5.8%
Q2/2020	514	56	2	
Q3/2020	108	10	1	8.0%
Q4/2020	466	65	5	
Q2/2021	182	60	4	6.7%
Applications Subject to the Revised FAS Calculation Procedure				
Q3/2021	75	75	6	8.0%*
Q4/2021	154	134	2	1.5%*
Q1/2022	196	50	2	4.0%*
Q2/2022	607	41	1	2.4%*

\*Each of the quarters contained a month with 100% accuracy

Monthly Breakdown of Q2 2022 Quarter Testing				
Month	Benefit Applications	Tested by Internal Audit (IA)	IA Error Count	IA Error Rate
April	72	2	0	0.0%
May	238	30	1	3.3%
June	297	9	0	0.0%

**Important Observation**

1. Internal Audit noted a 2.4% error rate (one error) with the 41 FAS calculations sampled from the 2<sup>nd</sup> quarter of 2022. An oversight when reviewing FAS calculations can lead to errors in the monthly benefit paid to OCERS members. The error occurred in the manual portion of the FAS calculation process when applying retroactive salary adjustment calculations for an Orange County Sanitation District (Sanitation District)

member. While this type of error is comparable to the type of errors Internal Audit had identified in prior FAS Calculation audits, the error was also due in part to incorrect reporting of salary components by the Employer. The error resulted in a change of \$26.25 in the monthly benefit payment. In response to the observation, Member Services will provide additional training to the team when calculating the FAS for Sanitation District. Member Services will also work with the Employer to correct the payroll transmittal information.

**Copies to:**

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

J. Lamberson  
J. Tallase  
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<b>Important Observation</b>	
<p><b>1. Internal Audit noted a 2.4% error rate (one error) with the 41 FAS calculations sampled from the 2<sup>nd</sup> Quarter of 2022.</b></p> <p>Member Services incorrectly added retroactive pay to the member’s FAS when none was needed. The error occurred in the manual portion of the FAS benefit calculation for a Sanitation District member. The nature of the error is comparable to the errors noted in the prior FAS Calculation audits. However, in this instance the error was due in part to incorrect reporting from the Employer. For eight pay periods in 2019, the Employer transmitted incorrect earnable hourly pay rates in its payroll transmittal files. Due to the incorrect hourly rate reported by the Employer, Member Services incorrectly added retroactive pay to the member’s FAS. Member Services also did not correct the member’s FAS for retroactive pay paid by the employer in error for another pay period in 2019. The above errors resulted in a reduction of \$26.25 in the monthly benefit payment.</p> <p>The details of the error are noted in the FAS Calculation Summary table below.</p>	<p><b>Management Action Plan:</b></p> <p>Provide additional training to the Team members when calculating a Sanitation District FAS and benefit. This would include reiterating that Quality Assurance will need to perform a completely separate reperformance of the FAS calculation. Work with the Employer, Sanitation District, to correct errors in the transmittal before OCERS can begin the process of calculating the FAS and benefit.</p> <p><b>Management Action Plan Responsible Party:</b> Jeff Lamberson, Member Services Director</p> <p><b>Completion Date:</b> February 28, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p><b>Risk:</b> An oversight when reviewing FAS calculations can lead to errors in the monthly benefit paid to OCERS members.</p>	

**Internal Audit - FAS Calculation Summary (Q2 2022)**

Sample	Nature of FAS Error	Monthly FAS Error	Monthly Benefit Payment Error	Months With Error
1	<p><u>Retro pay - Manual</u></p> <p>The earnable hourly rate reported by the Employer did not match the earnable hourly rate actually paid to the member for eight pay periods in 2019. Due to the incorrect hourly rate reported by the Employer, Member Services incorrectly added retroactive pay to the member's FAS. Member Services also did not correct the member's FAS for retroactive pay paid by the employer in error for another pay period in 2019.</p>	Original monthly FAS of \$11,349.54 overstated by \$34.62.	Original monthly benefit of \$8,605.70 <b>overpaid by \$26.25</b> . The new benefit amount is \$8,579.45.	5 months

### **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” (typically no more than two Important Observations).

**Opportunities for Improvement:**

Multiple issues classified as “Important Observations” (typically two or more Important Observations) with no more than one “Priority Observations”.

**Inadequate:**

Usually rendered when multiple issues are classified as “Priority” ” (typically one or more Priority Observations), 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

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**DATE:** October 3, 2022  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** ETHICS COMPLIANCE AND FRAUD HOTLINE UPDATE

---

### Recommendation

Receive and file.

### Background/Discussion

Internal Audit regularly updates the Audit Committee when new reports are made to the hotline.

Internal Audit received one report from the hotline:

- August 22, 2022 – Member wanted to make OCERS aware that the member had become a victim of fraud, not related to OCERS. However, as personal information may have been obtained by the perpetrator, the member wanted to inform all the financial institutions the member had a relationship with. The Director of Member Services has noted the member’s record for OCERS team members to be aware when validating the member’s identification.

The report is not considered an ethics violation such as fraud, harassment, conflict of interest, or an illegal activity related to OCERS.

### Submitted by:

**DK – Approved**

David Kim  
Director of Internal Audit





## Memorandum

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**DATE:** October 3, 2022  
**TO:** Members of the Audit Committee  
**FROM:** Suzanne Jenike, Asst. CEO, External Operations and Jeff Lamberson, Director, Member Services  
**SUBJECT:** REPORTABLE THRESHOLD FOR BENEFIT CALCULATIONS

---

### Recommendation

Staff recommends that the Audit Committee approve the establishment of:

1. A Reportable Threshold of \$10.00 or more for reporting errors found during the Final Average Salary audits, and
2. Provide direction to Internal Audit and Member Services Management regarding the format and frequency of reporting on errors less than the reportable threshold found during the Final Average Salary Audits.

### Background/Discussion

The Member Services Management Team is committed to the goal of our 100% Accuracy project and to ensure ALL errors identified in our Final Average Salary (FAS) process are reviewed and corrected to guarantee our members benefits are processed with 100% Accuracy. As you recall, in 2020, Internal Audit was directed to perform their first of many quarterly FAS Audits at the direction of the OCERS Audit Committee. Since the completion of that first audit, the Member Services management team and staff have worked very hard to correct and improve our processes and controls surrounding the FAS calculation and the overall retirement process. We are now presenting a proposal to the Audit Committee about establishing a Reportable Threshold for the FAS Audit process. This presentation will provide additional details regarding the requested reporting options for the Audit Committee.

### Submitted by:



JL-APPROVED

Jeff Lamberson  
Member Services Director



**Reportable Threshold for Benefit Calculations**  
**Suzanne Jenike, ACEO**  
**Jeff Lamberson, MS Director**  
**October 3, 2022**



## Terms

Inherent Risk – existing risk in the absence of or current state of controls

Residual Risk - risk that will remain even with controls in place

Control - Actions taken by management to manage risk and increase the likelihood that established objectives and goals will be achieved

Tolerable Level of Residual Risk – the maximum difference from expected outcomes before a control is considered not designed or operating effectively

Reportable Threshold – Management established threshold below which items are not included in the error rate calculation reported to the Audit Committee



Actions taken by management to manage risk and increase the likelihood that established objectives and goals will be achieved (Quality Assurance reviews/reperforms FAS calculations)

Controls





Each circle (above colander) represents an inherent risk of a miscalculated FAS

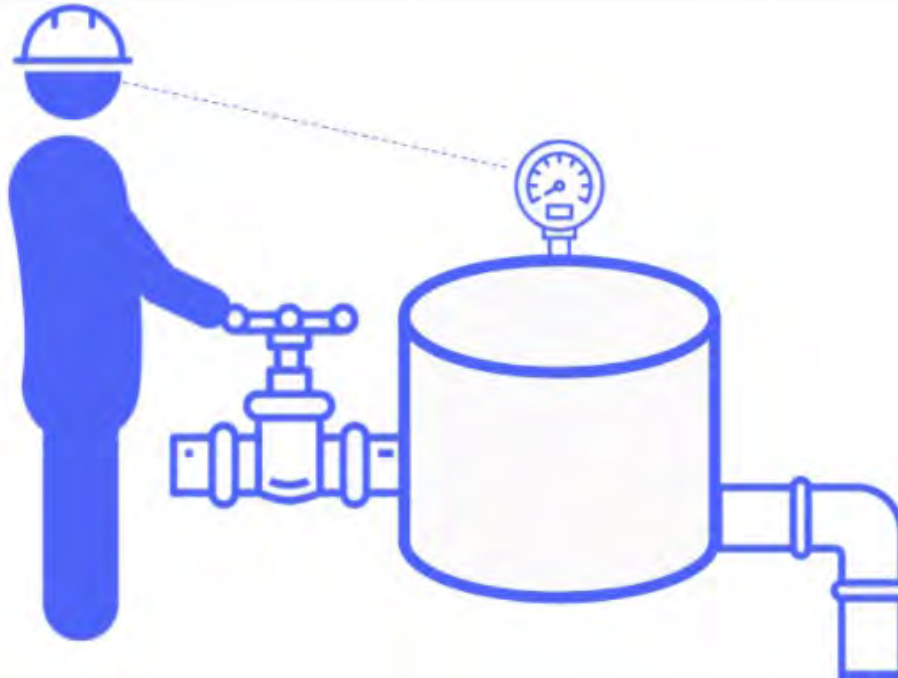


**Tolerable Level of Residual Risk – 0% FAS Error Rate**

**All errors that have been identified (above and below reportable threshold) are corrected**

## Manual Controls

- Applicable when judgement is required



- Applicable when judgement is required
  - Can be used to monitor automated controls
- But
- Inherently vulnerable to human error
  - Less consistent than automated controls



# History of Management Response



## Management response to Inherent Risk (March 2021):

1. Reorganization of the Retirement Program Specialist (RPS) department.
2. Development of the OCERS Retirement Transaction Tool.
3. Development of detailed written procedures for the entire Retirement Transaction Process.
4. Retrained the RPS teams on the newly developed Retirement Transaction Tool.
5. Development of a fully focused Quality Assurance Review Team and Reporting process.
6. Random Sampling of Retirement Transactions by Member Services Management Team.







## History of Management Response



Management response to Residual Risk - Management developed additional controls to mitigate the residual risk after the initial action plan above was implemented.





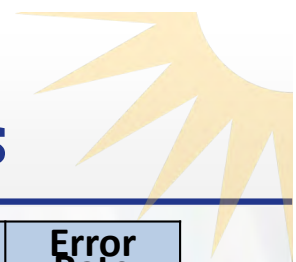
## Identify the Residual Risks

Residual Risk 1 –FAS calculation errors that remain after QA, regardless of the dollar amount of the error, Financial Impact

Residual Risk 2 – FAS supporting documentation is not uploaded to the Pension Administration System (PAS), No Financial Impact



## Under/Over \$10 Counts



Quarter	Benefit Applications	Tested by Internal Audit (IA)	IA Error Count	IA Error Rate	IA Error Count >\$10	Error Rate >\$10
Q1/2020	149	82	6	5.8%	3	3.6%
Q2/2020	514	56	2			
Q3/2020	108	10	1	8.0%	3	4.6%
Q4/2020	466	65	5			
Q2/2021	182	60	4	6.7%	3	5.0%
<b>Applications Subject to the Revised FAS Calculation Procedure</b>						
Q3/2021	75	75	6	8.0%*	2	2.6%
Q4/2021	154	134	2	1.5%*	0	0.0%
Q1/2022	196	50	2	4.0%*	1	2.0%
Q2/2022	607	41	1	2.4%*	1	2.4%

**\*Each of the quarters contained a month with 100% accuracy**



## IA Recorded FAS Error Data by QTR 2020 - 2022

Quarter	Dollar Benefit Impact	Benefit amount	Category of Errors	% of errors (\$)
Q1/Q2 2020	\$ 10.66	\$ 3,420.87	Data Entry	0.31%
Q1/Q2 2020	\$ 5.28	\$ 9,946.16	Data Entry	0.05%
Q1/Q2 2020	\$ 89.58	\$ 6,379.39	Data Entry	1.40%
Q1/Q2 2020	\$ 3.20	\$ 4,644.96	MOU Interpretation	0.07%
Q1/Q2 2020	\$ 1.52	\$ 5,216.89	MOU Interpretation	0.03%
Q1/Q2 2020	\$ 143.49	\$ 5,979.15	Calculation	2.40%
Q1/Q2 2020	\$ 6.85	\$ 8,383.76	Data Entry	0.08%
Q1/Q2 2020	\$ 1.93	\$ 2,316.00	Calculation	0.08%
Q3/Q4 2020	\$ 43.89	\$ 8,223.75	Data Entry	0.53%
Q3/Q4 2020	\$ 45.61	\$ 4,399.90	Calculation	1.04%
Q3/Q4 2020	\$ 17.35	\$ 4,518.51	Calculation	0.38%
Q3/Q4 2020	\$ 3.38	\$ 1,456.60	Calculation	0.23%
Q3/Q4 2020	\$ 0.18	\$ 831.21	Data Entry	0.02%
Q3/Q4 2020	\$ 0.07	\$ 1,420.92	Calculation	0.00%
Q2 2021	\$ 0.65	\$ 3,819.83	Calculation	0.02%
Q2 2021	\$ 5.49	\$ 5,781.77	Calculation	0.09%
Q2 2021	\$ 6.87	\$ 874.34	Calculation	0.79%
Q2 2021	\$ 174.37	\$ 8,374.97	Other	2.08%
Q3 2021	\$ 0.77	\$ 988.46	Calculation	0.08%
Q3 2021	\$ 2.37	\$ 5,781.77	Calculation	0.04%
Q3 2021	\$ 59.15	\$ 4,842.18	Calculation	1.22%
Q3 2021	\$ 10.07	\$ 6,613.65	Calculation	0.15%
Q3 2021	\$ 6.52	\$ 2,786.62	Calculation	0.23%
Q3 2021	\$ 0.53	\$ 5,181.59	Other	0.01%
Q4 2021	\$ 0.52	\$ 3,205.97	Calculation	0.02%
Q4 2021	\$ 1.60	\$ 3,928.71	Calculation	0.04%
Q1 2022	\$ 35.43	\$ 459.57	Other	7.71%
Q1 2022	\$ 2.56	\$ 8,825.93	Other	0.03%
Q2 2022	\$ 26.25	\$ 8,579.45	Other	0.30%



Implementation of QA and Excel Tool Controls



# Member Services Proposal to Audit Committee

## Member Services

**First and foremost - All errors are corrected no matter the threshold limit!**

Establish a **Reportable Threshold** for Errors that exist after controls are performed (residual risk) which are reportable to Audit Committee/Board as discussion items.

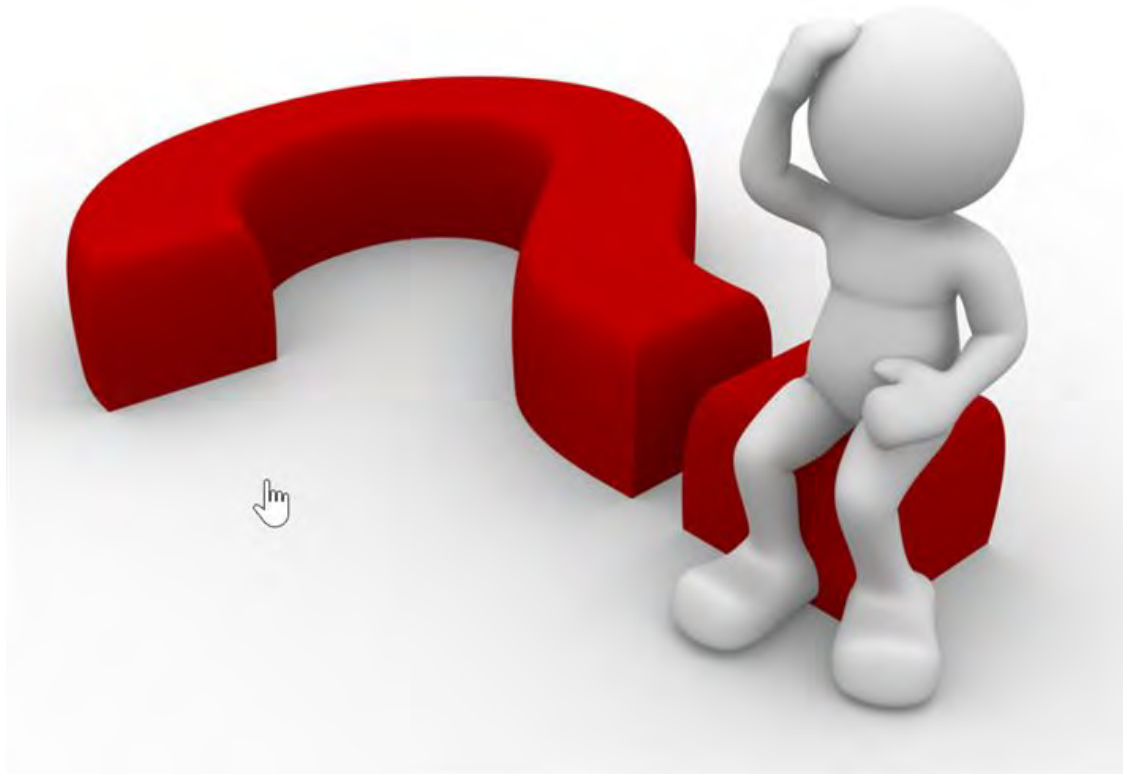
- Reportable Threshold = i.e. \$10.00 or greater in benefit error
  - Items below the \$10.00 threshold would not be included in the error rate calculation



## Direction to Internal Audit

- Establish the **Format of Reporting** on errors to the Audit Committee and the Board:
  - Options:
    1. Present all errors in Action Item Report (**Current Report by IA**)
    2. Present Action Item Report on errors above Reportable Threshold and provide a Written Report on errors below Reportable Threshold
    3. Only present Action Item Report on errors above Reportable Threshold
- Establish the **Frequency of Reporting** on errors to the Audit Committee and the Board:
  - Options:
    - Quarterly (**Current Audit and Reporting Structure**)
    - Semi Annually
    - Annually

# Questions





## Memorandum

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**DATE:** October 3, 2022  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** **MANAGEMENT ACTION PLAN VERIFICATION REPORT**

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### *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**

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David Kim  
Director of Internal Auditor





**Management Action Plan Status Re**

Project(s): ALL  
Mgmt. Status: ALL  
Plan Year(s): ALL

Process Owner(s): ALL  
Total # of Records: 105

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REPORTING FOR: 2018, 2019, 2020, 2021, 2022, ARCHIVED	OPEN	Closed - No Further Action Required (YTD)	Closed - No Further Action Required (Prior Years)	Total
<b>Process Owner</b>				
EMPLOYER	0	1	12	13
EXECUTIVE	0	0	4	4
FINANCE	0	1	19	20
INFORMATION SECURITY	1	0	0	1
INFORMATION TECHNOLOGY	7	1	8	16
INVESTMENTS	0	1	9	10
MEMBER SERVICES	7	4	30	41
<b>Total Count:</b>	<b>15</b>	<b>8</b>	<b>82</b>	<b>105</b>



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Project: Audit of the Benefit Setup Process (2012)**

Report Date: 12/04/2012  
 Total Observations: 6  
 Open Observations: 0  
 Closed 6

**Observation #1 - Manual FAS override**

CLOSED

**Process Owner:** Member Services  
**Completion Date:** 09/13/2022  
**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 confirmed the new QA process reviews all manual FAS overrides with the new 100% accruacy process

**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

**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



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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 #8 - Manual FAS supporting documentation**

CLOSED

**Process Owner:** Member Services  
**Completion Date:** 09/16/2021  
**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 confirmed the FAS Review process contains steps to review the supporting documentation.

**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: 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



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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.

**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



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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.

**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



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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]."

**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.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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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.

Executed: 9/22/2022 10:34:37 AM  
 Executed By: OCERS\dkim

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

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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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 OCERS’ Private Equity Managers Abbott Capital and Pantheon (2016)  
**Report Date:** 03/21/2016  
**Total Observations:** 4  
     **Open Observations:** 0  
     **Closed:** 4

**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.





**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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.

**Observation #4 - Consideration of ILPA best practices**

CLOSED

**Process Owner:** Investments  
**Completion Date:** 01/25/2021  
**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.  
**IA Follow-Up:** Investment Team developed a guide to track and assess the key legal and ILPA-related terms OCERS negotiates through the private markets investment manager contracting processes.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Project:** Audit of OCERS' Death Match Process (2016)  
**Report Date:** 06/24/2016  
**Total Observations:** 7  
     **Open Observations:** 1  
     **Closed:** 6

**Observation #4 - Death data vendors**

OPEN

**Process Owner:** Member Services  
**Due Date:** 12/30/2022  
**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 on an entity wide approach, with a completion date of 12/31/2021.

**Observation #1 - Overpayment to deceased members**

CLOSED

**Process Owner:** Member Services  
**Completion Date:** 12/21/2021  
**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. Process is in place to review updates from death data vendor. Member Services will provide updates to the remaining overpayments bi-annually to Internal Audit, starting June 2022

**Observation #2 - Manual query of V3 until new report is created**

CLOSED

**Process Owner:** Member Services  
**Completion Date:** 12/21/2021  
**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:** Query has been implemented. Recoupment of overpayment to be reviewed biannually with Internal Audit. The Benefit Recoupment Report has been created, refer to Benefit Recoupment Report 2021.pdf



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Observation #3 - Certification letters**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 04/07/2021

**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:** After Member Services management discussed 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. Certification letters are sent to all international payees. Member Services relies on the death match file for updates to domestic members.

**Observation #5 - Member banking information within V3**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 09/23/2021

**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:** Workflow approvals were reviewed by Internal Audit. An audit in member banking to be proposed as a future audit.

**Observation #6 - Pro-rating final payment for deceased members**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 02/25/2021

**Action Plan:** OCERS' management should consider the costs versus benefits of prorating a deceased member's final monthly benefit payment based upon the actual date of death versus making a full payment. V3 is not configured to calculate a prorated final benefit payment and a prorated initial continuance benefit payment effective the day after death for the remainder of the month. OCERS would have to pay additional costs to have Vitech reconfigure V3 and for OCERS' employees and consultants to test the changes. The estimated cost of reconfiguring and testing V3 to prorate the final benefit payment, the initial continuance payment, and payroll deductions is estimated by Vitech at \$144,000. In addition, management estimates that testing of the system changes would need to be done by staff or consultants at an estimated cost of \$150,000. A prorated final benefit policy would also result in more overpayments for Member Services to pursue for collection since the benefit payment is paid on the first of the month. Under current policy, deaths reported to OCERS in the month following death allows enough time for Member Services to terminate the benefit with no need to prorate. Under a prorated policy, it would be impossible for Member Services to prorate the final payment on the 1st of the month if the death was reported in the month after death. Member Services would possibly need to cross train staff in collection efforts to accommodate such an increase in collection efforts.

**Management Response**

Management considered the costs versus benefits of adopting a proration of the final benefit payment policy, but determined to continue the current practice of paying in full the final month's benefit. Prorating the member's final payment and survivor continuance first payment introduces additional complexity to the administration of the system and would require additional staff in Member Services and possibly Finance, in addition to the V3 configuration changes. Retiree payroll is typically

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**Management Action Plan Status Re**

Project(s): ALL  
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**IA Follow-Up:** Management considered the costs versus benefits of adopting a proration of the final benefit payment policy, but determined to continue the current practice of paying in full the final month's benefit.

**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.

**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.

**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.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
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**IA Follow-Up:** IA confirmed worksteps are completed and V3 enhancements were implemented.

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

**Report Date:** 11/26/2016

**Total Observations:** 2

**Open Observations:** 0

**Closed:** 2

**Observation #1 - Work in Process reporting**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 04/07/2021

**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.

**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.

**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



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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.  
**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.



**Management Action Plan Status Re**

Project(s): ALL  
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 Plan Year(s): ALL  
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**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 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.



## Management Action Plan Status Re

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### 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  
**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' Reciprocity Process (2017)

**Report Date:** 08/02/2017  
**Total Observations:** 3  
     **Open Observations:** 0  
     **Closed:** 3

### Observation #1 - Member educational efforts

CLOSED

**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.





**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
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**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.

**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 - There is not a proper segregation of duties within OCERS' IT Division in regards to the configuration of contribution rates in V3.**

OPEN

**Process Owner:** Information Technology

**Due Date:** 03/31/2023

**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.



**Management Action Plan Status Re**

Project(s): ALL  
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 Process Owner(s): ALL  
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**IA Follow-Up:** Internal Audit has spoken with management about action plan and will verify when duties are transitioned. The duties have been segregated among different departments. IT is finalizing the procedural document to configure the contribution tables in V3.

**Observation #1 - Contributions - Vacation Excess 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 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.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
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**Observation #4 - OCFA's MOU for employer paid pickups of Legacy employee contributions does not reflect actual payroll processes.**

CLOSED

**Process Owner:** Employer  
**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 Superior Court Payroll Transmittal (2018)**

**Report Date:** 11/08/2018  
**Total Observations:** 6  
**Open Observations:** 0  
**Closed:** 6

**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.



**Management Action Plan Status Re**

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 Mgmt. Status: ALL  
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**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 PEPRA 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 #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**

CLOSED

**Process Owner:** Employer  
**Completion Date:** 01/05/2022  
**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:** Superior Court no longer use independent contractors as court reporters. New employee classification/class spec for "Assignment Court Reporter" was created.

**Observation #5 - Employees On-Leave Status**

CLOSED

**Process Owner:** Employer  
**Completion Date:** 04/23/2019



## Management Action Plan Status Re

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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.

### Observation #6 - Member Affidavit

CLOSED

**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 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.



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Project(s): ALL  
 Mgmt. Status: ALL  
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**IA Follow-Up:** Internal Audit confirmed the circular letters have been posted to the OCERS website.

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

**Observation #1 - Disability payment calculation**

CLOSED

**Process Owner:** Member Services  
**Completion Date:** 01/05/2022  
**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 confirmed action plan has been implemented. A new Disability Process has been implemented along with the appropriate training.

**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  
**Due Date:** 02/28/2023



## Management Action Plan Status Re

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
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**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:** Access review is underway. Formal policies are currently in working draft as of February 2021 to be formalized by Dec 2022.  
 9/16 - RPA is a possible long term solution. Mgmt is considering a short term solution using SharePoint

**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:** 12/30/2022  
**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:** IT will develop testing templates and scenarios and will coordinate with management to perform testing for IT managed systems.  
 9/16/22 - Mgmt is currently developing test plans

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

OPEN

**Process Owner:** Information Technology  
**Due Date:** 02/28/2023  
**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:** Procedures the steps involved in the recovery process have been drafted, however, an overall backup policy needs to be formally developed.  
 9/16/22 - IT and InfoSec noted that IT staff with the appropriate level of access would be needed for the recovery process and that there are enough IT and InfoSec staff for BCDR situations. Management will still develop documented procedures for recovery but geared towards IT Staff.

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

CLOSED

**Process Owner:** Finance



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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 retile the document to be OCERS Business Continuity Program and review it with the CMT making updates as deemed appropriate. The Chief Executive Office will then formally approve the updated document. The updated document will be reviewed every three years for necessary changes. As an extension to this observation, staff will also recommend to the Board of Retirement a change to the CEO Charter the next time the Charter is due for a review. The change will be to specifically delegate to the CEO the duty of implementing, testing and maintaining a Business Continuity Program.  
**IA Follow-Up:** IA confirmed the Business Continuity Program documents has been formally approved by the CMT.

**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





**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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

**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.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Project: 1944 - Finance Benefits Audit**  
**Report Date:** 01/13/2020  
**Total Observations:** 4  
     **Open Observations:** 0  
     **Closed:** 4

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

CLOSED

**Process Owner:** Finance  
**Completion Date:** 03/14/2022  
**Action Plan:** Management will establish procedures to delete copies of the ACH text files from local hard drives after a copy of the file has been uploaded to Wells Fargo.  
 Finance will work with IT and Vitech to consider the cost/benefit of changing the ACH file process to directly upload an ACH file once it has been created in V3 and directly downloading the file to a secured network folder in the Finance directory.  
**IA Follow-Up:** 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.  
 2/3/22 - OCERS IT was able to modify the PM Export file process. The PM Export is now going to be run as a batch export file and will automatically save into a new secured folder location in the Finance folder on the F drive. In addition, access to run the PM Export is restricted to the Finance Accountant Auditor, Senior Accountant Auditor and Supervisor roles  
 3/14/22 - IA was able to confirm the PM Export file automatically uploads to a secured folder with limited access. IA also confirmed a documented procedure exists.

**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.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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.

**Project:** 1945- FAS Pay Items Audit  
**Report Date:** 06/04/2020  
**Total Observations:** 3  
     **Open Observations:** 1  
     **Closed:** 2

**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:** 12/30/2022  
**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 #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.**

CLOSED

**Process Owner:** Member Services  
**Completion Date:** 09/16/2021



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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:** Internal Audit reviewed updated procedure document and annual reconciliation file.

**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.

**Project:** 1971-IT General Controls  
**Report Date:** 06/04/2020  
**Total Observations:** 4  
     **Open Observations:** 2  
     **Closed:** 2

**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:** 12/30/2022

**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:** Enhancements have been made to the vendor management system. Processes and Procurement policy needs to be formally updated.

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



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Process Owner:** Information Technology  
**Due Date:** 12/30/2022  
**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:** IT to discuss solutions with other vendors. IT will focus on Member data and related data from business processes (e.g. member payroll, death data). Focus on data flows either instead of or before data classifications, depending on the nature of the observation.

**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.**

CLOSED

**Process Owner:** Information Technology  
**Completion Date:** 01/13/2022  
**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:** New financial accounting system implementation was moved to 2021 with move to production in Jan 2022. IA confirmed that the Intranet Portal has restricted administrative access. IA also confirmed the new financial accounting system has restricted administrative access

**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'.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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.

**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: 2032 - Actuarial Extract Audit**

**Report Date:** 10/13/2020  
**Total Observations:** 7  
**Open Observations:** 2  
**Closed:** 5

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

**OPEN**

**Process Owner:** Information Technology

**Due Date:** 12/30/2022



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**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:** IT has developed threshold recommendations and will coordinate with business owners for final approval.

**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:** 12/30/2022

**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 #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**

CLOSED

**Process Owner:** Information Technology

**Completion Date:** 09/22/2021

**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:** Member status logic recoding is complete and deployment launched.

**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.**

CLOSED

**Process Owner:** Information Technology

**Completion Date:** 03/11/2021

**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:** Formalized testing process has been documented and reviewed by IA

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

CLOSED

**Process Owner:** Information Technology

**Completion Date:** 03/11/2021

**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.



## Management Action Plan Status Re

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**IA Follow-Up:** IT Programming has formalized the code change validations process.

**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.**

CLOSED

**Process Owner:** Information Technology

**Completion Date:** 03/11/2021

**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:** Data cleanup process has been updated and data validation has occurred.

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

CLOSED

**Process Owner:** Information Technology

**Completion Date:** 03/11/2021

**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:** IA confirmed the Actuarial Extract Processing guide has been updated with the informational queries description.

**Project:** 2090 - Vulnerability and Patch Management

**Report Date:** 03/22/2021

**Total Observations:** 2

**Open Observations:** 1

**Closed:** 1

**Observation #1 - Details Removed - Discussed in Closed Session**

OPEN

**Process Owner:** Information Security

**Due Date:**

**Action Plan:** Details Removed - Discussed in Closed Session

**IA Follow-Up:**





**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Observation #2 - Details Removed - Discussed in Closed Session**

CLOSED

**Process Owner:** Information Technology  
**Completion Date:** 05/27/2021  
**Action Plan:** Details Removed - Discussed in Closed Session  
**IA Follow-Up:** Closed

**Project: 2020 - Continuous Audit of Final Average Salary Calculations (Q3/Q4 2020)**

**Report Date:** 03/22/2021  
**Total Observations:** 2  
**Open Observations:** 0  
**Closed:** 2

**Observation #1 - 1. Internal Audit noted an 8% error rate (six errors) with the 75 FAS calculations sampled from the 3rd and 4th quarters of 2020.**

CLOSED

**Process Owner:** Member Services  
**Completion Date:**  
**Action Plan:** Member Services has reviewed and is in the process of addressing the recalculations for members identified by Internal Audit during their review. Member Services Management has also taken the following steps which are further detailed in our "Member Services Management Quality Assurance Review Final Average Salary Q1-Q2 2020 Report.docx" document provided to the committee (Action Item A-5).  
 1. Reorganization of the Retirement Program Specialist (RPS) department.  
 2. Development of the OCERS Retirement Transaction Tool.  
 3. Development of detailed written procedures for the entire Retirement Transaction Process.  
 4. Retrained the RPS teams on the newly developed Retirement Transaction Tool.  
 5. Development of a fully focused Quality Assurance Review Team and Reporting process.  
 6. Random Sampling of Retirement Transactions by Member Services Management Team.  
**IA Follow-Up:** As part of the continuous audit for the FAS calculation, Internal Audit noted the MAP was completed during the July 1 payroll review.

**Observation #2 - 2. The FAS supporting documentation for three members needed to be updated in the pension administration system (no FAS impact).**

CLOSED

**Process Owner:** Member Services  
**Completion Date:** 04/02/2021  
**Action Plan:** Member Services has reviewed and updated the member files for the calculation documents for members identified by Internal Audit during their review. Member Services Management has also implemented a checklist within the new tool mentioned above.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**IA Follow-Up:** Internal Audit noted the checklist was included in the new FAS tool.

**Project:** 2132 - Continuous Audit of Final Average Salary Calculations (Q2 2021)  
**Report Date:** 06/04/2021  
**Total Observations:** 2  
**Open Observations:** 0  
**Closed:** 2

**Observation #1 - 1. Internal Audit noted a 6.7% error rate (four errors) out of the 60 FAS calculations sampled from the 2nd quarter of 2021.**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 05/20/2021

**Action Plan:** Member Services Management team takes all errors very seriously. As discussed before, we reorganized our team and implemented a full Quality Assurance process to review all payroll transactions and perform recalculations on any member's account where we found an error. We are reviewing the root cause of all errors and we are providing ongoing training on the errors found each month. We are providing direct feedback to the specific team members who processed the original calculations where errors occurred. We are also reporting up to senior management weekly on the results of our efforts.  
 As to the fourth error, we are working with ViTech, our V3 pension administration system vendor to develop a solution to this issue. We are also working with our team to review any accounts with similar employment history to ensure this error does not occur in the future until we can have the systematic issue fixed in V3. Upon our initial review of all member retirements that have been processed since the implementation of V3 (2016 forward), it is believed to impact approximately 11 members, but the investigation is ongoing. We will provide an update on the final number of members affected at the time of the June Audit Committee Meeting.  
 Member Services is also providing training to the team on how to identify members with this potential issue to ensure additional members are not impacted in the future until the fix in V3 is made

**IA Follow-Up:** Internal Audit reviewed the ViTech submission and confirmed with Member Services of the additional training.

**Observation #2 - 2. The FAS supporting documentation for two members needed to be updated in the pension administration system (no FAS impact).**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 05/20/2021

**Action Plan:** Member Services Management team is providing feedback to our team and the 2 specific team members who did not upload the fully completed supporting documentation to the V3 system. We will continue to reiterate the importance of maintaining the fully completed documentation in the members' files in V3 and will have the supervisor team monitor compliance.

**IA Follow-Up:** Internal Audit confirmed the documents have been uploaded and the feedback to the team members have been provided.



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Project:** 2133 - Dependent Survivor Eligibility Audit  
**Report Date:** 10/04/2021  
**Total Observations:** 4  
     **Open Observations:** 2  
     **Closed** 2

**Observation #2 - 2. Upon reviewing a survivor's benefit payment, we noted errors with the deceased member's benefit payment history from 2002 to the member's death in 2018.**

OPEN

**Process Owner:** Member Services

**Due Date:** 12/30/2022

**Action Plan:**  
 1. Per the OCERS' Overpaid and Underpaid Plan Benefits Policy, OCERS will not recoup the overpaid funds from the surviving spouse's continuance.  
 2. Current procedures requires Member Services to perform a comparison of the benefit components on both member and survivor to identify any possible discrepancies at the time of the survivorship establishment. We will review our current procedures to see if there are any additional steps, we can take to ensure we do not miss this type of discrepancy moving forward. We will also update our team and provide training specific to this issue.

**IA Follow-Up:**

**Observation #3 - 3. A lump sum beneficiary payment to a deceased DRO survivor payee's estate was overpaid by \$200.**

OPEN

**Process Owner:** Member Services

**Due Date:** 12/30/2022

**Action Plan:** Member Services Management will perform a root cause analysis and develop a QA process specific to the Manual Tertiary Applications. This type of application is very rare and is not fully developed and automated in V3. We will work to incorporate this in either a V3 upgrade or the new PAS system in the future.

**IA Follow-Up:**

**Observation #1 - 1. OCERS does not have a formalized and systematic process to address survivor benefits unclaimed over an extended period of time.**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 01/05/2022



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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



**Action Plan:** Member Services Management has worked with our IT partners to develop two reports that will alert us if we have a member that has a death date entered but does not have a survivorship processed. This will help us catch this type of oversight in the future. A process will be developed to monitor the reports/alerts and take appropriate action. Member Services will also research with ViTech to see if it would be possible to have an automated letter mailed out each month to a member's beneficiaries once a death date is entered and to conclude when a survivorship is processed to the beneficiaries. This will help ensure member beneficiaries are made aware of their possible benefit.

- 2 Reports are as follows:
- Deceased Retirees with No Associated Burial Benefit nor Survivorship benefit established.
  - Deceased Retirees with an Associated Burial Benefit but no Survivorship benefit established.

**IA Follow-Up:** Internal Audit confirmed the reports have been implemented

**Observation #4 - 4. A member's Disability Application was not located in the member's V3 records.**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 03/16/2022

**Action Plan:** Member Services/Disability team will ensure all the documents are uploaded before completing the Required Proof Doc Checklist. Member Services will validate at the time of disability recalculation that the required disability documentation is within the V3 member file.

**IA Follow-Up:** IA confirmed the disability documents have been uploaded to V3 and a process was implemented to validate documents have been uploaded.

**Project: 2135 - Quarterly FAS Review (Q4 2021)**

**Report Date:** 10/04/2021

**Total Observations:** 1

**Open Observations:** 0

**Closed:** 1

**Observation #1 - 1. Internal Audit noted an 8% error rate (six errors) with the 75 FAS calculations tested from the 3rd quarter of 2021.**

CLOSED

**Process Owner:** Member Services

**Completion Date:** 10/01/2021



## Management Action Plan Status Re

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Action Plan:** Member Services has recalculated the 6 accounts and made corrective retroactive payments/adjustments to each of the members in accordance with OCERS Overpaid and Underpaid Plan Benefits Policy. The first 5 members were corrected with the 9/1/2021 payroll and the last account was corrected on the 10/1/2021 payroll. Member Services RPS management team formed a committee to assist in developing new controls. One specific solution that came from this committee was the need to have a consistent process for them to follow to sort through the pay data used in determining FAS pay items. Member Services management developed new controls within the FAS Calculation Tool that incorporate macros to help sort and organize the work history for pay items to ensure all team members are working in a consistent process and to make it easier to identify the pay items to include in the FAS. We implemented and trained the RPS team on the new process in September.

Member Services management has also enacted version control on the FAS Calculation tool to ensure it is easy to identify if calculations are performed on an outdated file. Member Services management will continue to find new ways to eliminate errors in this process and implement them quickly with appropriate training and documentation on the processes for the team.

**IA Follow-Up:** Member Services shared the updated version of the FAS excel tool.

**Project:** 2231 - SSA Employer Audit  
**Report Date:** 03/30/2022  
**Total Observations:** 1  
     **Open Observations:** 1  
     **Closed:** 0

**Observation #1 - 1. The job title in the OCERS pension administration system (PAS) records for a Social Services Agency retiree in our sample did not reflect the retiree's actual job title.**

OPEN

**Process Owner:** Member Services  
**Due Date:** 12/01/2022  
**Action Plan:** Member Services Employer Payroll (EP) Management Team will perform a one-time audit of the records between OCERS and all employers supported through the County (Not Just SSA). Once Complete, updates will be sent to OCERS IT to make the necessary changes. After IT makes the changes to the system, a member of the EP Team will verify that the changes were successfully implemented. Ongoing, accuracy validation of the data at the time a member retires is currently performed and is also part of our updated Quality Assurance Process initiated in 2021. As a result of our updated quality assurance program and the fact that we rarely receive new or changed Bargaining Units and Job Class, Management is recommending we continue to review the quality for these records at the time of retirement. We will perform another global reconciliation at the time we perform a migration from the current pension administration system to our new pension administration system in the coming years.

**IA Follow-Up:**



**Management Action Plan Status Re**

Project(s): ALL  
 Mgmt. Status: ALL  
 Plan Year(s): ALL  
 Process Owner(s): ALL  
 Total # of Records: 105

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**Project:** 2232 - Quarterly FAS Review (Q1 2022)  
**Report Date:** 03/30/2022  
**Total Observations:** 1  
     **Open Observations:** 1  
     **Closed:** 0

**Observation #1 - 1. Internal Audit noted a 4.0% error rate (two errors) with the 50 FAS calculations sampled from the 1st quarter of 2022**

OPEN

**Process Owner:** Member Services  
**Due Date:** 12/31/2022  
**Action Plan:** Member Services (M.S.) Management team investigated the first error reported by Internal Audit for this quarter, and we determined that the original data came to OCERS from CalPERS in an Excel spreadsheet that contained improper formatting for the salary records. M.S. management has engaged the leadership team at CalPERS for the department that prepares this information to inform them of the formatting error. We have also reviewed additional member accounts for which we had received salary information from CalPERS to determine if any other accounts had a similar issue. All of the other accounts we reviewed contained spreadsheets that contained merged fields similar to this account, but they were formatted properly and correctly reported final average salary. We are also training our staff to be aware of the possibility of formatting errors from any outside agency using Excel to report data to OCERS.  
 Regarding the second account with an error, M.S. Management team is working with ViTech to determine the reason for the error and fix the PAS software to ensure it is following the configuration settings properly. We are also working to query the PAS software to see if there are any other accounts that may have been affected in a similar way to this account.  
**IA Follow-Up:**

**Project:** 2211 - Investment Manager Fee Report  
**Report Date:** 03/30/2022  
**Total Observations:** 1  
     **Open Observations:** 0  
     **Closed:** 1

**Observation #1 - Evidence of management review over the preparation of the Fee Report and the underlying Excel schedule used to help compile the report is not formalized and retained**

CLOSED

**Process Owner:** Investments  
**Completion Date:** 09/12/2022  
**Action Plan:** We acknowledge and concur with the observation. We believe that documenting the process will strengthen Investment Division's procedures while also providing a strong audit trail.  
**IA Follow-Up:** Internal Audit reviewed the Fee Report Procedure and signoff for the 2021 Annual Fee Report presented at the August 2022 Investment Committee meeting.



## Memorandum

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**DATE:** October 3, 2022  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** STATUS UPDATE OF 2022 AUDIT PLAN

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### *Written Report*

#### **Background/Discussion**

Attached is a comparison of budgeted 2022 audit plan hours versus the completed program actual hours, by project.

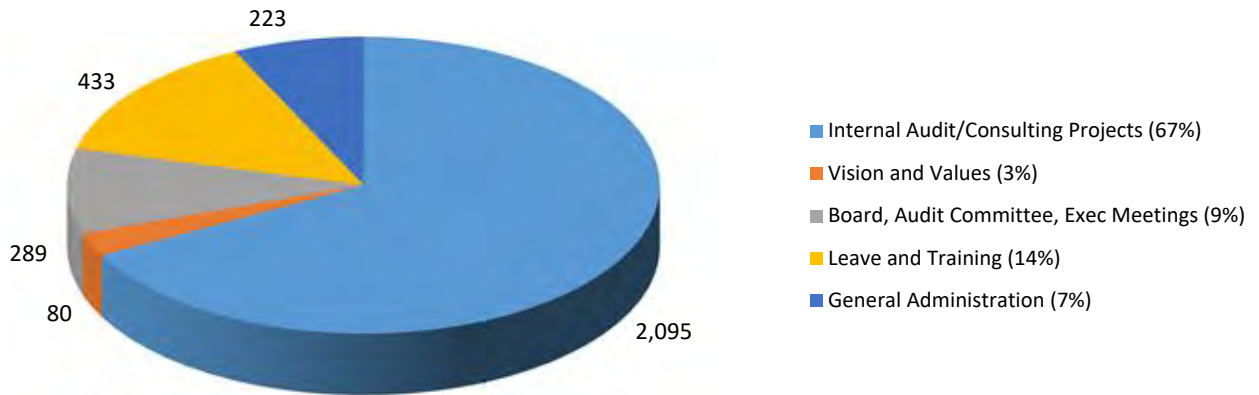
#### **Submitted by:**

DK - Approved

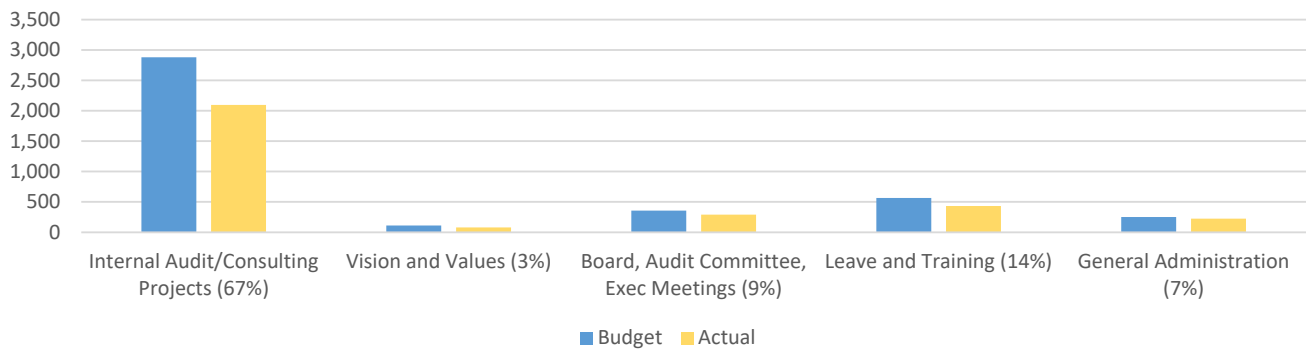
David Kim  
Director of Internal Audit

## 2022 Internal Audit Plan

**2022 Audit Hours (through 9/30/2022)**  
(3,120 Actual Hours)



**2022 Internal Audit Hours Budget vs. Actuals (% of Actual Hours)**  
(through 9/30/2022)





**Orange County Employees Retirement System  
2022 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
<b>Internal Audit/Consulting/Planning/QAIP</b>		<b>2,880</b>	<b>2,095</b>	<b>822</b>	
<b>Internal Audits - Assurance</b>		<b>2,290</b>	<b>1,764</b>	<b>563</b>	
IT Automated Controls (carryover from 2021 audit plan)	The objective of the audit is to validate the policies and procedures over V3 System calculations of the Percent of Final Average Salary and Base Final Average Salary prior to management's manual adjustment process, as well as the calculation of the Plan Benefit after the manual adjustment process. Performed by RSM.	30	35	0	Reviewing results with management. Additional meetings with IT Audit team.
Annual Investment Committee - Investment Manager Fee Reporting	Review Investment Division's controls that verify the compilation and review of the annual fee report provided to the Investment Committee.	300	302	0	First time audit - complete
Procurement Process	Review the controls over the procurement and contracting process at OCERS to ensure that the controls are designed and operating effectively in compliance with the Procurement and Contracting Policy.	300	332	0	First time audit. Additional time to discuss observations with Management
Alameda Implementation	Perform an independent review of the controls in place to ensure the recalculation of contribution refunds and retirement benefits related to the Alameda decision are complete and accurate; member information updated in V3 are reviewed and approved; and recording to the General Ledger is supported and authorized.	420	246	174	Reviewed Contributions file, attended project meetings
Employer Audit (County of Orange - Social Services Agency)	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	298	0	Complete
Employer Audit (Transportation Corridor Agency)	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. Last time audited in 2013.	300	56	244	Planning for Employer audit
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	170	145	25	Ongoing review of implemented MAPs from completed audits.
Continuous Audit - Final Average Salary (FAS) Calculation	Continuous audit of FAS calculations with criteria for manual adjustments to the FAS. Sample on quarterly basis	470	350	120	Q1, Q2 testing complete
<b>Internal Audits - Consulting</b>		<b>200</b>	<b>150</b>	<b>50</b>	
IT Audit Program	Azure Active Directory and MS365 Security – review the state of services deployed and determine if the current configuration aligns with leading practices (200 hours from RSM).	40	0	40	Moved to 2023 to account for new hires to Internal Audit
Consulting/Ad-hoc projects	Open for any ad-hoc project TBD	160	150	10	Adhoc member benefit review; RFP review of Actuarial Auditor and provided data for the audit; assisted Member Services with Annual Employer Report
<b>Internal Audits - Planning</b>		<b>250</b>	<b>106</b>	<b>144</b>	
Annual Audit Planning	Review and update Risk and Control Matrix.	100	34	66	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	150	72	78	

**Orange County Employees Retirement System  
2022 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
<b>Internal Audits - Quality Assurance and Improvement Program</b>		<b>140</b>	<b>75</b>	<b>65</b>	
<b>Quality Assurance and Improvement Program</b>	IA Quality Review- self assessment - QAIP program	60	60	0	
	Use of hotline reporting system.	80	15	65	
<b>Vision and Values</b>		<b>110</b>	<b>80</b>	<b>30</b>	
	Vision and Values - Continuous Improvement Program	50	40	10	Route to appropriate parties, report to OCERS executives.
	Vision and Values Committee (Internal OCERS Committee)	60	40	20	Internal committee to promote a positive culture at OCERS - Committee Vice Chair.
<b>Board, AC, OCERS Executive Meetings</b>		<b>356</b>	<b>289</b>	<b>67</b>	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	290	239	51	
	Weekly meetings with CEO	26	20	6	
	Monthly meeting with Audit Committee Chair	40	30	10	
<b>General admin time</b>		<b>250</b>	<b>223</b>	<b>27</b>	
	General admin time	250	223	27	7% of total hours. Participated in OCERS interviews
<b>Leave (Holiday/Annual) and Training</b>		<b>564</b>	<b>433</b>	<b>132</b>	
	Holidays (12 days), Annual Leave (15 days)	432	316	116	
	Training and Continuing Education	132	117	16	
<b>Grand Total Hours</b>		<b>4,160</b>	<b>3,120</b>	<b>1,078</b>	