

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

**AUDIT COMMITTEE MEETING
Thursday, March 28, 2024
9:30 A.M.**

AMENDED

Members of the Committee

Charles Packard, Chair
Adele Tagaloa, Vice Chair
Chris Prevatt
Shari Freidenrich

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 (information below) from any location.

OCERS Zoom Video/Teleconference information	
<p>Join Using Zoom App (Video & Audio)</p> <p>Join Zoom Meeting https://ocers.zoom.us/j/83607627451</p> <p>Meeting ID: 836 0762 7451 Passcode: 266313</p> <p>Go to https://www.zoom.us/download to download Zoom app before meeting Go to https://zoom.us to connect online using any browser.</p>	<p>Join by Telephone (Audio Only)</p> <p>Dial by your location</p> <ul style="list-style-type: none"> +1 669 900 6833 US (San Jose) +1 253 215 8782 US (Tacoma) +1 346 248 7799 US (Houston) +1 929 436 2866 US (New York) +1 301 715 8592 US (Germantown) +1 312 626 6799 US (Chicago) <p>Meeting ID: 836 0762 7451 Passcode: 266313</p>
<p>A Zoom Meeting Participant Guide is available on OCERS' website Board & Committee meetings page</p>	

AGENDA

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

OPEN SESSION

1. CALL MEETING TO ORDER AND ROLL CALL
2. BOARD MEMBER STATEMENT REGARDING PARTICIPATION VIA ZOOM (IF NECESSARY)
(Government Code section 54953(f))
3. PUBLIC COMMENTS

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. When addressing the Committee, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

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.

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

CONSENT AGENDA

C-1 AUDIT COMMITTEE MEETING MINUTES

Audit Committee Meeting Minutes

January 19, 2024

Recommendation: Approve minutes.

C-2 HOTLINE UPDATE

Recommendation: Receive and file.

C-3 INTERNAL AUDITOR'S INDEPENDENCE AND ETHICS STATEMENT

Recommendation: Receive and file.

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. Persons attending the meeting in person and wishing to provide comment on a matter listed on the agenda should fill out a speaker card located at the back of the Boardroom and deposit it in the Recording Secretary's box located near the back counter.**

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

A-2 ADOPTION OF THE CHIEF COMPLIANCE OFFICER CHARTER

Presentation by Kwame Addo, Chief Compliance Officer

Recommendation: Approve and recommend that the Board approve the adoption of the Chief Compliance Officer Charter as presented.

A-3 ADOPTION OF THE COMPLIANCE PROGRAM CHARTER

Presentation by Kwame Addo, Chief Compliance Officer

Recommendation: Approve and recommend that the Board approve the adoption of the Compliance Program Charter as presented.

A-4 OUT-OF-CYCLE REVIEW OF THE AUDIT COMMITTEE CHARTER

Presentation by David Kim, Director of Internal Audit

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

A-5 OUT-OF-CYCLE REVIEW OF THE INTERNAL AUDIT CHARTER

Presentation by David Kim, Director of Internal Audit

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

A-6 OUT-OF-CYCLE REVIEW OF THE ETHICS, COMPLIANCE, AND FRAUD HOTLINE POLICY

Presentation by David Kim, Director of Internal Audit

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

A-7 CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q3 2023)

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

Recommendation: Receive and file.

A-8 AUDIT REPORT - OCERS PAYROLL TRANSMITTAL PROCESS

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

Recommendation: Receive and file.

A-9 AUDIT REPORT - OCERS ACCOUNTS PAYABLE PROCESS

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

Recommendation: Receive and file.

A-10 INVESTMENT ALLOCATION AND REBALANCING AUDIT

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

Orange County Employees Retirement System
March 28, 2024
Audit Committee Meeting

Recommendation: Receive and file.

A-11 CONSIDERATION OF REVISED 2024 AUDIT PLAN

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

CLOSED SESSION

E-1 THREAT TO PUBLIC SERVICES OR FACILITIES

(Government Code Section § 54957)

Consultation with OCERS Director of Cyber Security

Recommendation: Take appropriate action.

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

INFORMATION ITEM

I-1 2023 FINANCIAL STATEMENT AUDIT – ENTRANCE CONFERENCE

Presentation by Kory Hoggan and Aaron Hamilton, Moss Adams

I-2 AUDIT COMMITTEE FEEDBACK AND DIRECTION SUMMARY

Presentation by David Kim, Director of Internal Audit

WRITTEN REPORTS

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

R-1 OPERATIONAL RISK MANAGEMENT ANNUAL REPORT

Written Report

R-2 MANAGEMENT ACTION PLAN VERIFICATION REPORT

Written Report

R-3 STATUS UPDATE OF 2024 AUDIT PLAN

Written Report

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

**BUILDING COMMITTEE MEETING
APRIL 4, 2024
9:30 A.M.**

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

**DISABILITY COMMITTEE MEETING
APRIL 15, 2024
8:30 A.M.**

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

**REGULAR BOARD MEETING
APRIL 15, 2024
9:30 A.M.**

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

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

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at adminsupport@ocers.org or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours' notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

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

**AUDIT COMMITTEE MEETING
FRIDAY, JANUARY 19, 2024
9:30 A.M.**

MINUTES

OPEN SESSION

Chair Packard called the meeting to order at 9:32 a.m.

Recording Secretary administered the Roll Call attendance.

Attendance was as follows:

Present: Charles Packard, Chair; Adele Tagaloa, Vice Chair; Shari Freidenrich, Ex-Officio Member; Chris Prevatt; Board Member

Also Present: Steve Delaney, Chief Executive Officer; Brenda Shott, Assistant CEO Internal Operations; Manuel Serpa, General Counsel; David Kim, Director of Internal Audit; Mark Adviento, Senior Internal Auditor; Jenny Davey, Internal Auditor; Esther Hong, Internal Auditor; Jeff Lamberson, Director of Member Services; Silviu Ardeleanu, Director of Member Services; Marielle Horst, Recording Secretary; Anthony Beltran, Audio Visual Technician.

Guests via Zoom: Alfred Ko and Tyler Larchick, RSM; Susan Verghese, Institute of Internal Auditors (IIA) Quality Services

PUBLIC COMMENT

None.

CONSENT AGENDA

C-1 APPROVE AUDIT COMMITTEE MEETING MINUTES

Audit Committee Meeting Minutes

December 12, 2023

MOTION by Ms. Freidenrich, **seconded** by Mr. Prevatt, to approve the Minutes.

The motion passed **unanimously**.

CLOSED SESSION ITEMS

Orange County Employees Retirement System
January 19, 2024
Audit Committee Meeting

The Committee adjourned to closed session at 9:34 a.m.

E-1 THREAT TO PUBLIC SERVICES OR FACILITIES

(Government Code Section § 54957)

Consultation with OCERS Director of Cyber Security

Recommendation: Take appropriate action.

OPEN SESSION

The Committee reconvened to open session at 9:52 a.m.

REPORT OF ACTIONS TAKEN IN CLOSED SESSION

Mr. Serpa reported no reportable action was taken during closed session.

ACTION ITEMS

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

None.

A-2 CONSIDERATION OF 2024 RISK ASSESSMENT AND 2024 AUDIT PLAN

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

Mr. Kim presented the proposal for the 2024 Audit Plan, which included four first-time audits: Healthcare Agency, Public Law Library, Orange County Employees Retirement System (OCERS), and Cost of Living Adjustments (COLA). Continuing audits include Final Average Salary (FAS) calculations, as well as the implementation of Alameda.

Ms. Freidenrich commented that she appreciates Internal Audit for continuing to expand on audit areas that have not been previously reviewed. Ms. Tagaloa and Mr. Prevatt suggested Internal Audit reduce the number of FAS calculation audits to one in the fourth quarter and instead rely on the controls in place from the Quality Assurance team. In addition, Ms. Freidenrich suggests implementing quarterly reports from the Quality Assurance team. Internal Audit might then be called in on future occasions for additional audits during the year.

Ms. Freidenrich also suggested revising the scope of the Alameda 2 recalculation audit, lessening the breadth of the audit but still providing some independent input to CEO Delaney on the work being accomplished. Mr. Delaney concurred that while confident in his team's work, Internal Audit confirmation would be of value.

After discussion, the committee directed Internal Audit to adjust the Audit Plan and return in March while continuing to work on employer audits.

Orange County Employees Retirement System
January 19, 2024
Audit Committee Meeting

MOTION by Ms. Freidenrich, **seconded** by Mr. Prevatt, to receive and file.

The motion passed **unanimously**.

A-3 EXTERNAL QUALITY PEER REVIEW REPORT

Presentation by Susan Verghese, IIA Quality Services

Recommendation: Receive and file.

Ms. Verghese presented the findings of the External Quality Peer Review Report and found that OCERS Internal Audit scored consistently higher than the universe of Internal Audit organizations reviewed by the IIA since 2013, specifically around Internal Audit governance, Internal Audit staff, Internal Audit management, and Internal Audit processes. Stakeholders view Internal Audit as a partner and how Internal Audit is operating. This level of the survey results is not seen frequently.

MOTION by Ms. Freidenrich, **seconded** by Ms. Tagaloa, to receive and file.

The motion passed **unanimously**.

WRITTEN REPORTS

R-1 REPORTING OF INTERNAL AUDIT KEY PERFORMANCE INDICATORS

Written Report

Mr. Kim reviewed the Key Performance indicators, noting that the KPIs were referenced from other Internal Audit organizations, and can be adjusted going forward.

R-2 MANAGEMENT ACTION PLAN VERIFICATION REPORT

Written Report

STAFF COMMENTS

Ms. Horst reviewed the 2024 calendar with the Committee Members. The following dates were confirmed for future Audit Committee meetings: March 28, June 6, October 9, and December 12, 2024.

COMMITTEE MEMBER COMMENTS

Ms. Tagaloa welcomed Mr. Prevatt to the Audit Committee and commented that all committees should work in collaboration, especially with the Personnel Committee. Mr. Packard also welcomed Mr. Prevatt to the Audit Committee.

CHIEF EXECUTIVE OFFICER

NONE

COUNSEL COMMENTS

Orange County Employees Retirement System
January 19, 2024
Audit Committee Meeting

NONE

ADJOURNMENT

Chair Packard adjourned the meeting at 10:58 a.m.

Submitted by:

Submitted by:

Approved by:

David Kim
Committee Liaison

Steve Delaney
Secretary to the Board

Charles Packard
Chair



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **HOTLINE UPDATE**

Recommendation

Receive and file.

Background/Discussion

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

Internal Audit received one report from the hotline:

- February 28, 2024 – Member called the OCERS hotline in error to report an issue on a medical bill. Member Services spoke with the member to clarify the hotline information and provided the member with the health insurance company’s hotline phone number. The matter is considered closed.

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

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: INTERNAL AUDITOR'S INDEPENDENCE AND ETHICS STATEMENT

Recommendation

Receive and file.

Background/Discussion

An external quality assessment (EQA) report was presented by the Institute of Internal Auditors (IIA) Quality Services to the Audit Committee (Committee) on January 19, 2024. In the EQA report, there was an observation for the Director of Internal Audit to document the annual confirmation of independence and adherence to the Institute of Internal Auditor (IIA) Code of Ethics to the Audit Committee.

The attached is a documented certification of the Director of Internal Audit's independence and adherence to the IIA Code of Ethics, as defined by the Institute of Internal Auditors.

Attachment

Submitted by:



DK- Approved

David Kim
Director of Internal Audit

OCERS Internal Audit

Internal Auditor's Independence and Ethics Statement

INDEPENDENCE AND CONFIDENTIALITY OVERVIEW

The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner. The mission of the Internal Audit Department is to provide reliable, independent and objective evaluations and consulting services to the Audit Committee and OCERS's management relating to business and financial operations.

Internal Audit shall not participate in any management activity or management relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization in accordance with the Institute of Internal Auditors' Code of Ethics.

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

In order to maintain independence and objectivity, staff members will not be assigned audits involving the following instances:

- Any situation where their assignment could create a conflict of interest or the appearance of bias.
- Any situation that involves a member of the auditor's immediate family.
- Any activity that the auditor previously performed or supervised unless a reasonable period of time has elapsed.

"Confidential Information" is defined as personally identifiable information (any information that identifies, relates to, describes, or is capable of being associated with a particular individual) and information that is proprietary or sensitive to OCERS, its operations, suppliers, or employees. Confidential Information acquired by an auditor through their employment is considered to be privileged and must be held in strictest confidence. It is to be used solely for OCERS purposes and not as a basis for personal gain by the auditor. Confidential information will only be transmitted to those who need it to discharge their duties as OCERS employees or auditors.

THE IIA CODE OF ETHICS

OCERS Internal Audit adopts and upholds the Code of Ethics as promulgated by The Institute of Internal Auditors. The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing as it is founded on the trust placed in its objective assurance about risk management, control, and governance. All internal auditors are expected to apply and uphold the following principles:

Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

OCERS Internal Audit

Internal Auditor's Independence and Ethics Statement

Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

RULES OF CONDUCT

1. Integrity

Internal auditors shall:

- Perform their work with honesty, diligence, and responsibility.
- Observe the law and make disclosures expected by the law and the profession.
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- Respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- Not accept anything that may impair or be presumed to impair their professional judgment.
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties.
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills, and experience.
- Perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Continually improve their proficiency and the effectiveness and quality of their services.

OCERS Internal Audit

Internal Auditor's Independence and Ethics Statement

STANDARD 1100 – INDEPENDENCE AND OBJECTIVITY

1100 Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110 Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting the board involve the board:

- *Approving the internal audit charter;*
- *Approving the risk based internal audit plan;*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
- *Approving decisions regarding the appointment and removal of the chief audit executive; and*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

1110.A1 The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the

OCERS Internal Audit

Internal Auditor's Independence and Ethics Statement

internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform her or her duties and responsibilities objectively.

1130 Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest; scope limitations; restrictions on access to records, personnel, and properties; and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130 C1 Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130 C2 If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the engagement client prior to accepting the engagement.

OCERS Internal Audit

Internal Auditor's Independence and Ethics Statement

INTERNAL AUDITOR'S INDEPENDENCE STATEMENT

The audit organization and the individual auditor should be free in both fact and appearance from personal, external, and organizational impairments to independence. Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits.

OCERS Internal Audit expects auditors to maintain independence of mental attitude in the conduct of all assigned work; to be objective, fair, and impartial; and to conduct themselves in such a manner that clients and third parties will see our department in this way. Each staff member must promptly notify the Director of Internal Audit/Chief Audit Executive (CAE) concerning any situation that would impair the staff member's or the audit team's independence on an audit, or that might lead others to question it. If a staff member has any doubt about whether a situation may be impairment, he or she should resolve the question in favor of disclosure.

Being able to answer affirmatively to the following ensures independence. It is recognized exceptions exist. To ensure exceptions are appropriately considered in an audit engagement, full disclosure of an exception is required.

1. I have no official, professional, personal, or financial relationships that might cause me to limit the extent of the inquiry, to limit disclosure, or to weaken or slant audit findings in any way (includes relatives employed by or serving the organization). Financial relationships are limited to compensation and benefits normally associated with the organization.
2. I have no official preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit. I have no biases, including those induced by political or social convictions that result from employment in or loyalty to, a particular group, organization, or level of government.
3. I have no previous responsibility for decision-making or managing an entity that would affect current operations of the entity of program being audited.
4. I have not maintained or made entries to the official accounting records of the client within the past 12 months. I have no financial interest, direct or indirect, in the audited entity or program.
5. I have not been offered or submitted an application for a position with OCERS during the preceding year.
6. I will appropriately maintain and protect the confidentiality of any information or data to which I may have access, including audit files and reports.
7. I will not seek to personally benefit or permit others to personally benefit from any OCERS data or information that I may encounter during my work as an Internal Auditing employee.

Identify audit areas, which may be affected by the above situations:

By my signature below, I certify that I have disclosed (above) or by attachment to this statement any personal impairment of which I am aware and which might be perceived to impair my objectivity in relation to audit engagements. In addition, I have been informed of the independence and objectivity standards of the International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors. **In the event that my objectivity or independence in relation to the area under review becomes impaired, I understand it is my responsibility to inform my immediate supervisor of the relevant circumstances.** In addition I have knowledge of and will abide by The Institute of Internal Auditors' Code of Ethics.

Printed Name: David Kim Date: 3/28/2024

Signature: DK - Approved



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: Manuel D. Serpa, General Counsel
Kwame Addo, Chief Compliance Officer
SUBJECT: ADOPTION OF THE CHIEF COMPLIANCE OFFICER CHARTER

Recommendation

(1) Approve and recommend that the Board adopt the Chief Compliance Officer (CCO) Charter.

Background/Discussion

In its current state, OCERS has limited-scope compliance activities handled by the Legal, Audit, and Operational Risk Management Committee. This is a common configuration for most CERL and other public retirement systems. The General Counsel often serves as the de facto Chief Compliance Officer, wearing both hats.

At its October 2022 meeting, the Board approved hiring a Chief Compliance Officer (CCO) to develop and lead a formal compliance program to help ensure agency-wide compliance with laws, ethical rules, policies, and procedures. OCERS filled the CCO position with the hire of Kwame Addo in September of 2023.

As an executive management team member, the CCO will collaborate with the Board, management, and staff to promote an ethical culture and to implement an effective compliance program.

Proposed Charter

The Chief Compliance Officer Charter defines the role's reporting structure, authority, and responsibility in establishing and maintaining a dedicated Compliance Program at OCERS, as set forth in the Compliance Program Charter, also being considered by the Audit Committee. The Charter includes the following key components that are consistent with the Federal Sentencing Guidelines requirements for an effective compliance and ethics program:

1. **Responsibility:** The CCO will develop, implement, and maintain the OCERS Compliance Program and manage its day-to-day operation to ensure its effectiveness in detecting, preventing, investigating, and remediating compliance issues. The Compliance Program will be comprehensive, with risk assessments and control monitoring to mitigate risks effectively.
2. **Independence:** With access to the Audit Committee and the Board of Retirement as needed, the CCO will have the independence necessary to ensure that compliance is prioritized and that the Committee and the Board have sufficient information to exercise reasonable oversight of the program. The CCO will report to the Audit Committee on the operation of the compliance program at least twice a year.
3. **Authority:** The CCO will be able to access and run reports on the internal processes and records of OCERS divisions and departments, engage with regulators on behalf of OCERS, and oversee compliance investigations.

The draft of the Chief Compliance Officer Charter is attached for your review and consideration.

Attachment

Submitted by:



MDS-Approved

Manuel D. Serpa
General Counsel



KA-Approved

Kwame Addo
Chief Compliance Officer



OCERS Board Charter

Chief Compliance Officer Charter

Introduction

1. The OCERS Chief Compliance Officer (CCO) is responsible for leading the management and operation of the OCERS Compliance Program as set forth in the Compliance Program Charter. According to the OCERS Chief Executive Officer (CEO) Charter, the CEO hereby delegates to the CCO the authority to act finally with respect to all the matters set forth below. The actions of the CCO under this Charter shall be conducted in compliance with applicable laws and Board policies. Except where the CEO has required the CCO to act personally, the CCO may subdelegate, as appropriate in the judgment of the CCO, any authority delegated to the CCO under this Charter. The CCO will receive support from all levels of management, the CEO, and the Board to create a comprehensive and effective compliance program.

Reporting

2. The CCO reports to the General Counsel and has the authority to access the Audit Committee and the Board directly and independently on an as-needed basis, i.e., the CCO has a reporting dotted line to the Board. In addition, the CCO will report to the Audit Committee on at least a biannual basis on the operation and effectiveness of the OCERS Compliance Program.

Authority and Responsibility

3. Under the direction of the Audit Committee and in collaboration with senior management, the CCO will develop, implement, and maintain the OCERS Compliance Program (Compliance Program), as set forth in the OCERS Compliance Program Charter. Senior management refers to the Chief Executive Officer (CEO), Assistant CEOs, Chief Investment Officer, and General Counsel. In addition, the CCO will have the following authority and responsibilities:
 - a. Formulate and supervise a multi-phase plan for the development and implementation of the Compliance Program that follows guidance issued by the Department of Justice and established industry best practices;
 - b. Manage the day-to-day administration of the Compliance Program to ensure effectiveness in detecting, preventing, investigating, and remediating compliance issues;
 - c. Maintain a commitment to the OCERS Code of Ethics and Standards of Professional Conduct Policy, and have a working knowledge of ethics issues relevant to OCERS;
 - d. Develop and implement compliance training programs;
 - e. Establish and monitor compliance controls necessary for an effective compliance program;
 - f. Develop and implement a risk assessment program to identify, prioritize, and mitigate legal and ethical risks;
 - g. Develop and maintain program documents that detail each element of the Compliance Program;



OCERS Board Charter

Chief Compliance Officer Charter

- h. Monitor and report compliance performance and ensure the timely escalation of issues that have the potential to negatively impact adherence to applicable rules, regulations, or OCERS policies;
- i. Establish, maintain, and publicize compliance reporting channels for employees to use without fear of retaliation;
- j. Oversee the investigation of hotline reports and any other reports of non-compliance and escalate as appropriate;
- k. Oversee compliance investigations in coordination with the General Counsel or Human Resources as needed;
- l. Support Internal Audit in its issuance of reports, including assisting management to develop action plans in response to audit observations ;
- m. Maintain access to the internal processes and records of OCERS divisions and departments, including the ability to request information and run reports necessary for compliance activities and monitoring;
- n. Report compliance effectiveness to senior management, the Audit Committee, and the Board, as appropriate;
- o. Ensure proper reporting of violations or potential violations to duly authorized enforcement agencies as appropriate;
- p. Engage with regulators, vendors, and other stakeholders on behalf of OCERS for compliance-related matters; and
- q. Stay up-to-date with industry developments and best practices by connecting with compliance professionals and networks.
- r. Should criminal conduct be detected, the CCO shall take reasonable steps to respond appropriately to the criminal conduct and to prevent similar criminal conduct, including recommending any necessary modifications to the Compliance Program, and notify the Audit Committee accordingly.

Charter Review

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

Charter History

- 5. The Chief Compliance Office Charter was adopted by the Board of Retirement on _____.

Secretary's Certificate

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



OCERS Board Charter

Chief Compliance Officer Charter

Steve Delaney, Secretary of the Board Date

I understand and accept the authority delegated by this Charter.

Kwame Addo, Chief Compliance Officer Date



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: Manuel D. Serpa, General Counsel
Kwame Addo, Chief Compliance Officer
SUBJECT: ADOPTION OF THE COMPLIANCE PROGRAM CHARTER

Recommendation

(1) Approve and recommend that the Board adopt the Compliance Program Charter.

Background/Discussion

In its current state, OCERS' compliance activities are dispersed and handled by the Legal Division, Internal Audit, and Operational Risk Management Committee, in addition to the informal compliance oversight provided by management in each department. This setup is like that of most CERL and other public retirement systems across the country. Typically, General Counsels wear dual hats and serve as de facto Chief Compliance Officers.

At its meeting in October 2022, the Board of Retirement approved hiring a Chief Compliance Officer (CCO) who would develop a formal compliance program to ensure agency-wide compliance with laws, ethical rules, policies, and procedures and lead the compliance department. The position was filled in September 2023 with the hire of Kwame Addo.

The Compliance Program Charter, which is being considered by the Audit Committee today, will initiate the creation of a dedicated compliance program. The Charter includes the key elements for an effective compliance and ethics program set forth by the Department of Justice in the Federal Sentencing Guidelines and adopted as compliance industry best practices. It will also add OCERS to a small group of public retirement systems, including LACERA, CALSTRS, and CCCERA, with dedicated and independent compliance programs.

Program Design

The Federal Sentencing Guidelines state that an effective compliance and ethics program shall be reasonably designed, implemented, and enforced so that the program is generally effective in preventing and detecting criminal conduct. The Guidelines also provide that the promotion of an organizational culture that encourages ethical conduct and a commitment to compliance with the law requires certain components. For example, the organization's governing authority shall be knowledgeable about the content and operation of the compliance and ethics program and exercise reasonable oversight concerning its implementation and effectiveness. The Compliance Program Charter incorporates the key components described by the Guidelines.

In addition, the draft of the Charter utilized resources from the Society for Corporate Compliance and Ethics (SCCE). In the compliance industry, the SCCE is globally recognized as a premier professional association that establishes ethical practice and compliance standards. It also offers education and professional certification in ethics and compliance.

In accordance with industry best practices, the Compliance Program Charter provides a foundation based on the "three lines of defence" risk mitigation model.

First Line of Defence – Departments

- Identify, assess, and effectively manage all operational and compliance risk
- Adhere to all policies, procedures, and processes

Second Line of Defence – Compliance

- Provide independent challenge, review, and monitor the First Line of Defence activities
- Promote a strong risk and compliance culture supported by OCERS' vision and culture

Third Line of Defence – Internal Audit

- Analyze the effectiveness of governance, risk management, operational controls, and compliance management
- Assess the adequacy, design, and ongoing effectiveness of OCERS' governance framework

Although each line plays a distinct role within OCERS' governance framework, the Program's overall effectiveness depends on all three lines working collaboratively to identify, evaluate, prioritize, and mitigate risks. In its second-line role, Compliance will serve as a trusted advisor to departments on regulatory matters. As part of the program's issues management component, Compliance will partner with the departments and Internal Audit to assist with resolving issues that are either self-identified by departments or observations made by Internal Audit.

Once fully established, the Program will offer more comprehensive and centralized coverage to mitigate regulatory, operational, and reputational risks. An integrated assurance model, that is endorsed by the Institute of Internal Auditors, will also be in place. This will enable Internal Audit to rely on the work of Compliance in its activities to avoid duplication. Additionally, Compliance can rely on department attestations, where appropriate.

With a dedicated compliance program new to OCERS, it is important that a culture of compliance supported by the Board and all levels of management be cultivated. To assist, short-term plans for 2024 include the CCO:

- Assuming responsibility for the Operational Risk Management Report from Facilities and Operations Support
- Assuming Hotline oversight responsibility from Audit
- Partnering with Learning and Organizational Development to create engaging compliance awareness training and materials
- Drafting compliance program documents

Long-term plans, some of which have a dependency on the Master Repository Program, include the establishment of:

- Controls aligned to procedures with CERL/regulatory implications.
- Control monitoring
- Risk Assessment
- Comprehensive compliance training
- Staffing the Compliance Office for agency coverage and further promoting an independent operating environment

This initial draft of the charter states that the Chief Investment Officer is primarily responsible for designing and implementing compliance controls within the Investment division and that the CCO will assist with those efforts. However, once the program framework is in place, the Compliance Program intends to initiate components specific to the Investment Division.

Proposed Charter

The proposed charter defines the Program’s objectives, scope, governance structure, and elements and tries to embody OCERS’s mission and values in its description.

The Compliance Program will follow a collaborative/partnership approach to facilitate teamwork, better decision-making, improved communication, and transparency around issue identification and reporting.

Key program elements are:

- Program Administration: Define the guidance role of the CCO and the partnership expectations of divisions and departments.
- Standards, Policies, and Procedures: Assist with establishing policies and procedures and identifying those that require regulatory compliance.
- Risk Assessment: Develop assessment schedules to identify, prioritize, and mitigate legal and ethical compliance risks.
- Control Monitoring: Establish mechanisms to measure control effectiveness in identifying potential violations and control improvement opportunities for risk mitigation.
- Communication and Training: Establish training and awareness programs to embed compliance as an integral part of OCERS.
- Compliance Reporting: Oversee non-retaliatory reporting channels and provide reporting on compliance activities to the senior management, the Audit Committee, and the Board, as appropriate.

Again, these elements are identified by the Federal Sentencing Guidelines, which have become the standard framework for designing compliance programs in the United States.

The draft of the Compliance Program Charter is attached for review.

Attachment

Submitted by:



MDS-Approved

Manuel D. Serpa
General Counsel



KA-Approved

Kwame Addo
Chief Compliance Officer



OCERS Board Charter Compliance Program Charter

Introduction

1. The OCERS Board of Retirement (Board) is dedicated to acting for the exclusive benefit of the plan and its participants, managing assets of the plan prudently, and administering benefits with impartiality. Concomitant to these responsibilities is the need to ensure that OCERS operates in compliance with the various laws, rules, and regulations that govern OCERS' operation, especially the California Constitution, the County Employees Retirement Law of 1937 (CERL), and the bylaws, procedures, and policies adopted by the Board, as well as in accordance with the highest ethical standards. The Board implements the OCERS Compliance Program (Compliance Program or Program) to support these commitments.

Purpose

2. The purpose of the Compliance Program is to create a risk-aware operating environment that reflects OCERS' culture and values, is supported by all levels of management, the CEO, and the Board, and has staff buy-in. The program will be designed to be an advocacy resource for employees, management, and members in promoting and establishing compliance industry best practice standards. Additionally, the Compliance Program will work in tandem with OCERS divisions and departments to implement risk-based compliance management programs to strengthen overall compliance activities and mitigate legal and reputational risks. The Program will contain elements that provide an effective framework with foundational areas such as governance, business unit support, control monitoring, reporting, and training and awareness that help detect, prevent, and mitigate compliance risks. In addition, it will seek to create an agency-wide culture of adherence to legal and ethical standards. All OCERS team members will assist the Program in exercising due diligence to ensure compliance and prevent illegal conduct.

Scope

3. The Program seeks to mitigate the risks of violating law, Board policy, or procedure. The design of the Program will be based on the standards for an effective compliance and ethics program set forth in the U.S. Sentencing Guidelines. The Chief Compliance Officer (CCO) is authorized by the Board to develop and implement a comprehensive program. In consultation with the Audit Committee and the senior management, the CCO determines which subject matter areas are prioritized in response to risk assessment and based on compliance resources. Senior management refers to the Chief Executive Officer (CEO), Assistant CEOs, the Chief Investment Officer, and General Counsel. The CCO will serve as a proactive partner that provides objective guidance to the Board, the CEO, management, and staff to ensure adherence to the law and OCERS fiduciary duty to its membership. The specific duties and responsibilities of the CCO are set forth in the OCERS Chief Compliance Officer Charter.

Governance Structure

4. The CCO manages the day-to-day administration of the Program and reports to the General Counsel. The CCO also has the authority to access the Audit Committee and the Board directly and independently on an as-needed basis and will report to the Audit Committee on at least a biannual



OCERS Board Charter

Compliance Program Charter

basis on the operation and effectiveness of the Compliance Program. The CCO will also inform the Audit Committee of any credible allegations of serious misconduct or criminal activity.

5. Compliance Program activity must be objective and independent — free from influence that could threaten its ability to achieve its purpose. Any potential impairment to the independence of the Program or the CCO will be communicated to the General Counsel and escalated appropriately.
6. Compliance is everyone's responsibility at OCERS. Strong governance facilitates an effective compliance program that enables risk identification, mitigation, and accountability across the “three lines of defense.” These three lines offer a structure that defines responsibilities for OCERS’ compliance activities as follows:
 - a. **First Line of Defense:** OCERS divisions and departments, which own, identify, assess, and effectively manage all applicable operational and compliance risks and adhere to relevant policies, procedures, and processes. Management is responsible for the overall compliance performance of their divisions and will facilitate the work of the Program, including providing support for Program initiatives and alerting the CCO of ethics and compliance issues.
 - b. **Second Line of Defense:** Legal and the Compliance Program, which monitors compliance risk and controls in support of the first line of defense, assesses the effectiveness of OCERS’ control environment to mitigate risks, offers independent review, challenges, and guidance, and promotes a strong risk and compliance culture. The Legal Division provides advice on legal compliance to each division of OCERS and is primarily responsible for compliance efforts related to tax, conflicts of interest, and fiduciary obligations.
 - c. **Third Line of Defense:** Internal Audit, which analyzes the effectiveness of governance, risk management, operational controls, and compliance management; and assesses the adequacy, design, and ongoing effectiveness of OCERS’ overall governance framework in accordance with the OCERS Internal Audit Charter.
7. The Chief Investment Officer is primarily responsible for designing and implementing compliance controls within the Investment Division. The CCO will assist with those efforts.

Compliance Program Elements

8. The Program’s framework will be based on the following compliance best practice elements:
 - a. **Program Administration:** The CCO will serve as a partner to OCERS divisions and departments and provide guidance for the timely response to compliance issues and regulatory changes. In performing their duties, the CCO will maintain access to the internal processes and records of OCERS divisions and departments, including the ability to request information and run reports necessary for compliance activities and monitoring. OCERS will provide necessary support to the Program in the departments where compliance activities are undertaken. Management will also furnish timely reports on actions taken and proposed regarding compliance-related issues. The CCO will oversee compliance investigations in coordination with the General Counsel or Human Resources as appropriate, assist with resulting action plans, and track the implementation of remedial measures. Should criminal conduct be detected, OCERS shall respond appropriately, and



OCERS Board Charter Compliance Program Charter

any necessary modifications to the Program will be made to prevent similar criminal conduct.

- b. **Standards, Policies, and Procedures:** As part of the Program, the CCO will promote standards of conduct and internal controls capable of reducing the likelihood of non-compliance with the laws and policies applicable to OCERS and to detect and prevent criminal conduct. The CCO will contribute to developing, revising, and distributing professional conduct and other compliance-related policies, when applicable.
- c. **Risk Assessment:** The Program will include developing and implementing a risk assessment program to identify, prioritize, and mitigate legal and ethical compliance risks.
- d. **Control Monitoring:** The CCO will establish and monitor controls necessary for an effective compliance program. These controls will include regular monitoring to measure process control effectiveness and to continually identify opportunities for improving controls and mitigating risks.
- e. **Communication and Training:** Compliance training is a fundamental part of the Program. Messaging and branding that promotes the enhancement of risk awareness and makes compliance activities an integral part of OCERS' culture will also be a component.
- f. **Compliance Reporting:** Compliance reporting channels for employees to use without fear of retaliation will be established and maintained. The CCO will also report compliance effectiveness to senior management, the Audit Committee, and the Board, as appropriate. In addition, the CCO will collaborate with Internal Audit and relevant OCERS divisions to review audit reports, provide assistance with audit report management action plans, and ensure future compliance.

Charter Review

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

Charter History

- 10. The OCERS Compliance Program Charter was adopted by the Board of Retirement on _____.

Secretary's Certificate

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

Steve Delaney, Secretary of the Board

Date



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **OUT-OF-CYCLE REVIEW OF THE AUDIT COMMITTEE CHARTER**

Recommendation

Approve and recommend that the Board of Retirement approve proposed revisions to the Audit Committee Charter as presented.

Background/Discussion

The Board of Retirement has formally adopted over 60 policies and charters and has established a review schedule that requires review of every policy and charter every three years.

The Audit Committee Charter (Charter) was adopted by the Board on November 18, 2002 and was last reviewed and revised on April 17, 2023. An external quality assessment (EQA) report was presented by the Institute of Internal Auditors (IIA) Quality Services to the Audit Committee (Committee) at the January 19, 2024 Audit Committee meeting. In the EQA report, there were a number of suggested changes based on the new Global Internal Audit Standards (Standards) recently released and the results from the EQA review. Additionally, the updates to the Charter reflect the changes based on the new Compliance Program and its related charters.

Proposed Revisions

In addition to the changes necessary to address the new Standards and EQA results, staff is also recommending several substantive and non-substantive changes. A **summary of the substantive changes** is included below.

Charter Section	Description of Change	Reason for Change
2 Purpose	Moved the dispute resolution statement from the financial reporting statement	Dispute resolutions would apply beyond financial reporting
3 Membership	Modified wording to clarify composition of the Audit Committee, specifically the appointment of the Vice Chair and the quorum requirements	Additional clarification
4 Communications	Added new section to outline communication expectations of the Committee	Comply with the new Standards

6.a Responsibilities and Duties: Compliance	Added language for the responsibilities of the Committee over the new Compliance Program	Responsibilities over the new Compliance Program
6.e.1 Responsibilities and Duties: Oversight of Internal Audit	Expanded the description of the factors when appointing the Director of Internal Audit	Comply with the new Standards
6.e.3 Responsibilities and Duties: Oversight of Internal Audit	Added a provision creating policy requirements regarding potential impairments to independence	Comply with the new Standards and EQA
6.e.4 Responsibilities and Duties: Oversight of Internal Audit	Added a provision for the reporting relationship of Internal Audit	Comply with the new Standards and EQA
6.e.5 Responsibilities and Duties: Oversight of Internal Audit	Added a provision to meet with the Director of Internal Audit separately	Comply with the new Standards
6.e.6 Responsibilities and Duties: Oversight of Internal Audit	Revised wording to include reviewing significant changes to the Internal Audit plan	Comply with the new Standards and EQA
6.e.9 Responsibilities and Duties: Oversight of Internal Audit	Added a provision to review the results of the quality assurance and improvement program	Comply with the new Standards and EQA
6.e.10 Responsibilities and Duties: Oversight of Internal Audit	Added a provision for the Committee to communicate information from the Board	Comply with the new Standards

<p>7 Reporting on Audit Committee Performance</p>	<p>Revised title to clarify Committee reporting to the Board</p>	<p>Clarify purpose of section 7</p>
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Two copies of the Charter are attached; one with proposed changes indicated in underlined/strikeout text, and a clean version.

Attachments

Submitted by:



DK- Approved

David Kim
Director of Internal Audit



OCERS Board Charter

Audit Committee Charter

Introduction

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

Purpose

2. The Audit Committee provides oversight of OCERS's internal and external audit activities. The Audit Committee assists the Board in ensuring the independence of the internal audit functions and ensuring that appropriate action is taken on audit recommendations. The Audit Committee helps promote and enhance effective internal controls for OCERS operations, and oversees communication between external auditors, internal auditors, and management. [The Audit Committee resolves disagreements between the internal auditor, external auditor, and/or management regarding financial reporting, internal control risks, and other matters.](#)

Membership

3. [The Board Chair will appoint members of the Audit Committee as provided in the OCERS By-Laws and will designate one member to serve as the Committee Chair and one member of the committee to serve as Vice Committee Chair.](#)

The Audit Committee will consist of four members of the Board of Retirement. ~~The Board Chair will appoint members of the Audit Committee as provided in the OCERS By-Laws and designate one member to serve as the Committee Chair.~~ [As provided in the OCERS By-Laws, two members of the Audit Committee constitute a quorum.](#)

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

Communications

4. ~~The Audit Committee expects that all communication with management and staff of the organization~~ [OCERS management as well as with any external assurance providers will be direct, open, and complete.](#)



OCERS Board Charter

Audit Committee Charter

Meetings

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

Responsibilities and Duties

2.6. The Audit Committee's key areas of responsibility are:

- a. ~~Law and Ethics Compliance:~~ The Audit Committee will provide the policy and framework ~~for for~~ the OCERS Compliance Program compliance, as set forth in the Compliance Program and Chief Compliance Officer Charters, monitor the effectiveness of the Compliance Program, and communicate with the Board on audit and compliance-related policies.
1. In monitoring the Compliance Program, the Audit Committee will review reports provided by the Chief Compliance Officer on the operation and effectiveness of the Compliance Program on at least a biannual basis.
- ~~1. with laws and regulations, mechanisms for assessment of compliance, and communication with the Board on OCERS policies.~~
- b. Governance: Review the charters and policies assigned to the Audit Committee at least once every three years in accordance with the schedule set forth in the OCERS Charters and Policies Review Schedule and recommend the same for approval by the Board of Retirement;
- b.
- c. ~~Financial Reporting Process: The Audit Committee will:~~
- c.
1. Monitor management's processes for the reporting of all financial information, including management's review with the external auditor regarding their scope, plan, duties, responsibilities, and the timing and engagement fee of the annual financial audit;
 2. Review the audited financial statements with the external auditor and senior management;
 - 2.
 3. Review management letters with OCERS's management;



OCERS Board Charter

Audit Committee Charter

~~4. Review the findings or comments of regulatory agencies concerning financial statements or other information regarding OCERS;~~

~~5.4.~~ Review the external auditor's assessments of the appropriate application of accounting principles by OCERS management;

~~6.5.~~ Review all matters required to be disclosed by accounting standards, including significant changes in those standards; and

~~6.~~ Meet with senior management, at least annually, to discuss the effectiveness of the internal financial and operational control policies. ~~;~~ and

~~d.~~

~~e.d.~~ Oversight of the External Auditors: ~~The Audit Committee will:~~

~~1.~~ Conduct the solicitation for the financial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;

~~1.~~

2. Conduct the solicitation for the actuarial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommending one or more finalists to the Board for appointment;

3. Conduct the solicitation for, select, and appoint all external auditors (other than the financial auditor and the actuarial auditor) engaged for the purpose of issuing an independent audit report or performing other independent audits, reviews, or attest services;

4. Oversee the work of all external auditors and conduct regular monitoring and performance reviews of the actuarial auditor and the financial auditor at least biennially in accordance with the Board's Procurement and Contracting Policy; and

~~5.~~ Approve other audits, agreed upon ~~procedures~~ methodologies, and non-audit work to be conducted by external auditors. ~~;~~

~~f.~~

~~g.e.~~ Oversight of Internal Audit: ~~The Audit Committee will:-~~

1. Approve all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit ~~including;~~ the roles and responsibilities, necessary qualifications, experience, and competences for the position;

~~2.~~ Approve the compensation and salary adjustments for the Director of Internal Audit;

~~3.~~ Acknowledge actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the Director of Internal Audit that are beyond the scope of internal auditing;



OCERS Board Charter Audit Committee Charter

a. Engage with senior management and the Director of Internal Audit to establish appropriate safeguards if Director of Internal Audit roles and responsibilities impair or appear to impair the internal audit function's independence;

4. Establish a direct reporting relationship with the Director of Internal Audit and the internal audit function to enable the internal audit function to fulfill its mandate without interference from management;

5. Provide the Director of Internal Audit with opportunities to discuss significant and sensitive matters with the Audit Committee, including meetings without senior management present;

~~— Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of the internal audit activity to carry out its responsibilities.~~

~~2.—~~

~~2.1. Review the charters and policies assigned to the Audit Committee at least once every three years in accordance with the schedule set forth in the OCERS Charters and Policies Review Schedule and recommend the same for approval by the Board of Retirement;~~

6. Review and approve ~~the risk assessment and annual Internal Audit Plan prepared by the Director of Internal Audit;~~ the risk-based Internal Audit plan; along with significant changes to the plan;

7. Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of the internal audit function to carry out its responsibilities;

8. Receive and review internal and external audit reports and management responses and make appropriate recommendations to the Board;

9. Receive and review the results of the internal audit function's quality assurance and improvement program including internal assessments and external assessments conducted at least once every five years by a qualified, independent assessor; and

~~4.—~~

~~10. Review significant recommendations from audits during the year and management's responses, and make appropriate recommendations to the Board; and~~ Communicate the Board's perspective on the organization's strategies, objectives, and risks to assist the Director of Internal Audit with determining internal audit priorities.

~~h.—~~

~~i.a. Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of the internal audit activity to carry out its responsibilities.~~



OCERS Board Charter Audit Committee Charter

~~1.f.~~ 1.f. *Internal Control and Risk Management:* The Audit Committee will review management responsibilities for:

1. The adequacy of OCERS's internal controls, including information systems;
2. Material risks facing OCERS and management's actions to minimize risk;
3. Risks from external organizations such as service providers, vendors, investment managers, consultants, and plan sponsors; and
4. Special investigations and whistleblower mechanisms. The Audit Committee can retain independent counsel, accountants, or other specialists to assist in the conduct of an investigation.

Reporting on Audit Committee Performance

~~3.~~ 1. The Audit Committee will:

7.

~~a.~~ Report to the Board of Retirement its activities and the results of its reviews; and

a.

b. Review significant changes in accounting standards, and OCERS policies, or practices that may impact ~~OCERS~~ the organization and report the results of that review to the Board of Retirement.

Charter Review

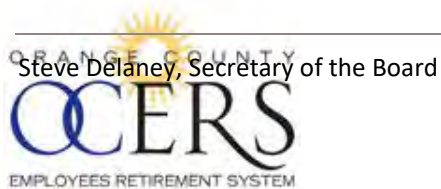
~~4.8.~~ 4.8. The Audit Committee will review this Charter at least once every three (3) years and ~~re~~ recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.

Charter History

~~5.9.~~ 5.9. The Audit Committee Charter was adopted by the Board of Retirement on November 18, 2002, and amended on January 17, 2012; July 20, 2015; May 15, 2017; ~~;~~ January 13, 2020; ~~and~~ April 17, 2023; and March 28, 2024.

Secretary's Certificate

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



04/17/2023

Date

OCERS Board Charter
Audit Committee Charter

Steve Delaney, Secretary of the Board

Date



OCERS Board Charter Audit Committee Charter

Introduction

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

Purpose

2. The Audit Committee provides oversight of OCERS internal and external audit activities. The Audit Committee assists the Board in ensuring the independence of the internal audit functions and ensuring that appropriate action is taken on audit recommendations. The Audit Committee helps promote and enhance effective internal controls for OCERS operations, and oversees communication between external auditors, internal auditors, and management. The Audit Committee resolve disagreements between the internal auditor, external auditor, and/or management regarding financial reporting, internal control risks, and other matters.

Membership

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

The Audit Committee will consist of four members of the Board of Retirement. As provided in the OCERS By-Laws, two members of the Audit Committee constitute a quorum.

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

Communications

4. The Audit Committee expects that all communication with OCERS management as well as with any external assurance providers will be direct, open, and complete.

Meetings

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



OCERS Board Charter Audit Committee Charter

Responsibilities and Duties

6. The Audit Committee's key areas of responsibility are:
 - a. *Compliance:* The Audit Committee will provide the policy and framework for the OCERS Compliance Program, as set forth in the Compliance Program and Chief Compliance Officer Charters, monitor the effectiveness of the Compliance Program, and communicate with the Board on audit and compliance-related policies.
 1. In monitoring the Compliance Program, the Audit Committee will review reports provided by the Chief Compliance Officer on the operation and effectiveness of the Compliance Program on at least a biannual basis.
 - b. *Governance:* Review the charters and policies assigned to the Audit Committee at least once every three years in accordance with the schedule set forth in the OCERS Charters and Policies Review Schedule and recommend the same for approval by the Board of Retirement;
 - c. *Financial Reporting Process:*
 1. Monitor management's processes for the reporting of all financial information, including management's review with the external auditor regarding their scope, plan, duties, responsibilities, and the timing and engagement fee of the annual financial audit;
 2. Review the audited financial statements with the external auditor and senior management;
 3. Review management letters with OCERS's management;
 4. Review the external auditor's assessments of the appropriate application of accounting principles by OCERS management;
 5. Review all matters required to be disclosed by accounting standards, including significant changes in those standards; and
 6. Meet with senior management, at least annually, to discuss the effectiveness of the internal financial and operational control policies.
 - d. *Oversight of the External Auditors:*
 1. Conduct the solicitation for the financial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;
 2. Conduct the solicitation for the actuarial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommending one or more finalists to the Board for appointment;
 3. Conduct the solicitation for, select, and appoint all external auditors (other than the financial auditor and the actuarial auditor) engaged for the purpose of issuing an



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Audit Committee Charter

independent audit report or performing other independent audits, reviews, or attest services;

4. Oversee the work of all external auditors and conduct regular monitoring and performance reviews of the actuarial auditor and the financial auditor at least biennially in accordance with the Board's Procurement and Contracting Policy; and
 5. Approve other audits, agreed upon methodologies, and non-audit work to be conducted by external auditors.
- e. *Oversight of Internal Audit:*
1. Approve all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit including the roles and responsibilities, necessary qualifications, experience, and competences for the position;
 2. Approve the compensation and salary adjustments for the Director of Internal Audit;
 3. Acknowledge actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the Director of Internal Audit that are beyond the scope of internal auditing;
 - a. Engage with senior management and the Director of Internal Audit to establish appropriate safeguards if Director of Internal Audit roles and responsibilities impair or appear to impair the internal audit function's independence;
 4. Establish a direct reporting relationship with the Director of Internal Audit and the internal audit function to enable the internal audit function to fulfill its mandate without interference from management;
 5. Provide the Director of Internal Audit with opportunities to discuss significant and sensitive matters with the Audit Committee, including meetings without senior management present;
 6. Review and approve the risk-based Internal Audit plan along with significant changes to the plan;
 7. Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of the internal audit function to carry out its responsibilities;
 8. Receive and review internal and external audit reports and management responses and make appropriate recommendations to the Board;
 9. Receive and review the results of the internal audit function's quality assurance and improvement program including internal assessments and external assessments conducted at least once every five years by a qualified, independent assessor; and
 10. Communicate the Board's perspective on the organization's strategies, objectives, and risks to assist the Director of Internal Audit with determining internal audit priorities.
- f. *Internal Control and Risk Management:* The Audit Committee will review management responsibilities for:



OCERS Board Charter Audit Committee Charter

1. The adequacy of OCERS internal controls, including information systems;
2. Material risks facing OCERS and management’s actions to minimize risk;
3. Risks from external organizations such as service providers, vendors, investment managers, consultants, and plan sponsors; and
4. Special investigations and whistleblower mechanisms. The Audit Committee can retain independent counsel, accountants, or other specialists to assist in the conduct of an investigation.

Reporting on Audit Committee Performance

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

Charter Review

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

Charter History

9. The Audit Committee Charter was adopted by the Board of Retirement on November 18, 2002, and amended on January 17, 2012; July 20, 2015; May 15, 2017; January 13, 2020; April 17, 2023; and March 28, 2024.

Secretary’s Certificate

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

Steve Delaney, Secretary of the Board

Date



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **OUT-OF-CYCLE REVIEW OF THE INTERNAL AUDIT CHARTER**

Recommendation

Approve and recommend that the Board of Retirement approve proposed revisions to the Internal Audit Charter as presented.

Background/Discussion

The Board of Retirement has formally adopted over 60 policies and charters and has established a review schedule that requires review of every policy and charter every three years.

The Internal Audit Charter (Charter) was adopted by the Board on November 18, 2002 and was last reviewed and revised on April 17, 2023. An external quality assessment (EQA) report was presented by the Institute of Internal Auditors (IIA) Quality Services to the Audit Committee (Committee) at the January 19, 2024 Audit Committee meeting. In the EQA report, there were a number of suggested changes based on the new Global Internal Audit Standards (Standards) recently released and the results from the EQA.

Proposed Revisions

In addition to the changes necessary to address the new Standards and EQA results, staff is also recommending several substantive and non-substantive changes. A **summary of the substantive changes** is included in the chart below.

Charter Section	Description of Change	Reason for Change
1 and 2 Mission and Purpose of the Internal Audit Department	Added the mission of the Internal Audit (IA) Department as well as the definition of assurance and advisory services	Comply with the new Standards
4 Independence and Objectivity	Added clarification of actions to take to comply with independence provision including the annual confirmation	Comply with the new Standards and EQA

5.b Authority	Added clarification for the approval of the Internal Audit plan	Comply with the new Standards and EQA
5.g Authority	Moved access to information provision to the Authority section	Clarified authority of Internal Audit
6.f Objectives and Scope	Clarified the responsibilities of Internal Audit when evaluating the performance of external auditors	Comply with the new Standards and EQA
6.g Objectives and Scope	Added a provision of the reporting of Internal Audit results	Comply with the new Standards
7 Responsibility	Added references to the new Standards, Code of Ethics, and Professional Practices Framework	Comply with the new Standards and EQA
7.i and j Responsibility	Added a provision to communicate resource limitations and manage the internal audit function	Comply with the new Standards and EQA
7.k Responsibility	Added a provision for coordinating with other assurance providers	Comply with the new Standards and EQA
8 and 9 Quality Assurance and Improvement Program	Added a provision on the implementation of the quality assurance and improvement program along with the communication of the results	Comply with the new Standards and EQA

Two copies of the Charter are attached; one with proposed changes indicated in underlined/strikeout text, and a clean version.

Attachments

Submitted by:



DK- Approved

David Kim
Director of Internal Audit



OCERS Board Charter Internal Audit Charter

Introduction

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

Mission and Purpose of the Internal Audit Department

1. The mission of the Internal Audit Department is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
- 1.2. The mission purpose of the Internal Audit Department is to provide reliable, independent, and objective assurance evaluations and consulting advisory services designed to add value and improve OCERS's operations. to the Audit Committee and OCERS's management relating to business and financial operations. Assurance services are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Advisory services, the nature and scope of which are agreed with the relevant stakeholders, are services that provide advice to OCERS' stakeholders without providing assurance or taking on management responsibilities. Internal Audit assists the Board of Retirement and management to achieve their objectives by testing and reporting on the effectiveness of internal control systems, risk management, and governance processes.

Independence and Objectivity of the Director of Internal Audit

- 2.3. The Director of Internal Audit will ensure that the internal audit function activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content.
4. Internal Audit shall not participate in any management activity or management relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization in accordance with the Institute of Internal Auditors' Code of Ethics. If the Director of Internal Audit and/or staff is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.

Internal Auditors will:

- a. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- b. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- c. Make balanced assessments of all available and relevant facts and circumstances.
- a.d. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.



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Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditor independence is strongly emphasized by authoritative bodies such as the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Government Accountability Office. The Director of Internal Audit will follow recognized professional standards established by the Institute of Internal Auditors and be free of operational and management responsibilities that would conflict with the standards. If the Director of Internal Audit determines that independence or objectivity is Any potential impaired not in fact or appearance, the details of impairment to independence will be communicated to the Audit Committee and appropriate parties.

The Director of Internal Audit will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function.

Organizational Reporting Authority

~~3.5.~~ To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit ~~activity~~function, the Director of Internal Audit will have direct access to senior management and the Board of Retirement. This can be achieved by a dual-reporting relationship. The Director of Internal Audit will report functionally to the Audit Committee and administratively to the Chief Executive Officer.

Functionally reporting to the Audit Committee involves the Audit Committee:

- a. Reviewing and recommending changes to the Internal Audit Charter to the Board of Retirement;
- b. Approving the risk-based Internal Audit plan, approving significant changes to the plan, and obtaining confirmation from the Director of Internal Audit on the adequacy of resources to achieve the plan;
- c. Receiving timely communications from the Director of Internal Audit on the results of audit activities;
- d. Approving all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
- e. Approving the compensation and salary adjustments of the Director of Internal Audit; and
- f. Making appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of Internal Audit to carry out its responsibilities;

f.g. Authorizing the internal audit function to have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

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

- a. Budgeting and management accounting;



OCERS Board Charter Internal Audit Charter

- b. Human resource administration, including personnel evaluations, leave request approval, and compensation;
- c. Internal communications and information flows; and
- d. Administration of the Internal Audit Department's ~~methodologies, policies and procedures.~~

Objectives and Scope

~~4.6.~~ The objective of Internal Audit is to assist the Board of Retirement and management in the effective discharge of their fiduciary responsibilities. The Board of Retirement established an Audit Committee to assist in overseeing the audit function within OCERS. Internal Audit will furnish the Audit Committee with audits, analyses, evaluations, recommendations, and information. Objectives include promoting effective internal controls, helping provide assurance that the organization's assets are safeguarded; maintaining compliance with prescribed laws, Board, and management ~~policies, policies~~; maintaining the reliability and integrity of OCERS's data, and enhancing procedures and operating efficiency.

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

- a. Reviewing the reliability and integrity of financial and business information systems, and the means used to identify, measure, classify, and report such information;
- b. Reviewing the systems and processes established to ensure compliance with those ~~methodologies, policies~~, plans, procedures, laws, and regulations that are fundamental to the operations of OCERS and could have a significant impact on operations, financial reports, and disclosures;
- c. Reviewing the means of safeguarding assets and verifying the existence of such assets;
- d. Monitoring and evaluating the effectiveness of OCERS's risk management systems, including identifying internal and external risks;

~~e.~~ Auditing the accuracy of data transmitted to OCERS by external parties.

~~e.~~

~~f.~~ ~~Participating in the evaluation of the~~ Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit; ~~and~~

~~f.~~

~~g.~~ Reporting periodically to senior management and the Audit Committee the results of the department and the work it performs; and

~~g-h.~~ Providing assessments and ~~advice for consulting and~~ advisory services to identify risks and internal controls for projects.



OCERS Board Charter Internal Audit Charter

Authority and Responsibility

5.7. The Internal Audit Department is established by the OCERS Board of Retirement pursuant to applicable laws and regulations, customs of corporate governance, and best practices to serve the Board of Retirement, as required by the California Government Code 1236. This Charter and all future amendments are approved by the Audit Committee and adopted by the Board of Retirement by a majority vote.

~~The responsibility of OCERS Internal Audit will adhere to the required elements of the is to serve the Board of Retirement in a manner that is consistent with the International Professional Practices Framework of the Institute of Internal Auditors, including the Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Global Internal Audit Standards (the Standards), and the Definition of Internal Auditing as required by California Government Code 1236. In addition, Internal Audit will adhere to the Institute of Internal Auditors' Considerations for Implementation as outlined within the International Professional Practices Framework. In addition~~ Further, when appropriate, OCERS Internal Audit follows professional standards promulgated by the Government Accountability Office, the American Institute of Certified Public Accountants, and the Information Systems Audit and Control Association.

OCERS Internal Audit is responsible for:

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



OCERS Board Charter Internal Audit Charter

- j. Managing the internal audit function appropriately to fulfill its mandate;
- k. Coordinating with other assurance providers, if applicable; and
Ensuring conformance of the internal audit function with the Standards; and
- l. Conducting special investigations and analysis as needed.

Quality Assurance and Improvement Program

- 8. Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the internal audit function’s conformance with the Standards and an evaluation of whether internal auditors apply The Institute of Internal Auditor’s Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement.
- 6-9. The Director of Internal Audit will communicate to senior management and the Audit Committee on the internal audit function’s quality assurance and improvement program, including results of internal assessments and external assessments conducted at least once every five years by a qualified, independent assessor.

Internal Audit Access to Personnel and Information

~~—Except where prohibited by law, Internal Audit will have complete and unrestricted access to all OCERS personnel, records, files, information systems, and assets. The Director of Internal Audit will inform the Audit Committee whenever significant barriers or resistance to access to personnel or information occurs.~~

Charter History

- 8-10. The Audit Committee will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.
- 9-11. The OCERS Internal Audit Charter was adopted by the Board of Retirement on November 18, 2002 and amended on August 19, 2008; January 17, 2012; July 20, 2015; April 17, 2017; January 13, 2020; ~~and~~ April 17, 2023; and March 28, 2024.

Secretary’s Certificate

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

Steve Delaney, Secretary of the Board

04/17/2023

Date



OCERS Board Charter Internal Audit Charter

Steve Delaney, Secretary of the Board

Date



OCERS Board Charter Internal Audit Charter

Introduction

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

Mission and Purpose of the Internal Audit Department

1. The mission of the Internal Audit Department is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
2. The purpose of the Internal Audit Department is to provide independent, objective assurance and advisory services designed to add value and improve OCERS's operations. Assurance services are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Advisory services, the nature and scope of which are agreed with the relevant stakeholders, are services that provide advice to OCERS' stakeholders without providing assurance or taking on management responsibilities. Internal Audit assists the Board of Retirement and management to achieve their objectives by testing and reporting on the effectiveness of internal control systems, risk management, and governance processes.

Independence and Objectivity

3. The Director of Internal Audit will ensure that the internal audit function is independent, and internal auditors are objective in performing their work. Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content.
4. Internal Audit shall not participate in any management activity or management relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization in accordance with the Institute of Internal Auditors' Code of Ethics. If the Director of Internal Audit and/or staff is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.

Internal auditors will:

- a. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- b. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- c. Make balanced assessments of all available and relevant facts and circumstances.
- d. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditor independence is strongly emphasized by authoritative bodies such as the



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Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Government Accountability Office. The Director of Internal Audit will follow recognized professional standards established by the Institute of Internal Auditors and be free of operational and management responsibilities that would conflict with the standards. If the Director of Internal Audit determines that independence or objectivity is impaired in fact or appearance, the details of impairment will be communicated to the Audit Committee and appropriate parties.

The Director of Internal Audit will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function.

Authority

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

Functionally reporting to the Audit Committee involves the Audit Committee:

- a. Reviewing and recommending changes to the Internal Audit Charter to the Board of Retirement;
- b. Approving the risk-based Internal Audit plan, approving significant changes to the plan, and obtaining confirmation from the Director of Internal Audit on the adequacy of resources to achieve the plan;
- c. Receiving timely communications from the Director of Internal Audit on the results of audit activities;
- d. Approving all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
- e. Approving the compensation and salary adjustments of the Director of Internal Audit; and
- f. Making appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of Internal Audit to carry out its responsibilities;
- g. Authorizing the internal audit function to have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

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

- a. Budgeting and management accounting;
- b. Human resource administration, including personnel evaluations, leave request approval, and compensation;
- c. Internal communications and information flows; and



OCERS Board Charter Internal Audit Charter

- d. Administration of the Internal Audit Department’s methodologies.

Objectives and Scope

- 6. The objective of Internal Audit is to assist the Board of Retirement and management in the effective discharge of their fiduciary responsibilities. The Board of Retirement established an Audit Committee to assist in overseeing the audit function within OCERS. Internal Audit will furnish the Audit Committee with audits, analyses, evaluations, recommendations, and information. Objectives include promoting effective internal controls, helping provide assurance that the organization’s assets are safeguarded; maintaining compliance with prescribed laws, Board, and management policies; maintaining the reliability and integrity of OCERS’s data, and enhancing procedures and operating efficiency.

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

- a. Reviewing the reliability and integrity of financial and business information systems, and the means used to identify, measure, classify, and report such information;
- b. Reviewing the systems and processes established to ensure compliance with those methodologies, plans, procedures, laws, and regulations that are fundamental to the operations of OCERS and could have a significant impact on operations, financial reports, and disclosures;
- c. Reviewing the means of safeguarding assets and verifying the existence of such assets;
- d. Monitoring and evaluating the effectiveness of OCERS’s risk management systems, including identifying internal and external risks;
- e. Auditing the accuracy of data transmitted to OCERS by external parties.
- f. Participating in the evaluation of the performance of external auditors and the degree of coordination with Internal Audit;
- g. Reporting periodically to senior management and the Audit Committee the results of the department and the work it performs; and
- h. Providing assessments and advisory services to identify risks and internal controls for projects.

Responsibility

- 7. The Internal Audit Department is established by the OCERS Board of Retirement pursuant to applicable laws and regulations, customs of corporate governance, and best practices to serve the Board of Retirement, as required by the California Government Code 1236. This Charter and all future amendments are approved by the Audit Committee and adopted by the Board of Retirement by a majority vote.

OCERS Internal Audit will adhere to the required elements of the International Professional Practices Framework of the Institute of Internal Auditors, including the Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Global Internal Audit Standards (the Standards), and the Definition of Internal Auditing. In addition, Internal Audit will adhere to the



OCERS Board Charter Internal Audit Charter

Institute of Internal Auditors' Considerations for Implementation as outlined within the International Professional Practices Framework. Further, when appropriate, OCERS Internal Audit follows professional standards promulgated by the Government Accountability Office, the American Institute of Certified Public Accountants, and the Information Systems Audit and Control Association.

OCERS Internal Audit is responsible for:

- a. Establishing methodologies for auditing and directing and performing its technical and administrative functions;
- b. Developing and executing a comprehensive audit program for the evaluation of internal controls established over OCERS's financial and business activities;
- c. Preparing an annual audit plan that identifies audit projects addressing areas of highest risk to OCERS operations;
- d. Auditing management's stewardship of OCERS's trust funds and resources and their compliance with policies and procedures;
- e. Recommending improvements in internal controls to help:
 1. Safeguard trust funds and resources,
 2. Ensure data is not compromised,
 3. Ensure compliance with laws and regulations;
- f. Auditing procedures and records for accuracy and completeness to accomplish and report on intended objectives;
- g. Producing reports on the results of audits, including findings and recommendations;
- h. Following-up on actions taken to correct reported deficiencies;
- i. Communicating with senior management and the Audit Committee the impact of resource limitations on the internal audit plan;
- j. Managing the internal audit function appropriately to fulfill its mandate;
- k. Coordinating with other assurance providers, if applicable; and
- l. Conducting special investigations and analysis as needed.

Quality Assurance and Improvement Program

8. Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the internal audit function's conformance with the Standards and an evaluation of whether internal auditors apply The Institute of Internal Auditor's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement.
9. The Director of Internal Audit will communicate to senior management and the Audit Committee on the internal audit function's quality assurance and improvement program, including results of



OCERS Board Charter Internal Audit Charter

internal assessments and external assessments conducted at least once every five years by a qualified, independent assessor.

Charter History

- 10. The Audit Committee will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.
- 11. The OCERS Internal Audit Charter was adopted by the Board of Retirement on November 18, 2002 and amended on August 19, 2008; January 17, 2012; July 20, 2015; April 17, 2017; January 13, 2020; April 17, 2023; and March 28, 2024.

Secretary's Certificate

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

Steve Delaney, Secretary of the Board	Date
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Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: Kwame Addo, Chief Compliance Officer
SUBJECT: **OUT-OF-CYCLE REVIEW OF THE ETHICS, COMPLIANCE, AND FRAUD HOTLINE POLICY**

Recommendation

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

Background/Discussion

The Board of Retirement has formally adopted over 60 policies and charters and has established a review schedule that requires review of every policy and charter every three years.

The Ethics, Compliance, and Fraud Hotline Policy (Policy) was adopted by the Board on June 06, 2013, and was last reviewed and revised on April 17, 2023. The Policy is updated to reflect the adoption of the Chief Compliance Officer Charter, the Compliance Program Charter along with the changes to the Audit Committee Charter and Internal Audit Charter.

Proposed Revisions

A **summary of the changes** is included below.

Policy Section	Description of Change
5 Policy Guidelines	Replaced Director of Internal Audit with the Chief Compliance Officer
6 Policy Guidelines	Replaced Director of Internal Audit with the Chief Compliance Officer and Internal Audit with Compliance
7 Policy Guidelines	Replaced Internal Audit with the Chief Compliance Officer
10 Policy Guidelines	Replaced Internal Audit with the Chief Compliance Officer
11 Policy Guidelines	Replaced Director of Internal Audit with the Chief Compliance Officer

Two copies of the Policy are attached; one with proposed changes indicated in underlined/strikeout text, and a clean version.

Attachments

Submitted by:



KA- Approved

Kwame Addo
Chief Compliance Officer



OCERS Board Policy

Ethics, Compliance, and Fraud Hotline

Purpose and Background

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

Policy Objectives

2. The purpose of this document is to establish a policy for conducting an investigation when a report of potential misconduct or inappropriate activity is made through the Hotline, and for assigning responsibility for taking appropriate actions as a result of the investigation. Workplace complaints against members of the Board or OCERS executive staff are not covered under this policy. Workplace complaints are instead handled under the Protocol for Handling Workplace Complaints Against Board Members and Executives Policy.

Policy Guidelines

3. OCERS management is responsible for the implementation of procedures and controls designed to prevent and detect fraud, misappropriations, deception, wrongdoing, and other inappropriate conduct. Fraud is defined by the Association of Certified Fraud Examiners as a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment. Fraud can include conflict of interest, theft, or breach of fiduciary duty. Each member of the OCERS management team must be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.
4. All allegations of potential misconduct or inappropriate activity raised by any source will be taken seriously and properly investigated. Retaliation against anyone who reports suspected misconduct or inappropriate activity will not be tolerated.
5. OCERS ~~Director of Internal Audit~~ Chief Compliance Officer will be responsible for conducting an investigation as a result of a report being filed on the Hotline. The investigation will be conducted without regard to the alleged wrongdoer's length of service, position, title, or relationship with OCERS.
6. If an accusation is made against the ~~Director of Internal Audit~~ Chief Compliance Officer, then the ~~Director of Internal Audit~~ Chief Compliance Officer or a member of the ~~Internal Audit~~ Compliance department, as appropriate, will inform the Chief Executive Officer, who will then be responsible for directing an investigation.



OCERS Board Policy Ethics, Compliance, and Fraud Hotline

7. Depending on the nature of the complaint, some investigations regarding human resources matters such as matters related to performance appraisals or harassment may be turned over to the Director of Human Resources. ~~Internal Audit~~The Chief Compliance Officer may also seek the assistance of Legal or other informed parties in conducting an investigation.
8. Except as provided in Section 10, below, the Chief Executive Officer will make the final determination regarding action to be taken upon completion of the investigation.
9. The Audit Committee or Chair of the Audit Committee will make the final determination regarding action to be taken upon completion of the investigation where:
 - a. the accusation is against a member of OCERS Senior Executive management;
 - b. the results of an investigation indicate criminal acts have occurred; or
 - c. there are high-level policy implications resulting from an investigation.
10. If a report to the hotline indicates that illegal acts may have been committed, ~~Internal Audit~~the Chief Compliance Officer will refer those reports to General Counsel and the appropriate law enforcement agency or the district attorney. If a report to the hotline indicates that a violation of the Political Reform Act has occurred, such as a conflict of interest, illegal acceptance of gifts or honorarium, or restrictions on activities of former investment officials, then ~~Internal Audit~~the Chief Compliance Officer will refer the report to the California Fair Political Practices Commission (FPPC).
11. The final outcome of all investigations will be reviewed with the Chair of the Audit Committee and a summary will be submitted to the Audit Committee unless deemed confidential by the ~~Director of Internal Audit~~Chief Compliance Officer in consultation with the Chief Executive Officer, the Chair of the Audit Committee and Legal Counsel.
12. The identities of the complainant and the subject of the complaint will remain confidential to the fullest extent possible, consistent with the law and customary practice.

Policy Review and History

13. This policy will be reviewed every three years.
14. The Board adopted this policy on June 06, 2013, and amended on January 1, 2017, May 18, 2020, ~~and~~ April ~~17~~17, 2023, ~~and~~ .

Secretary's Certificate

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

A handwritten signature in blue ink that reads "Steve Dalrymple".



OCERS Board Policy Ethics, Compliance, and Fraud Hotline

~~Steve Delaney~~ 4/XX/2023
~~Secretary of the Board~~ Date

Steve Delaney Date
Secretary of the Board



OCERS Board Policy Ethics, Compliance, and Fraud Hotline

Purpose and Background

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

Policy Objectives

2. The purpose of this document is to establish a policy for conducting an investigation when a report of potential misconduct or inappropriate activity is made through the Hotline, and for assigning responsibility for taking appropriate actions as a result of the investigation. Workplace complaints against members of the Board or OCERS executive staff are not covered under this policy. Workplace complaints are instead handled under the Protocol for Handling Workplace Complaints Against Board Members and Executives Policy.

Policy Guidelines

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



OCERS Board Policy Ethics, Compliance, and Fraud Hotline

- the Director of Human Resources. The Chief Compliance Officer may also seek the assistance of Legal or other informed parties in conducting an investigation.
8. Except as provided in Section 10, below, the Chief Executive Officer will make the final determination regarding action to be taken upon completion of the investigation.
 9. The Audit Committee or Chair of the Audit Committee will make the final determination regarding action to be taken upon completion of the investigation where:
 - a. the accusation is against a member of OCERS Senior Executive management;
 - b. the results of an investigation indicate criminal acts have occurred; or
 - c. there are high-level policy implications resulting from an investigation.
 10. If a report to the hotline indicates that illegal acts may have been committed, the Chief Compliance Officer will refer those reports to General Counsel and the appropriate law enforcement agency or the district attorney. If a report to the hotline indicates that a violation of the Political Reform Act has occurred, such as a conflict of interest, illegal acceptance of gifts or honorarium, or restrictions on activities of former investment officials, then the Chief Compliance Officer will refer the report to the California Fair Political Practices Commission (FPPC).
 11. The final outcome of all investigations will be reviewed with the Chair of the Audit Committee and a summary will be submitted to the Audit Committee unless deemed confidential by the Chief Compliance Officer in consultation with the Chief Executive Officer, the Chair of the Audit Committee and Legal Counsel.
 12. The identities of the complainant and the subject of the complaint will remain confidential to the fullest extent possible, consistent with the law and customary practice.

Policy Review and History

13. This policy will be reviewed every three years.
14. The Board adopted this policy on June 06, 2013, and amended on January 1, 2017, May 18, 2020, April 17, 2023, and .

Secretary’s Certificate

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

Steve Delaney
Secretary of the Board

Date



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q3 2023)

Recommendation

Receive and file.

Background/Discussion

Audit Opinion: Opportunities for Improvement

Internal Audit's 2023 audit plan included an audit of the Final Average Salary (FAS) calculations. Internal Audit completed a review of FAS calculations for new benefit payments setup during the 3rd quarter of 2023. There was one observation directed towards OCERS Member Services management.

Of the 40 FAS calculations reviewed from the 3rd quarter, Internal Audit noted two exceptions (5.0%) above the \$10 benefit error threshold established by the Audit Committee.

The full audit report is attached.

Attachment

Submitted by:



DK- Approved

David Kim
Director of Internal Audit



**Continuous Audit of Final Average Salary
Calculations (Q3 2023)**

Report Date: March 28, 2024

Internal Audit Department

OCERS Internal Audit
Continuous Audit of Final Average Salary Calculations (Q3 2023)
March 28, 2024

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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.

A total of 128 new service retirement benefits were set up by Member Services for the 3rd Quarter of 2023. Internal Audit reviewed the FAS calculations for 40 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.

OCERS Management established a \$10 reportable threshold for benefit errors below which items are not included in the FAS error rate calculation. The reportable threshold was reviewed and approved at the December 2022 Audit Committee meeting. OCERS Management will continue to correct all errors, regardless of the dollar amount of the error. Internal Audit included a summary of the errors below the reportable threshold as an appendix in this report.

Conclusion / Executive Summary

Opinion: *Opportunities for Improvement*

During our review, Internal Audit noted two reportable FAS calculation errors with our test sample for a 5.0% error rate.

<p>Priority Observations</p> <div style="background-color: #4a7ebb; color: white; text-align: center; padding: 5px; margin: 5px 0;">0</div> <p>Important Observations</p> <div style="background-color: #4a7ebb; color: white; text-align: center; padding: 5px; margin: 5px 0;">1</div>	<p>Priority Observations None</p> <p>Important Observations</p> <ol style="list-style-type: none"> Internal Audit noted a 5.0% error rate (two errors) with the 40 FAS calculations sampled from the 3rd Quarter of 2023.
--	---

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 after reviewing it, and also inputs other

manually calculated pensionable pay amounts not captured or calculated by the pension administration system. 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, and relevant Employer MOUs. A Member Services Quality Assurance team member then reviews the final FAS calculated by the RPS.

Internal Audit independently tested 40 FAS calculations from the July, August, and September 2023 benefit payroll months, and performed the following:

- Recalculated the member's preliminary FAS calculation and reviewed the documentation used by Member Services to support the preliminary FAS calculation.
- Recalculated 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 reviewed the documentation used by Member Services to support their calculations.

Below is a summary of IA's error rate noted in the current audit, plus error rates noted in prior 2021, 2022, and 2023 audits:

Error Rates Prior to establishment of \$10 Reportable Threshold				
Quarter	Benefit Applications	Tested by Internal Audit (IA)	IA Error Count	IA Error Rate
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%*
Q3/2022	151	40	0	0.0%
Error Rate using the \$10 Reportable Threshold				
Q1/2023	102	40	0	0.0%
Q3/2023	128	40	2	5.0%

*Each of these quarters contained at least one month with 100% accuracy

Copies to:

S. Delaney
S. Jenike
M. Murphy
M. Serpa
B. Shott

S. Ardeleanu
J. Lamberson
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
Important Observations	
<p>1. Internal Audit noted a 5.0% error rate (two errors) with the 40 FAS calculations sampled from the 3rd Quarter of 2023.</p> <p>a. For one retiree, Member Services incorrectly interpreted the member’s Memorandum of Understanding (MOU) when determining the number of Paid Time Off (PTO) hours allowable in the member’s FAS measuring period.</p> <p>b. For a second retiree, Member Services incorrectly entered PTO pay into the PAS, resulting in the PTO pay being incorrectly prorated, when there should have been no proration at all.</p> <p>The details of the errors are noted in the FAS Calculation Summary table below.</p> <p>Risk: An oversight when reviewing FAS calculations can lead to errors in the monthly benefit paid to OCERS members.</p>	<p>Management Action Plan:</p> <p>Management takes all errors very seriously.</p> <p>1(a) Response: In reviewing this specific transaction and the corresponding MOU section as shown below attached to this document, our Member Services team member had difficulty interpreting the language due to the many decision points within the vacation section of the document.</p> <p>We will provide additional training to our team to address this risk. We are also in the process of creating a guidance sheet for the team members so they do not have to interpret the legal language in the individual MOU’s.</p> <p>In the future, our ongoing meetings with the employers in 2024 to address the missing data in the transmittals, will help eliminate the possibility of this type of error from happening.</p> <p>1(b). Response: This error occurred post Quality Assurance (QA) when the representative was entering the approved calculation into the system.</p> <p>Our new Member Services Robotic Process Automation robot (Bot), that performs a final check of a processed benefit after it has been processed in the system, will catch this type of error and prevent this from occurring in the future.</p> <p>Management Action Plan Responsible Party: Jeff Lamberson, Director of Member Services</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
	Completion Date: 12/31/2024

Internal Audit - FAS Calculation Summary (Q3 2023) – Above the \$10 reportable threshold

Sample	Nature of FAS Error	Monthly FAS Error	Monthly Benefit Payment Error	Months With Error
1	<p><u>Annual Leave Hours – Manual</u></p> <p>Per the member’s MOU, the employee is allowed to cash out up to 90 hours per year of Vacation hours on an annual basis, this is considered pensionable for Legacy members. However, if the employee has any remaining accrued Annual Leave hours on the books, then the employee can cash up to a combined 120 hours of both Vacation and Annual Leave hours, this is also considered pensionable for Legacy members.</p> <p>For the 2nd year of the Member’s three-year measuring period, the Member had a combined total of 120 Vacation and Annual Leave hours accrued that should have been used in the FAS calculation. However, Member Services only used 90 hours of Vacation for the FAS calculation instead of the combined 120 hours.</p> <p>The understated 30 hours of PTO led to the monthly FAS being understated by \$62.20.</p>	<p>Original monthly FAS of \$13,524.98 understated by \$62.20.</p>	<p>Original monthly benefit of \$9,671.46 underpaid by \$44.49. The new benefit amount is \$9,715.95.</p>	<p>7 months</p>
2	<p><u>Proration – Manual</u></p> <p>The Member Services representative input the dollar amount of the final average salary adjustment into the wrong pay period in the PAS. This resulted in the final average salary adjustment amount being incorrectly prorated downward when there should have been no proration at all.</p> <p>The data entry error resulted in FAS being understated by \$29.01.</p>	<p>Original monthly FAS of \$7,448.89 understated by \$29.01.</p>	<p>Original monthly benefit of \$4,354.99 underpaid by \$16.96. The new benefit amount is \$4,371.95.</p>	<p>6 months</p>

Appendix 1
FAS Error Summary - Below the \$10 Reportable Threshold (Q3 2023)

Sample	Monthly Benefit Payment Error	Nature of FAS Error	Systemic
1	Original monthly benefit of \$8,232.99 overpaid by \$9.90.	PTO pay – Manual	No
2	Original monthly benefit of \$6,171.01 underpaid by \$3.23.	Retro pay - Employer paid incorrect pay rate *	No
3	Original monthly benefit of \$2,886.75 underpaid by \$3.12.	PTO pay - Manual	No
4	Original monthly benefit of \$2,647.51 underpaid by \$0.99.	Premium pay item – Manual	No

* Member Services will be changing its administrative procedures regarding the application of retro-active pay to a member’s FAS calculation.

Appendix 2

Attachment for above Management Action Plan Response to Observation #1: (MOU used)

MOU
ADMINISTRATIVE MANAGEMENT UNIT
2019-2023

ARTICLE IV VACATION

Section 1. Accumulation of Vacation

A. For the purpose of this Section, each biweekly pay period for which a full-time employee receives his or her full biweekly salary shall be considered the equivalent of eighty (80) regularly scheduled paid hours.

B. During the first three (3) years of employment, an employee in a full-time regular or limited-term position shall earn .0577 hours of vacation for each hour of pay during his or her regularly scheduled workweek (approximately three [3] weeks per year). Part-time employees will earn vacation on a pro-rated basis.

C. Commencing with the pay period following that in which a full-time employee completes three (3) years of continuous County service (6240 hours), a full-time employee in a regular or limited term position shall earn .077 hours of vacation for each hour of pay during his or her regularly scheduled workweek (approximately four [4] weeks per year). Commencing with the pay period in which a part-time employee completes 6240 hours of continuous County service, a part-time employee in a regular or limited term position shall earn .077 hours of vacation for each hour of pay during his or her regularly scheduled workweek.

D. Commencing with the pay period following that in which the employee completed ten (10) years of continuous full-time County service, an employee in a regular or limited-term position shall earn .0962 hours vacation for each hour of pay during his or her regularly scheduled workweek (approximately five (5) weeks per year). Commencing with the pay period in which a part-time employee completes 20,800 hours of continuous County service, a part-time employee in a regular or

limited term position shall earn .0962 hours of vacation for each hour of pay during his or her regularly scheduled workweek.

E. The maximum allowable vacation credit an employee may accrue at any one (1) time for employees with less than ten (10) years of continuous County service shall be three hundred sixty (360) hours. The maximum allowable vacation credit an employee may accrue at any one (1) time for employees with ten (10) or more years of continuous C o u n t y service shall be four hundred eighty (480) hours. An employee who has accrued the maximum allowable vacation credit will not accrue additional credit until the employee's vacation credit drops below the maximum allowed.

.....

K. Except as set forth below, during each fiscal year an employee may request to cash out accrued vacation either in two (2) separate increments of up to forty-five (45) hours each or one (1) increment of up to ninety (90) hours.

1. Except as set forth in subsection 2 below, an employee may not cash-out vacation time if he/she has at the time of the request a balance of accrued unused annual leave.
2. An employee with an annual leave balance may cash-out vacation time under the following limited circumstances:
 - a. The employee's accrued vacation bank is such that s/he will reach the applicable cap (as set forth in section 1.F above) sometime during the fiscal year (ie., the employee has at least 201 hours of accrued vacation if employed less than ten years or at least 281 hours of accrued vacation if employed ten or more years) unless the employee is able to cash-out vacation time.
 - b. (If subsection "a" is satisfied) the employee may cash out vacation time or a combination of annual leave and vacation time twice during the fiscal year up to an aggregate of 120 hours.

Notwithstanding subsection 2.b. above, an employee with less than 120 hours of accrued annual leave, may cash-out their remaining annual leave balance and accrued vacation time necessary to reach the combined annual cash-out cap of 120 hours, irrespective of an

employee reaching their maximum vacation accrual cap during the same fiscal year.

- L. Notwithstanding any other provision of this Memorandum of Understanding, if a Probation Safety Manager is killed in the line of duty (in accordance with Penal Code section 830.5), one hundred (100) percent of the employee's vacation balance will be paid to the employee's estate.

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

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **AUDIT REPORT – OCERS PAYROLL TRANSMITTAL PROCESS**

Recommendation

Receive and file.

Background/Discussion

Audit Opinion: Opportunities for Improvement

As per the 2023 Audit Plan, Internal Audit performed an audit of the controls over the processing of payroll transmittals by the Employer Payroll Team within Member Services. The audit included controls management has in place over the payroll transmittals, new member affidavits and communications with the Employers. This was the first audit of this process by Internal Audit.

There were four observations identified in this audit:

1. OCERS does not have a written policy establishing purpose, scope, and roles regarding the employers' responsibility to address employer payroll transmittal exceptions in a timely manner.
2. Internal Audit identified two types of payroll exceptions tracked by the PAS that generate numerous false positives due to either PAS programming or instances in which employers are reporting incorrect employee status.
3. The Employer Payroll Team's procedure documentation does not provide guidance to staff for how to monitor if the employers are correcting payroll exceptions.
4. The Employer Payroll Team's documentation does not provide staff guidance on procedures for checking new Member Affidavit forms for completeness and accuracy or describe escalation steps to take when Member Affidavit forms missing, incomplete, or contain incorrect data.

Attachment

Submitted by:



DK- Approved

David Kim
 Director of Internal Audit



OCERS Payroll Transmittal Process Audit

Report Date: March 28, 2024

Internal Audit Department

OCERS Internal Audit
OCERS Transmittal Process Audit
March 28, 2024

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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 over the processing of payroll transmittals by the Employer Payroll Team within Member Services. The audit included controls management has in place over the payroll transmittals, new member affidavits and communications with the Employers.

The scope of the audit included payroll transmittal exceptions flagged by the Pension Administration System (PAS) and new member affidavits submitted by employers between January 2022 and July 2023 on a sample basis.

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

Conclusion / Executive Summary

Opinion: *Opportunities for Improvement*

Overall, Internal Audit identified opportunities to improve controls to ensure that payroll transmittal exceptions are cleared timely and accurately, and that Member Affidavits are entered into the PAS accurately and completely. For further detail of the below observations please see page four.

<p>Priority Observations</p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 5px auto; border-radius: 5px; display: flex; align-items: center; justify-content: center;">0</div> <p>Important Observations</p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 5px auto; border-radius: 5px; display: flex; align-items: center; justify-content: center;">4</div>	<p>Priority Observations</p> <p>None</p> <p>Important Observations</p> <ol style="list-style-type: none"> 1. OCERS does not have a written policy establishing purpose, scope, and roles regarding the employers' responsibility to address employer payroll transmittal exceptions in a timely manner. 2. Internal Audit identified two types of payroll exceptions tracked by the PAS that generate numerous false positives due to either PAS programming or instances in which employers are reporting incorrect employee status. 3. The Employer Payroll Team's procedure documentation does not provide guidance to staff for how to monitor if the employers are correcting payroll exceptions.
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	<p>4. The Employer Payroll Team’s documentation does not provide staff guidance on procedures for checking new Member Affidavit forms for completeness and accuracy or describe escalation steps to take when Member Affidavit forms missing, incomplete, or contain incorrect data.</p>
--	---

Internal Audit sampled 60 payroll transmittal exceptions flagged by the PAS and 60 new Member Affidavits submitted by the employers during our audit scope. Audit procedures performed included the following:

- Review OCERS procedures related to the handling of payroll transmittal exception reporting and the processing of new Member Affidavits was complete.
- Determine if OCERS monitored our sample of 60 payroll transmittal exceptions for correction by the employers.
- Review for evidence of supervisory review over payroll transmittal exceptions.
- Determine if our sample of 60 member affidavits were completed correctly by both the member and employer.
- Determine if key fields of information on the Member Affidavits matched the PAS.
- Review if OCERS follow up process for missing Member Affidavits was performed.
- Review for evidence of supervisory review over payroll transmittal exceptions.

Background

OCERS PAS automatically monitors the employers’ bi-weekly transmittal files on a member-by-member basis and flags exceptions related to employer and employee contributions, contribution basis dates, reported hours worked, active members missing from the files, and other demographic data. These exceptions identify differences in numerical or demographic data expected by the PAS but reported differently by the employers on the transmittal files. As directed by OCERS upon implementation of the current PAS, employers are to research and correct these exceptions in subsequent payroll transmittal files with the aid of PAS exception reporting available to the employers. OCERS responsibility is to monitor the employers to help ensure the exceptions are being corrected.

Please see **Appendix 1** for contribution-related exceptions as of year-end 2023, a net total of \$210,000 in potentially underpaid/overpaid contributions needing research across 1,500 members.

Furthermore, as employers add new members to the above electronic transmittal files, employers must also submit to OCERS a completed and authorized Member Affidavit form for each new member. Per the County of Employee Retirement Law of 1937 (CERL) §31526, there should be a filing of a sworn statement (i.e., Member Affidavit) by every person who is or becomes a member, showing date of birth, nature, and duration of employment with the employer, compensation received, and other information as is required by the Board of Retirement.

OCERS Employer Payroll Team monitors new Member Affidavits for completeness and accuracy as they are received from the employers. OCERS will notify the employer if the Member Affidavit is missing or has not been fully completed.

Copies to OCERS:

S. Delaney
S. Jenike
M. Murphy
B. Shott
M. Serpa

J. Lamberson
S. Ardeleanu
Audit Committee Members

Observations	Action Plan / Responsible Party / Completion Date
<p>Important Observations</p>	
<p>1. OCERS does not have a written policy establishing purpose, scope, and roles regarding the employers’ responsibility to address employer payroll transmittal exceptions in a timely manner.</p> <p>In the prior PAS, the processing of payroll transmittals, which included updates to member records, had been performed by OCERS staff. But with the addition of the Employer Self-Service (ESS) module in the current PAS, employers process their own payroll transmittals into the system. This transition shifted the responsibility of tracking and clearing payroll transmittal exceptions flagged by the PAS to the employers. OCERS would still monitor the transmittals for outstanding issues.</p> <p>With the implementation of the current PAS, OCERS did provide training to the employers regarding the technical aspects of how to correct and process payroll transmittal exceptions. And on a bi-weekly basis, employers do work to correct payroll transmittal exceptions.</p> <p>However, OCERS did not create a written policy establishing roles and responsibilities between OCERS and the employers regarding the correction of payroll exceptions. A policy should state the purpose, scope, roles, responsibilities, and escalation procedures regarding the employers’ responsibility to correct payroll transmittal exceptions flagged by the PAS.</p> <p>Such a policy could enhance the work OCERS performs with the employers to reduce the occurrence of such exceptions and create procedures to help employers evidence to OCERS that all exceptions</p>	<p>Action Plan:</p> <p>The Employer Payroll Team will develop a written policy establishing purpose, scope, and roles regarding the employers’ responsibility to address employer payroll transmittal exceptions in a timely manner.</p> <p>The Policy will incorporate the various reasons for exceptions, containing errors and False Positive errors, and how to differentiate between the two. The policy will also address the minimum acceptable levels of accuracy, based on the thorough review of what is a valid error.</p> <p>The development of the Policy will include an in-depth review of all aspects of the process, including current processes of reviewing and taking corrective actions, and recommending updates for the Transmittal Exceptions report (e.g., New info vs. reoccurring items). The Policy may generate a supplemental Procedure if necessary.</p> <p>While a policy is to be developed, employers were provided direction prior to V3 implementation, they have been provided guidance on a regular basis during the Annual Employer Workshop, as well as through regular channels of communication between the Employer Payroll Team and employers.</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>have been cleared or marked as a false positive (such a procedure does not exist today).</p> <p>Risk: Not having a formal policy can lead to misunderstanding the role of OCERS versus that of the employer concerning the responsibility of tracking and clearing payroll exceptions that could have a material effect on the data in OCERS PAS.</p>	<p>Responsible Party: Silviu Ardeleanu, Director of Member Services</p> <p>Completion Date: August 31, 2024</p>
<p>2. Internal Audit identified two types of payroll exceptions tracked by the PAS that generate numerous false positives due to either PAS programming or instances in which employers are reporting incorrect employee status.</p> <p>20,375 mismatches between reported contribution basis dates (CBD) and dates in V3 were flagged by the PAS during the scope of our audit. However, the PAS flags CBD differences down to as little as one day which does not impact age of entry, yielding numerous false positives.</p> <p>5,589 instances where no work hours were reported for an active member were flagged by the PAS during the scope of our audit. However, this number also contains numerous false positives since employers do not always correctly update employee status to Active on Leave or other non-work status.</p> <p>Risk: Not reviewing the processing logic behind the PAS's exception rules for validity could lead to employer and/or OCERS staff time being used to track down exceptions that are not relevant for OCERS business purposes.</p>	<p>Action Plan: Review exceptions by importance/priority and determine if certain exceptions can be changed/deleted, especially looking at False Positives. Reach out to the PAS vendor to determine the cost to change in logic or turn off unnecessary exceptions (false positives) once exceptions are reviewed and further categorized (if needed).</p> <p>The Policy will recommend regular ongoing communication with employers, asking them to review and correct errors (that are not False Positives).</p> <p>Responsible Party: Silviu Ardeleanu, Director of Member Services</p> <p>Completion Date: August 31, 2024</p>

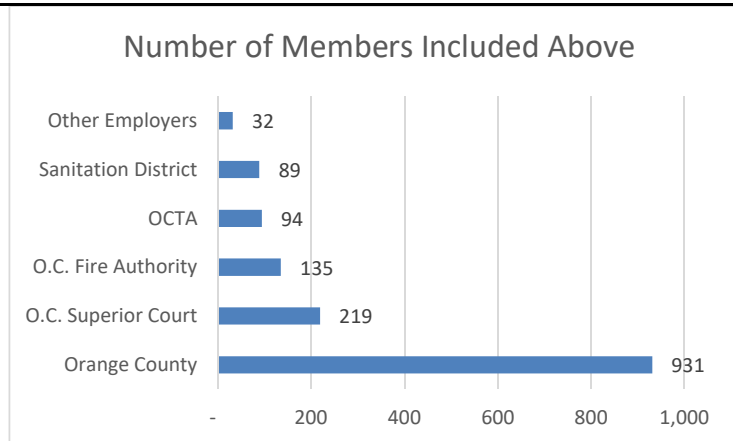
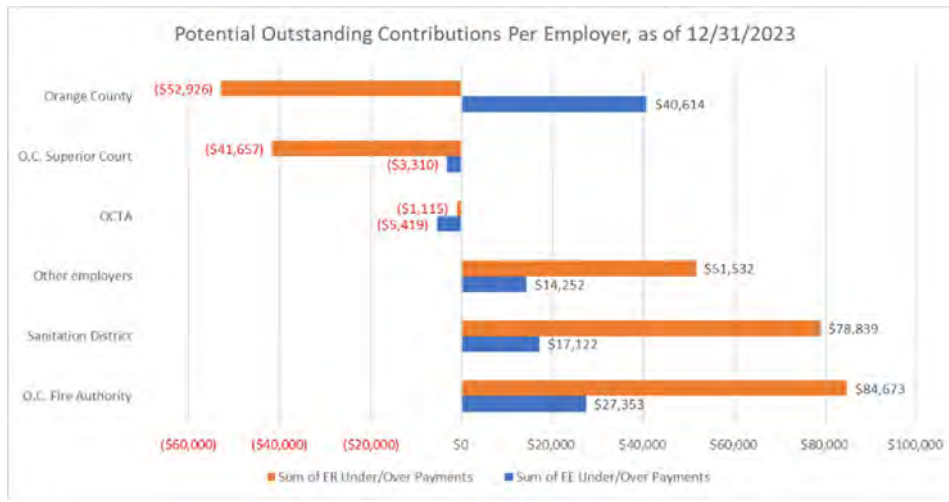
Observations	Action Plan / Responsible Party / Completion Date
<p>3. The Employer Payroll Team’s procedure documentation does not provide guidance to staff for how to monitor if the employers are correcting payroll exceptions.</p> <p>The Employer Payroll Team’s internal process documentation describes common employer payroll transmittal transaction exception scenarios, how to download and re-format payroll transmittal exception reports from the PAS (for documentation and research), and the types of payroll exceptions that the PAS detects each pay period.</p> <p>The documentation does not provide:</p> <ul style="list-style-type: none"> • Guidance for staff as to how to prioritize employer payroll transmittal exceptions to research and/or monitor. • A procedure for how the unit’s supervisor should review the above work performed by staff. • Direction for how the supervisor’s review should be evidenced (e.g., via signature or an automated workflow) <p>We observed that OCERS Employer Payroll Team did not document its research for the 60 employer payroll transmittal exceptions we randomly chose for testing.</p> <p>For 36 of these 60 exceptions, IA was not able to determine if they had been corrected by the employers or marked as a false positive.</p> <p>Risk: Not having formal procedure documentation can lead to misunderstanding the roles of staff in meeting OCERS business objectives.</p>	<p>Action Plan:</p> <p>Along with development of Policy, procedural guidance will be developed for processing exceptions.</p> <p>Responsible Party:</p> <p>Silviu Ardeleanu, Director of Member Services</p> <p>Completion Date:</p> <p>August 31, 2024</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>4. The Employer Payroll Team’s documentation does not provide staff guidance on procedures for checking new Member Affidavit forms for completeness and accuracy or describe escalation steps to take when Member Affidavit forms missing, incomplete, or contain incorrect data.</p> <ul style="list-style-type: none"> • 29 of the 60 Member Affidavit forms we tested were missing information regarding beneficiary designations, previous public service history, and/or other member demographics. • 31 of the 60 Member Affidavits forms tested did not agree to the PAS regarding demographics, contribution basis dates, and/or beneficiaries. <p>When a Member Affidavit has not been provided by an employer for a new hire after 30 days from their date of employment, a letter is generated to the employer by the PAS to inform them a Member Affidavit is not on file. Existing procedure documentation does not provide guidance to staff for follow-up of missing Member Affidavit letters sent to the employers.</p> <p>We sampled five missing Member Affidavit letters (one from each of the 5 largest employers).</p> <ul style="list-style-type: none"> • For one member in our sample, 67 days had elapsed since the date of hire without a Member Affidavit provided to OCERS. • 4 ½ years had elapsed for a second member without a Member Affidavit provided to OCERS. • Two additional members were reported as missing Member Affidavits, but IA was able to locate the affidavit in the member’s record. Therefore, the letter was incorrectly reporting two members due to exceptions to the reporting parameters. 	<p>Action Plan:</p> <p>A New Member Affidavit has been developed and is in the final stage of review. This version gathers more and clearer information.</p> <p>We are also creating a Guidance Sheet for members and employers to assist them in completing the form.</p> <p>New Member Enrollment processes are due to be reviewed for Master Repository Project. We will also develop a Member Services Procedure for processing Affidavits based on current process. The procedure will provide guidance on reviewing and processing Affidavits including receiving and processing timing guidelines; following up for incomplete or missing Affidavits; and incorporate supervisory reviews (e.g., 1-5 % of total new Member Affidavits received).</p> <p>Responsible Party:</p> <p>Silviu Ardeleanu, Director of Member Services</p> <p>Completion Date:</p> <p>August 31, 2024</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>The procedure documentation also does not include guidance for supervisory review of staff processing Member Affidavits (e.g., via signature or an automated workflow). However, the supervisor does review exceptions brought to him by staff on a case-by-case basis.</p> <p>Risk: Not having formal procedure documentation can lead to misunderstanding the roles of staff in meeting OCERS business objectives.</p>	

Appendix 1

Below is a breakdown of \$210,000 in outstanding contributions across 1,500 members, per the PAS, as of 12/31/2023. OCERS and the employers would need to research each individual member record to determine if a correction is needed.



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 Observation”.

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

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **AUDIT REPORT – OCERS ACCOUNTS PAYABLE PROCESS**

Recommendation

Receive and file.

Background/Discussion

Audit Opinion: Satisfactory

As per the 2023 Audit Plan, Internal Audit performed an audit of the design and operating effectiveness of the controls management has in place over Accounts Payable. This was the first audit of this process by Internal Audit.

There were two observations identified in this audit:

1. Finance Management should formalize the review of (1) the Vendor Master File list in the Enterprise Resource Planning System (ERP) and (2) the quarterly accounts payable accrual.
2. A network folder containing 2014 Accounts Payable related files had not been deleted.

Attachment

Submitted by:



DK- Approved

David Kim
Director of Internal Audit



Accounts Payable Audit

Report Date: March 28, 2024

Internal Audit Department

**OCERS Internal Audit
Accounts Payable Audit
March 28, 2024**

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Audit Objective and Scope.....1
Conclusion and Executive Summary.....1
Background.....2
Observation Details.....3

Audit Objective and Scope

The objective of this audit was to provide an independent review of the design and operating effectiveness of the controls management has in place over Accounts Payable (e.g., from vendor management to General Ledger recording).

The scope of the audit included accounts payable transactions from January 2022 through June 2023, on a sample basis.

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. This was the first audit of this process by Internal Audit.

Conclusion / Executive Summary

Opinion: *Satisfactory*

Overall, Internal Audit found the controls in Accounts Payable to be operating and designed effectively to help ensure accurate and complete payments. We noted two observations related to vendor management, the accounts payable accrual, and records retentions. For further detail of the below observations please see page three.

<p>Priority Observations</p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 5px auto; border-radius: 5px;">0</div> <p>Important Observations</p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 5px auto; border-radius: 5px;">2</div>	<p>Priority Observations</p> <p>None</p> <p>Important Observations</p> <ol style="list-style-type: none"> 1. Finance Management should formalize the review of (1) the Vendor Master File list in the Enterprise Resource Planning System (ERP) and (2) the quarterly accounts payable accrual. 2. A network folder containing 2014 Accounts Payable related files had not been deleted.
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Internal Audit sampled 60 accounts payable transactions from 2,069 transactions totaling \$17 million dollars during our audit scope. Internal audit:

- Reviewed accounts payable transactions for evidence of dual level of review and authorization by Finance management.
- Reviewed accounts payable transactions for evidence of line of business management approval.
- Verified that accounts payable transactions were recorded correctly on the General Ledger.

- Reviewed supporting documentation for clerical accuracy.
- Verified that new vendors added and updates to existing vendor information within the ERP system were reviewed and authorized by management.
- Reviewed user access controls over the ERP are monitored for proper segregation of duties.
- Reviewed physical security over OCERS check stock for adequacy.
- Reviewed accounts payable documentation for compliance with OCERS records retention policy.

Background

In January 2022, the Finance Department converted to a new ERP system, included in the ERP system is an Accounts Payable module. During mid-2022 OCERS also began using a separate expense application to eliminate manual, paper-based expense reports; the expense application is integrated with the ERP system. Beginning in early 2023, OCERS also outsourced accounts payable check printing and mailing to the operating bank's payment manager module. Key controls within the accounts payable process include an automated requirement in the ERP system for dual approval by Finance Department managers or higher for all account payable payments and segregated approvals in the ERP system for vendor management.

During the scope of our audit of January 2022 through June 2023, the Finance Department processed 2,069 accounts payable transactions totaling \$17 million dollars. Currently, there are 415 active vendors in the ERP system, encompassing business vendors, employees, and board members.

Copies to OCERS:

S. Delaney	T. Bowman
S. Jenike	L. Barker
M. Murphy	Audit Committee Members
B. Shott	
M. Serpa	

Observations	Action Plan / Responsible Party / Completion Date
<p>Important Observations</p>	
<p>1. Finance Management should formalize the review of (1) the Vendor Master File list in the ERP system and (2) the quarterly accounts payable accrual.</p> <p>Currently there are 415 active vendors in the ERP system. Management does perform a review of these vendors on a spot check or random basis. However, per discussion with Finance, the review of the Vendor Master List file containing all active vendors for potential duplicate vendor names, vendors whose status should be potentially inactivated, or for terminated employees is not formalized with the manager's signoff.</p> <p>In addition, per Finance, the manager's review of the quarterly accounts payable accrual is performed by the manager as part of close procedures. However, the manager's review of the accrual balance is not evidenced with a manager's signoff. The accrual balance was \$159,711 as of quarter ending September 2023.</p> <p>An existing mitigating control includes dual approval by Finance managers for all payments to vendors and employees.</p> <p>Risk: There is a lack of a sign-off evidencing a review performed by the Finance manager.</p>	<p>Action Plan:</p> <ol style="list-style-type: none"> 1. During the implementation of the ERP system, Finance purged inactive vendors from its previous accounting system, importing only active vendors into the new system that went live in 2022. Finance continues to review processes and procedures for improvement and starting in January 2024, as recommended by Internal Audit, we formally documented the annual review of the Vendor Maintenance List for the year ended December 2023 identifying vendors that could potentially be made inactive if they continue to have no activity during 2024. 2. Quarterly reconciliation of accrued payables is completed each quarter. The Accounts Payable Accountant prepares the accrual entries. The Finance Manager reviews the entries and the accrual balance for accuracy. Going forward, beginning with 4th quarter 2023, a sign-off will be noted within the file. <p>Responsible Party: Tracy Bowman, Director of Finance</p> <p>Completion Date:</p> <ol style="list-style-type: none"> 1. Review for 2023 was completed on January 9, 2024. 2. Review and sign-off of 4th quarter reconciliation was completed on January 18, 2024.

Observations	Action Plan / Responsible Party / Completion Date
<p>2. A network folder containing 2014 Accounts Payable related files had not been deleted.</p> <p>The Finance Department had gone through a purge of its files to help meet the new Record Management Policy requirements. Upon our review of the department's network folders, we noted one instance of a file folder that did not comply with the retention period of seven years.</p> <p>Risk: As per the Record Retention Policy, <i>holding records beyond the records retention schedule is costly, lessens OCERS efficiency for responding to public records requests, and makes it more difficult to find the records needed for OCERS business needs.</i></p>	<p>Action Plan:</p> <p>During 2022, the Finance Team reorganized the department's accounting folders and purged a large number of documents and folders in adherence with the Records Management Policy. The files in question were missed in the original purging of records and have since been deleted.</p> <p>As part of the Legal Department's year-end request for an annual certification of compliance with the Records Management Policy for each department, the Finance Director emails all Finance Team Members to confirm that they are in compliance with the policy. As part of this compliance and to maintain records within the required retention period, all Finance Team members will purge files at the end of June each year, after the financial audit and other external reporting have been completed.</p> <p>Responsible Party: Tracy Bowman, Director of Finance</p> <p>Completion Date: The 2014 folder was deleted on January 3, 2024.</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" (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 Observation".

Inadequate:

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Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: INVESTMENT ALLOCATION AND REBALANCING AUDIT

Recommendation

Receive and file.

Background/Discussion

Audit Opinion: Satisfactory

Internal Audit's 2023 audit plan included an audit of the controls in place within OCERS's Investment Division over the triennial asset allocation and rebalancing process. There were no observations identified during the audit.

Attachment

Submitted by:



DK- Approved

David Kim
Director of Internal Audit



Investment Allocation and Rebalancing Audit

Report Date: March 28, 2024

Internal Audit Department

OCERS Internal Audit
Investment Allocation and Rebalancing Audit
March 28, 2024

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Audit Objective and Scope

The objective of this audit was to provide an independent review of the controls in place within OCERS’s Investment Division. This includes, but is not limited to, the controls management has in place over the triennial asset allocation and rebalancing process.

The scope of the audit included a review of the 2023 triennial asset allocation approval and the Q3 2023 rebalancing process.

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

Conclusion / Executive Summary

Opinion: *Satisfactory*

Overall, Internal Audit found the controls over asset allocation and rebalancing to be operating and designed effectively. There are no Observations to report.

<p>Priority Observations</p> <div style="background-color: #0056b3; color: white; text-align: center; width: 40px; height: 40px; margin: 5px auto; border-radius: 5px;">0</div> <p>Important Observations</p> <div style="background-color: #0056b3; color: white; text-align: center; width: 40px; height: 40px; margin: 5px auto; border-radius: 5px;">0</div>	<p>Priority Observations</p> <p>None</p> <p>Important Observations</p> <p>None</p>
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Internal Audit performed the following:

- Verified that the April 2023 triennial asset allocation study was reviewed and approved by the Investment Committee.
- Verified that the Q3 2023 rebalancing trades were approved by the Chief Investment Officer.
- Verified that Q3 2023 rebalancing activity was reported on the “Quarterly Activity Report” provided to the Investment Committee for reference.
- Verified that the supporting rebalancing spreadsheet agreed to source documents provided by the custodial bank, clerically footed, and contained no formula errors.
- Verified that the rebalancing spreadsheet’s ranges and targets were reflective of the asset allocation approved by the Investment Committee.

Background

OCERS currently holds approximately \$22 billion of assets under management in more than 200 investment vehicles across seven asset classes.

Every three years, a formal asset allocation review is conducted to anticipate changing market conditions and to react to projected liability and risk/return expectations. The allocation seeks to optimize long-term returns for the level of risk the Investment Committee considers appropriate. The new allocation's investment target ranges are then updated in OCERS Investment Policy Statement.

Rebalancing occurs monthly, if required. Members of the Investment Division meet monthly to review the investment portfolio, monitor cash, and discuss the economic outlook to determine if rebalancing is necessary. If rebalancing is required, trade activity is reviewed and approved by the Chief Investment Officer. For assets valued as of the last day of the month in June and August 2023, rebalancing of approximately \$50 million took place for each month. The rebalancing was included in November 2023 Investment Committee meeting materials (e.g., Portfolio Activity and Compliance written reports).

An audit of the rebalancing process was reported to the Audit Committee in March 2017. There were no Observations in that audit.

Copies to OCERS:

S. Delaney
S. Jenike
M. Murphy
B. Shott
M. Serpa

S. Chary
Audit Committee Members

Categories of Observations (Control Exceptions):

Priority Observations:

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

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Audit Report Opinions:

Satisfactory:

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Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: CONSIDERATION OF REVISED 2024 AUDIT PLAN

Recommendation

Approve the revised 2024 Audit Plan.

Background/Discussion

Internal Audit is presenting the revised 2024 Audit Plan as directed by the Audit Committee. The revisions include the removal of a second Continuous Audit – FAS Benefit Calculation Audit and modifying the Alameda Audit to focus on the identification of members impacted by the County Board of Supervisors Resolution (Alameda II). Internal Audit included an Employer Audit of the Orange County Local Agency Formation Commission (LAFCO) as a replacement audit. OCERS Internal Audit will have audited all the participating Employers at least once with the inclusion of the LAFCO Employer Audit. The associated Internal Audit resources are adequate to meet the proposed 2024 audit plan. The 2024 Audit Plan includes:

1st half of 2024

- Employer Audit – County of Orange (Healthcare Agency): Review employer's supporting documentation to verify accuracy and completeness of payroll data transmitted to OCERS pension administration system (PAS); review employer's controls to ensure compliance with OCERS Membership Eligibility Requirements Policy.
 - First time audit (audit has already started).
- Employer Audit – Orange County Public Law Library: 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.
 - First time audit (audit has already started).
- Employer Audit – Orange County Local Agency Formation Commission (LAFCO): 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.
 - First time audit
 - **REVISION: New audit for 2024**



Memorandum

- Center of Internet Security (CIS) Controls Assessment: Evaluate Information Security's implementation of the CIS Top 18 Controls.
 - First time audit
- Investment Compensation Calculation Review: Review and validate calculation of the Investment Division's incentive payments to ensure the calculations are complete and accurate.
 - Review has already started.

2nd half of 2024

- Payroll for Retirees: Review the Finance Department's controls that help ensure monthly retirement benefit payments are accurately and completely recorded to OCERS General Ledger.
 - Last audited 2019
- Cost of Living Adjustments (COLA): Review the controls in place to ensure COLA calculations are accurately performed and recorded in the PAS.
 - First time audit
- Employer Audit - Orange County Employees Retirement System: 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.
 - First time audit
- Employer Audit – San Juan Capistrano: 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 audited 2017

On-Going throughout 2024

- Continuous Audit – FAS Benefit Calculation: Ongoing continuous audit of FAS calculations.
 - Sample testing on a quarterly basis (perform testing in Q4)
 - **REVISION: Removal of 2nd FAS audit**
- Alameda Implementation: Perform an independent review of the controls in place to ensure the correct identification of Alameda II impacted members; limited recalculation of contribution refunds and retirement benefits related to the Alameda decision are complete and accurate; and member information updated in V3 are reviewed and approved.



Memorandum

- **REVISION: New audit objective and scope**
- **Management Action Plan Verification:** Confirm management action plans from prior audits have been implemented.

Attachments

Submitted by:



David Kim
Director of Internal Audit

**Orange County Employees Retirement System
Revised 2024 Internal Audit Plan**



Audit Activity	Description	Planned Hours	Comments
Internal Audit/Consulting/Planning/QAIP		4,926	
Internal Audits - Assurance		3,906	
Governance - Asset Allocation/Rebalancing (carryover from 2023 audit plan)	Review of controls ensuring OCERS asset allocation/rebalancing activities are reviewed and fully reported to the Investment Committee as per Investment Policy Statement.	70	Complete
Transmittal Processing (carryover from 2023 audit plan)	Review the Employer Payroll team's controls over the processing of payroll transmittals in V3.	40	Complete
Employer Audit (OCTA) (carryover from 2023 audit)	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.	96	Complete
Accounts Payable (carryover from 2023 audit)	Review of controls over the account payable process, from payment request through payment of invoice.	40	Complete
Alameda 2 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 for Alameda phase 2	370	Modified scope for fewer benefit calculations
Continuous Audit - Final Average Salary (FAS) Calculation	Continuous audit of FAS calculations. Sample on quarterly basis for Q3	280	Reduced scope to one FAS Audit
Employer (County of Orange - Healthcare 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.	350	First time audit

**Orange County Employees Retirement System
Revised 2024 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Comments
Employer (Orange County - Local Agency Formation Commission - LAFCO)	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.	350	First time audit Replacement for Q1 FAS Audit
Employer (County of Orange- Public Law Library)	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.	350	First time audit
Employer (OCERS)	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	350	First time audit
Employer (San Juan Capistrano)	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.	350	Last audited in 2017
Payroll for Retirees	Review the Finance Department's controls over the general ledger recording of monthly benefit payments	360	Last audited in 2019
COLA Adjustments	Perform an independent review of the controls in place to ensure COLA adjustments are accurately calculated.	360	First time audit
CIS Controls Assessment	Perform an independent assessment of Information Security's implementation of the Center of Internet Security (CIS) Top 18 Controls, and provide recommendations on management's assessment of the department's implementation status and maturity level as appropriate.	120	First time audit
Investment Compensation Review	Perform independent review of annual investment compensation calculations	160	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	260	Ongoing review of implemented MAPs from completed audits.
Internal Audits - Consulting		220	
Consulting/Ad-hoc projects	Open for any ad-hoc project TBD	220	Includes time to assist with Annual Employer Report and OCERS by the Numbers, assisted with Master Repository Project
Internal Audits - Planning		500	
Annual Audit Planning	Review and update Risk and Control Matrix.	200	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	300	
Internal Audits - Quality Assurance and Improvement Program		300	

**Orange County Employees Retirement System
Revised 2024 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Comments
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program and external peer review	240	Updates to the Internal Auditing Standards on the Audit Charter, Audit Manual and Audit Committee Charter
	Hotline reporting system.	60	Transition responsibilities to Compliance
Vision and Values		60	
	Vision and Values Committee (Internal OCERS Committee)	60	Internal committee to promote a positive culture at OCERS - Committee Vice Chair.
Board, AC, OCERS Executive Meetings		608	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	510	
	Weekly meetings with CEO	26	
	Monthly meeting with Audit Committee Chair	72	
General admin time		625	
	General admin time	625	7% of total hours.
Leave (Holiday/Annual) and Training		2,133	
	Holidays (12 days), Annual Leave (15 days) Other Leave (180 days)	1,958	
	Training and Continuing Education	175	
Grand Total Hours		<u>8,352</u>	

**Orange County Employees Retirement System
2024 Internal Audit Plan
(As originally presented at the January 19, 2024 Audit Committee meeting)**



Audit Activity	Description	Planned Hours	Comments
Internal Audit/Consulting/Planning/QAIP		4,926	
Internal Audits - Assurance		3,866	
Governance - Asset Allocation/Rebalancing (carryover from 2023 audit plan)	Review of controls ensuring OCERS asset allocation/rebalancing activities are reviewed and fully reported to the Investment Committee as per Investment Policy Statement.	70	Finalizing testing and reporting
Transmittal Processing (carryover from 2023 audit plan)	Review the Employer Payroll team's controls over the processing of payroll transmittals in V3.	40	Audit Complete – to present in March
Employer Audit (OCTA) (carryover from 2023 audit)	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.	96	Finalizing testing and reporting
Accounts Payable (carryover from 2023 audit)	Review of controls over the account payable process, from payment request through payment of invoice.	40	Audit Complete – to present in March
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 for Alameda phase 2	400	
Continuous Audit - Final Average Salary (FAS) Calculation	Continuous audit of FAS calculations. Sample on quarterly basis for Q1 and Q3	560	
Employer (County of Orange - Healthcare 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.	350	First time audit

**Orange County Employees Retirement System
2024 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Comments
Employer (County of Orange-Public Law Library)	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.	350	First time audit
Employer (OCERS)	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	350	First time audit
Employer (San Juan Capistrano)	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.	350	Last audited in 2017
Payroll for Retirees	Review the Finance Department's controls over the general ledger recording of monthly benefit payments	360	
COLA Adjustments	Perform an independent review of the controls in place to ensure COLA adjustments are accurately calculated.	360	First time audit
CIS Controls Assessment	Perform an independent assessment of Information Security's implementation of the Center of Internet Security (CIS) Top 18 Controls, and provide recommendations on management's assessment of the department's implementation status and maturity level as appropriate.	120	
Investment Compensation Review	Perform independent review of annual investment compensation calculations	160	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	260	Ongoing review of implemented MAPs from completed audits.
Internal Audits - Consulting		280	
Consulting/Ad-hoc projects	Open for any ad-hoc project TBD	280	Includes time to assist with Annual Employer Report and OCERS by the Numbers, assist with Master Repository Project
Internal Audits - Planning		500	
Annual Audit Planning	Review and update Risk and Control Matrix.	200	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	300	
Internal Audits - Quality Assurance and Improvement Program		280	
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program and external peer review	180	Updates to the Internal Auditing Standards on the Audit Charter, Audit Manual and Audit Committee Charter
	Use of hotline reporting system.	100	
Vision and Values		60	
	Vision and Values Committee (Internal OCERS Committee)	60	Internal committee to promote a positive culture at OCERS - Committee Vice Chair.
Board, AC, OCERS Executive Meetings		608	

**Orange County Employees Retirement System
2024 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Comments
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	510	
	Weekly meetings with CEO	26	
	Monthly meeting with Audit Committee Chair	72	
General admin time		625	
	General admin time	625	7% of total hours.
Leave (Holiday/Annual) and Training		2,133	
	Holidays (12 days), Annual Leave (15 days) Other Leave (180 days)	1,958	
	Training and Continuing Education	175	
Grand Total Hours		<u>8,352</u>	

03-28-2024 AUDIT COMMITTEE MEETING - A-11 CONSIDERATION OF REVISED 2024 AUDIT PLAN

Revised Internal Audit 2024 Risk Assessment Matrix

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

2024 Audit Topic
Potential 2025 Audit Topic

Department	Auditable Process	Materiality / Financial Impact / Compliance	Strategic / Operational Impact	Change / Stability	Complexity of Operations or Regulations	Political / Reputation	Last Audit - Time and Results	Average Risk Ranking	Last Audited	Rotational Cycle
INFORMATION SECURITY	Event, Incident, and Problem Management	5	5	5	5	4	5	4.8		1
EXECUTIVE	Automation (AI/RPA) Governance	5	5	5	5	4	5	4.8		3
EXECUTIVE	System Implementation	4	5	5	5	5	5	4.8		4
OPERATIONS SUPPORT SERVICES	HQ management	3	5	5	5	5	5	4.7		3
EXECUTIVE	Business continuity / disaster recovery	5	5	3	5	5	4	4.5	9/24/2019	3
BOARD	Governance	5	5	3	4	5	5	4.5		3
INFORMATION TECHNOLOGY	Network Security	5	5	5	5	5	2	4.5	6/30/2020	1
INTERNAL AUDIT	Action plan follow-up	5	5	5	3	4	5	4.5		1
INFORMATION SECURITY	Data Privacy and Protection	5	5	3	4	5	5	4.5		3
INFORMATION SECURITY	Information Security	5	5	5	4	5	3	4.5	6/30/2020	1
FINANCE	Payroll for retirees	5	5	4	5	5	2	4.3	12/17/2019	1
INVESTMENTS	Asset allocation/rebalancing - Governance	5	5	4	3	5	4	4.3	1/20/2018	2
MEMBER SERVICES	COLA adjustments	5	4	3	5	4	5	4.3		4
MEMBER SERVICES	Final Average Salary Policy Review	5	5	5	5	5	1	4.3	12/20/2023	1
MEMBER SERVICES	Contribution transmittals Plan Sponsors (OCFA)	5	5	3	5	5	3	4.3	10/11/2023	2
FINANCE	Investment accounting and valuation	5	5	4	4	4	3	4.2	11/23/2020	3
MEMBER SERVICES	1099 reporting	5	3	4	4	4	5	4.2		4
MEMBER SERVICES	Benefit setup	5	5	4	5	5	1	4.2	6/1/2023	1
LEGAL	Compliance Program	5	4	4	3	4	5	4.2		3
FINANCE	Contributions - member, employer	5	5	4	4	4	2	4.0	6/6/2019	3
FINANCE	General Ledger	5	5	5	4	3	2	4.0	11/23/2020	3
HUMAN RESOURCES	HR Processes	2	5	4	4	4	5	4.0		4
FINANCE	Budgeting	5	4	3	3	4	5	4.0		3
EXECUTIVE	Actuarial extract	5	5	3	4	5	2	4.0	10/13/2020	3
INVESTMENTS	Due diligence	5	5	3	4	5	2	4.0	1/13/2020	2
INFORMATION TECHNOLOGY	Data security 3rd party vendors	5	5	4	3	5	2	4.0	6/30/2020	3
INVESTMENTS	Investment reconciliations	5	5	3	4	5	2	4.0	11/23/2020	3
LEGAL	Form 700 Compliance review	3	4	4	3	5	5	4.0		4
MEMBER SERVICES	Disability process	4	4	4	4	5	3	4.0	1/28/2019	3
INFORMATION TECHNOLOGY	IT Vendor / Third Party Management	5	5	3	4	5	2	4.0	11/30/2020	3
MEMBER SERVICES	Call Center management	2	4	4	5	4	5	4.0		3
FINANCE	Financial reporting	5	4	4	4	4	2	3.8	3/26/2020	3
HUMAN RESOURCES	Succession Planning	2	5	3	3	5	5	3.8		4
INVESTMENTS	Investment manager fee reporting	5	4	4	4	5	1	3.8	3/30/2022	3
INVESTMENTS	Investment consultant review	5	5	2	4	5	2	3.8	10/4/2021	3

03-28-2024 AUDIT COMMITTEE MEETING - A-11 CONSIDERATION OF REVISED 2024 AUDIT PLAN

Internal Audit 2024 Risk Assessment Matrix

Department	Auditable Process	Materiality / Financial Impact / Compliance	Strategic / Operational Impact	Change / Stability	Complexity of Operations or Regulations	Political / Reputation	Last Audit - Time and Results	Average Risk Ranking	Last Audited	Rotational Cycle
MEMBER SERVICES	Death matching process	3	3	4	4	5	4	3.8	6/14/2016	5
MEMBER SERVICES	Survivor claims	5	5	3	4	4	2	3.8	10/4/2021	3
MEMBER SERVICES	Contribution transmittals Plan Sponsors (Sanitation District)	4	5	3	4	5	2	3.8	6/4/2020	3
INFORMATION TECHNOLOGY	Software Development Life Cycle / Change Management	4	4	5	4	3	3	3.8	12/30/2019	4
MEMBER SERVICES	Contribution transmittals Plan Sponsors (County) (including eligibility, pension spiking) - Healthcare Agency (first time audit)	5	5	3	4	5	1	3.8	3/30/2022	3
COMMUNICATIONS	External media/communication oversight	3	4	4	3	4	5	3.8		1
OPERATIONS SUPPORT SERVICES	Procurement	5	4	4	3	5	1	3.7	10/3/2022	3
OPERATIONS SUPPORT SERVICES	Physical security	2	4	3	3	5	5	3.7		4
OPERATIONS SUPPORT SERVICES	Contract Management (e.g. Vendor contract compliance)	5	5	3	3	5	1	3.7	10/3/2022	4
MEMBER SERVICES	IRS 415 benefit payment limits	3	3	3	3	5	5	3.7		5
INTERNAL AUDIT	QAIP (Internal)	1	3	5	3	5	5	3.7		1
INFORMATION TECHNOLOGY	IT Governance, Strategy, and Planning	3	5	4	5	3	2	3.7	11/30/2020	3
MEMBER SERVICES	Contribution transmittals Plan Sponsors (Superior Court)	4	5	3	4	5	1	3.7	4/5/2023	3
MEMBER SERVICES	Contribution transmittals Plan Sponsors (OCTA)	4	5	3	4	5	1	3.7	11/12/2018	3
FINANCE	Cash management	5	5	3	4	3	1	3.5	1/27/2022	3
INVESTMENTS	Cash/Wire Processing	5	5	4	2	4	1	3.5	12/30/2021	3
INVESTMENTS	Personal Trading Policy compliance	2	3	4	3	4	5	3.5		5
LEGAL	Record management and retention	3	5	5	3	4	1	3.5	10/11/2023	1
MEMBER SERVICES	Service Credit Purchases	3	3	4	4	3	4	3.5	11/29/2016	5
INFORMATION TECHNOLOGY	Data Retention and Backup	4	4	4	3	4	2	3.5	12/30/2019	4
MEMBER SERVICES	Transmittal error clearing	5	5	2	5	3	1	3.5		4
HUMAN RESOURCES	Hiring	2	5	4	4	4	1	3.3	10/11/2023	4
EXECUTIVE	Ethics Policy	5	5	1	3	5	1	3.3	10/11/2023	5
MEMBER SERVICES	IRS 401 contribution limits	3	3	3	3	3	5	3.3		5
MEMBER SERVICES	Reciprocity	3	3	3	4	3	4	3.3	8/2/2017	5
INFORMATION TECHNOLOGY	Knowledge Management	2	3	5	4	1	5	3.3		5
INFORMATION TECHNOLOGY	IT Asset Management	3	5	4	4	2	2	3.3	6/30/2020	4
INVESTMENTS	Securities Lending fees	2	5	3	4	4	2	3.3	12/14/2020	5
MEMBER SERVICES	Lump sum payments (death benefits, refunds)	4	3	3	4	4	1	3.2	10/4/2021	4
MEMBER SERVICES	Member Enrollment	3	5	3	3	4	1	3.2	10/13/2023	4

Internal Audit 2024 Risk Assessment Matrix

Department	Auditable Process	Materiality / Financial Impact / Compliance	Strategic / Operational Impact	Change / Stability	Complexity of Operations or Regulations	Political / Reputation	Last Audit - Time and Results	Average Risk Ranking	Last Audited	Rotational Cycle
MEMBER SERVICES	Contribution transmittals Plan Sponsors (All other active plan sponsors, including eligibility, pension spiking) - San Juan Capistrano - Public Law Library (first time audit) - OCERS (first time audit) - Local Agency Formation Commission (first time audit)	4	5	3	3	3	1	3.2	11/2/2022	4
INFORMATION TECHNOLOGY	IT Availability and Capacity	3	4	2	2	3	5	3.2		5
FINANCE	Custodian Bank Fees	2	3	4	2	3	5	3.2		5
MEMBER SERVICES	Interest posting / crediting	5	4	2	3	2	2	3.0	6/6/2019	5
MEMBER SERVICES	Dependent eligibility	4	4	2	2	4	2	3.0	10/4/2021	5
INTERNAL AUDIT	QAIP (External)	1	3	5	3	5	1	3.0		4
INFORMATION TECHNOLOGY	IT Operations	3	4	2	3	4	2	3.0	12/30/2019	5
MEMBER SERVICES	Domestic Relations Order (DRO)	2	3	2	3	2	5	2.8		5
MEMBER SERVICES	Member Data Maintenance	2	4	2	3	5	1	2.8	6/1/2023	5
FINANCE	Accounts Payable	3	3	3	4	2	1	2.7		5
MEMBER SERVICES	Retiree Rehires (PEPRA)	3	2	2	1	5	1	2.3	10/13/2023	5
FINANCE	Travel expenses	2	1	2	1	5	1	2.0	12/6/2017	5
LEGAL	Compliance Department									

Risk Assessment Methodology:

Internal Audit established the structure of the risk assessment by identifying key programs, projects, and processes (auditable entities). We then identified the following categories of risk:

1. **Materiality / Financial Impact / Compliance** – The magnitude of financial exposure, the degree of regulatory oversight, possible financial penalties.
2. **Strategic / Operational Impact** – The significance of this process to OCERS’ strategic success, impact of process disruption.
3. **Change / Stability** – How much the process has been altered and the change of personnel carrying out the process.
4. **Complexity of Operations or Regulations** – The number of individuals, entities, and processes involved, and the degree to which professional judgment or technical expertise is applied.
5. **Political / Reputation** – The degree of public interest and awareness, the visibility of the process to the media.
6. **Last Audit: Time and Results** – The length of time since the last audit or review was conducted and the results of that audit or review.



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: Brenda Shott, Assistant CEO, Finance and Internal Operations
SUBJECT: 2023 FINANCIAL STATEMENT AUDIT – ENTRANCE CONFERENCE

Presentation

Background/Discussion

Moss Adams LLP (Moss Adams) is OCERS independent financial auditors. Moss Adams prepares an audit plan for OCERS Audit Committee as part of the entrance conference for the annual financial statement audit. Attached is Moss Adam’s 2023 Audit Services Plan, prepared by Kory Hoggan, Engagement Partner. The plan includes an overview of the Moss Adam’s engagement service team for the financial statement audit; scope of services; overall summary of audit responsibilities; timeline for deliverables; and highlights of Moss Adam’s audit approach. Mr. Hoggan and Mr. Aaron Hamilton, Audit Senior Manager, will be attending the Audit Committee meeting on March 28, 2024, to present their report.

Attachment

Submitted by:



BMS- Approved

Brenda Shott
Assistant CEO, Finance and Internal Operations



Orange County Employees Retirement System

Audit Entrance Presentation to Audit Committee

March 28, 2024



Audit Communications

Entrance Conference – Today

- Your audit team
 - Planned scope and timing of audit
 - Auditor’s responsibility under auditing standards
-

Exit Conference – June 2024

- Significant audit findings
- Difficulties encountered in performing the audit
- Corrected and uncorrected misstatements
- Management representations
- Management consultations with other independent accountants
- Other audit findings or issues



Your Audit Team



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Laurie Tish, CPA
Concurring Reviewer



Jeff Roybal, CPA
Audit Manager



Audit Reports

We will provide the following audit reports for the year ended December 31, 2023

Report of independent auditors on financial statements

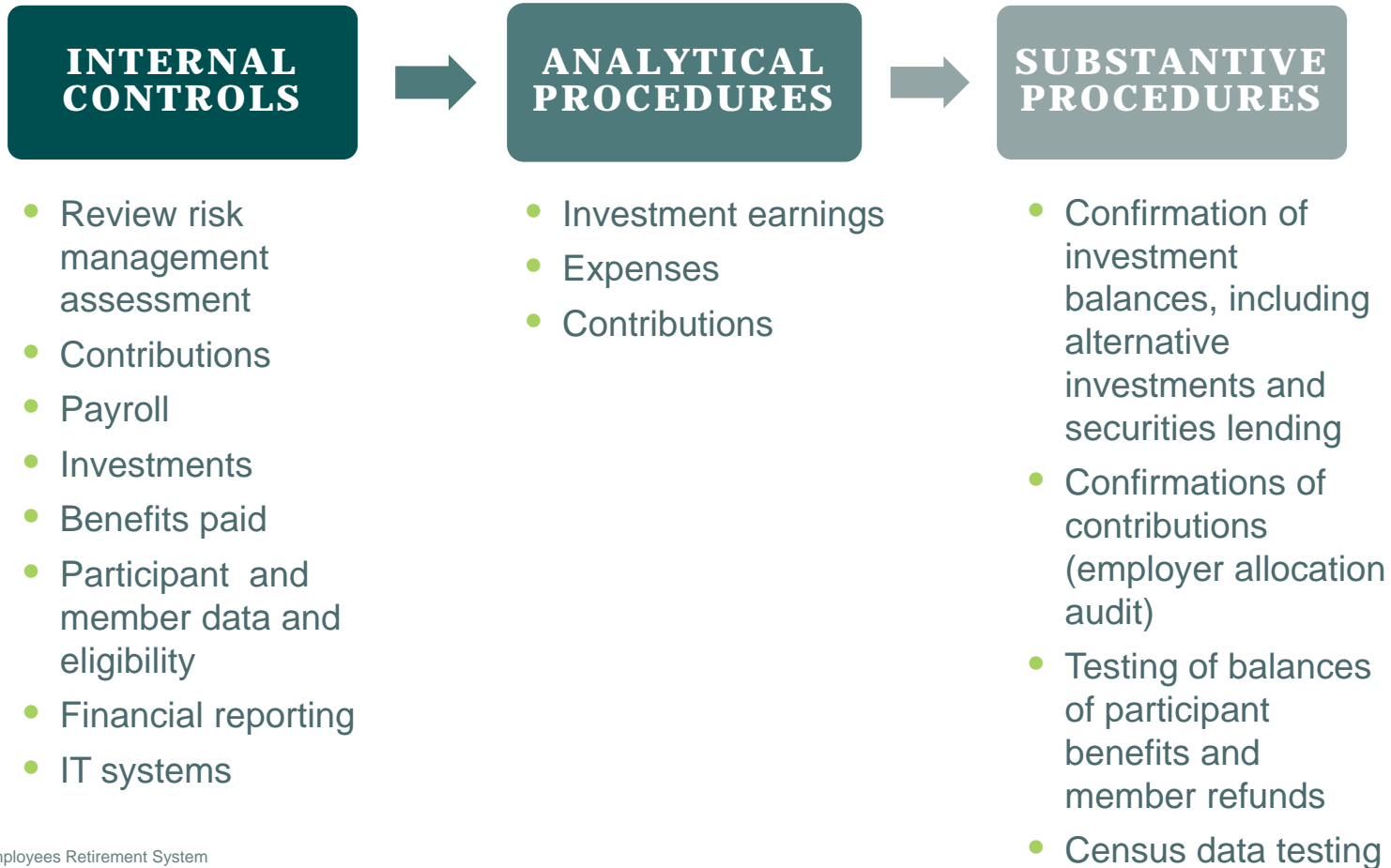
Report of independent auditors on employer allocations and pension amounts by employer

Report to those charged with governance (required communications and other matters of interest)

Government Auditing Standards report on internal controls (communicating internal control matters)



Areas of Audit Emphasis



Testing of Investments

Use guidance in AICPA Practice Aid for Alternative Investments

- Alternative investments composition
- Understand nature, complexity and volatility of investment

Internal Controls

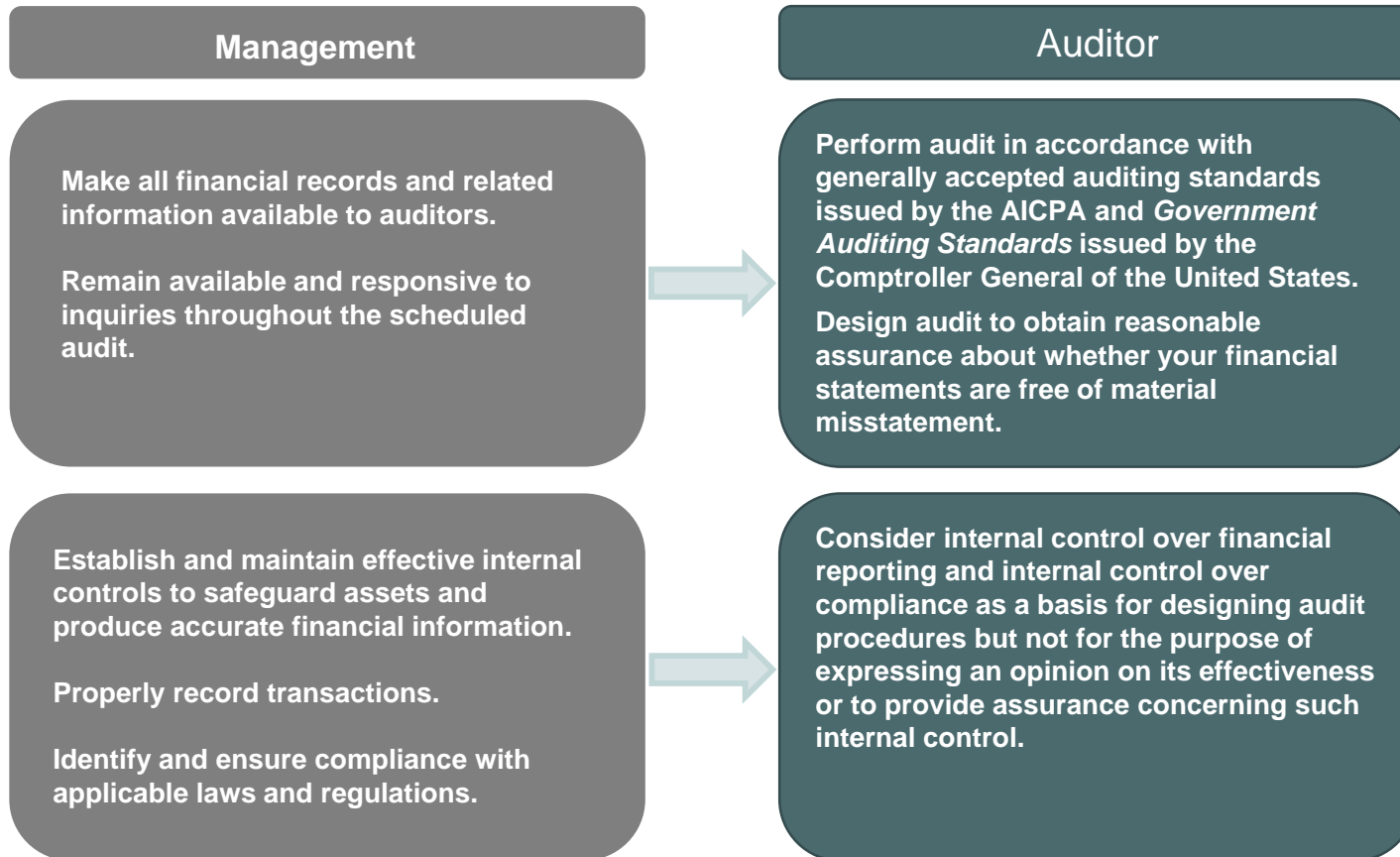
- Authorization of investments and investment policy
- Due diligence and on-going monitoring

Test of Details

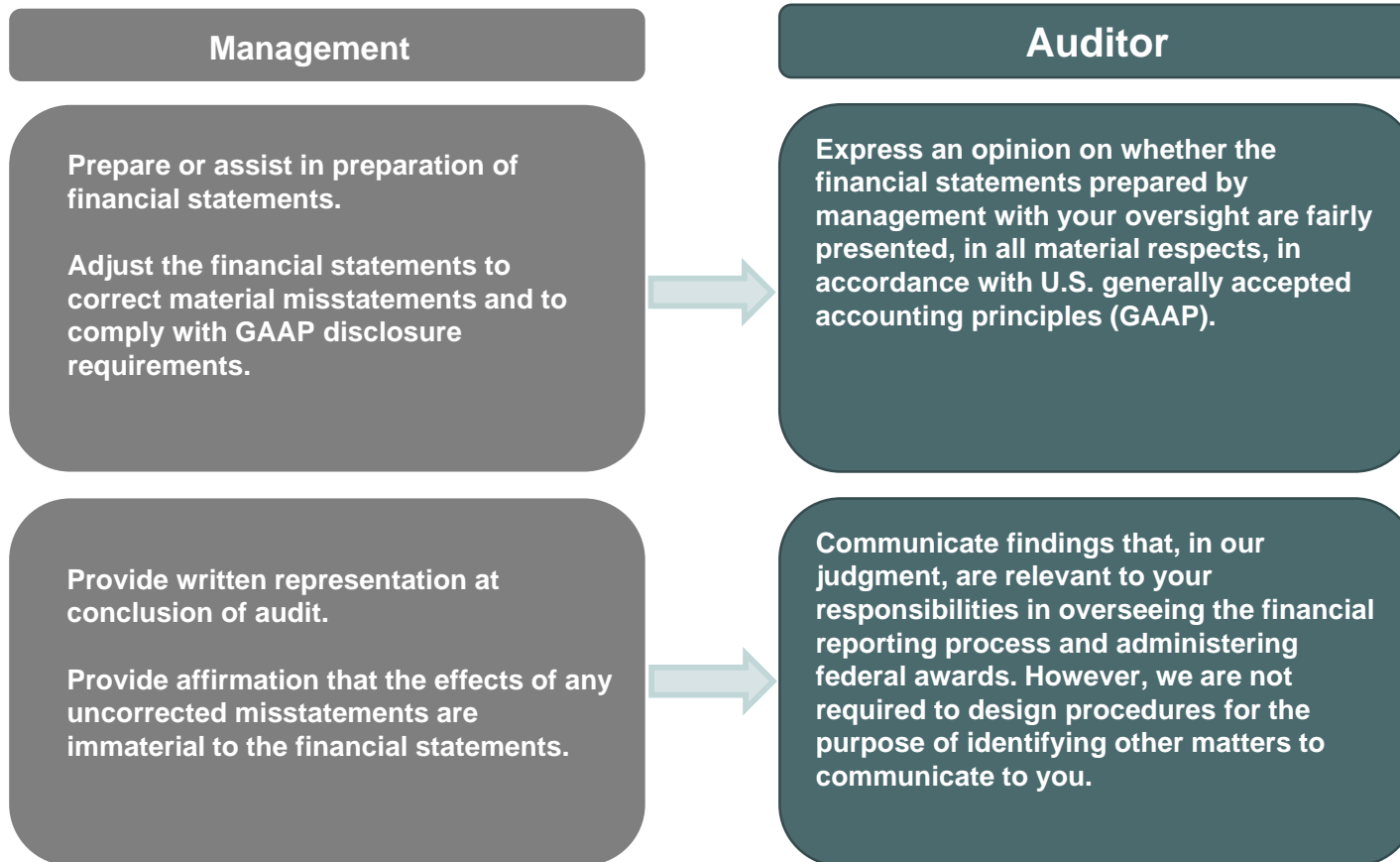
- Confirm selected investments: existence, valuation, and liquidity
- Review audited financial statements and analyze assumptions used



Management & Auditor Responsibilities



Management & Auditor Responsibilities (continued)



Materiality

The level of misstatement that could influence the economic decisions of users of the Fund's financial statements



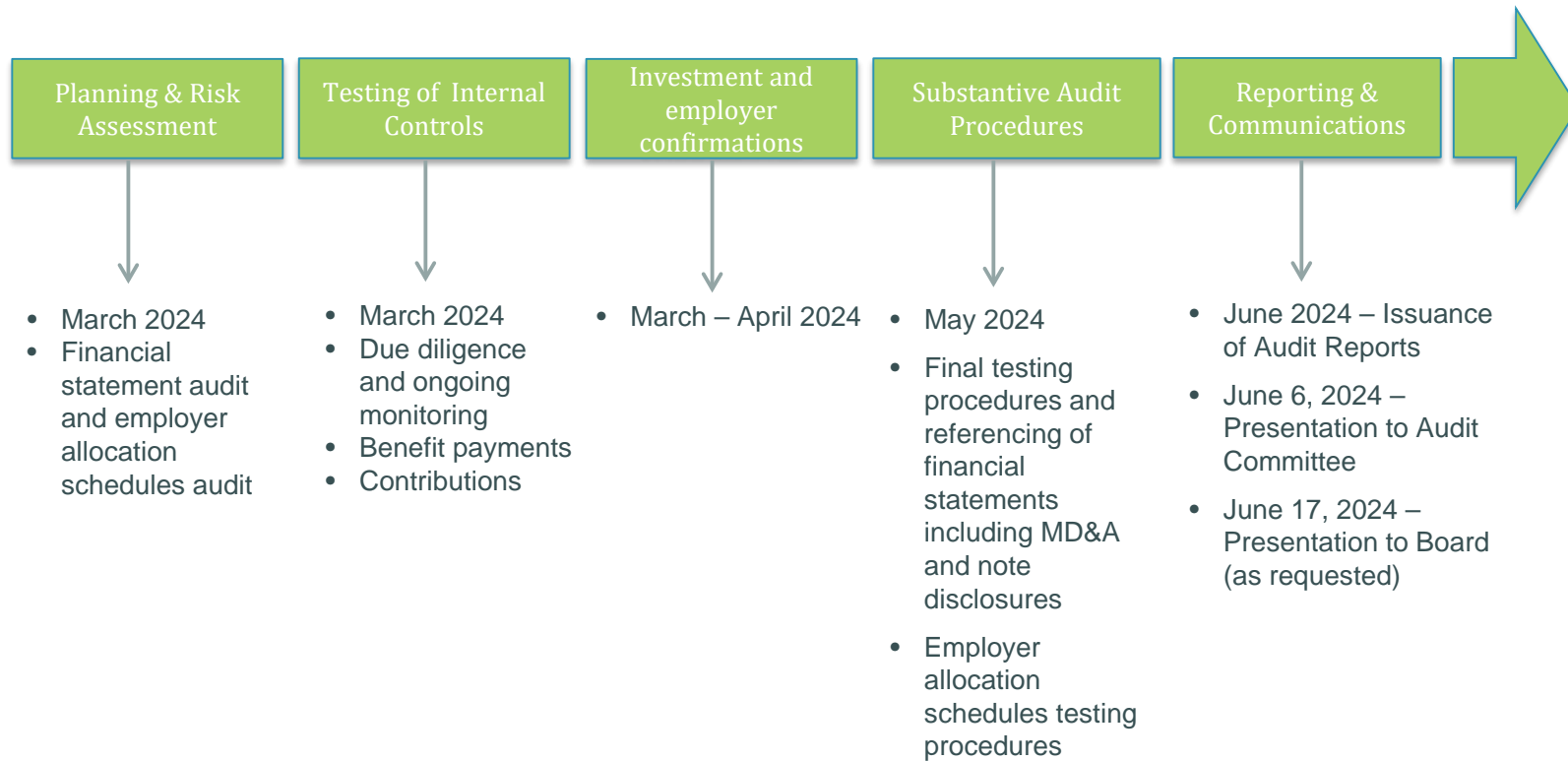
Materiality used to identify :

- Significant risk areas
- Nature, timing, extent, and scope of test work
- Findings or misstatements

Two levels: Financial statement materiality and member level (much smaller)



Audit Timeline





THANK
YOU





Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **AUDIT COMMITTEE FEEDBACK AND DIRECTION SUMMARY**

Background

In the Director of Internal Audit 2023 Performance Evaluation form, the Audit Committee (Committee) requested a documentation of the comments provided by the Committee throughout the year during committee meetings. The purpose of the document is to help the Committee better organize future performance reviews.

The attached is the documented summary of feedback and direction from the Committee given at the January 19, 2024 Audit Committee meeting. Future Feedback and Summary documents will not be presented to the Audit Committee but instead will be presented to the Committee at the time of the annual performance evaluation, unless requested otherwise.

I will present this as an informational item at the March 28, 2024, Audit Committee meeting looking for any feedback the Committee wishes to provide on future summaries.

Attachment

Submitted by:



DK- Approved

David Kim
Director of Internal Audit

January 19, 2024 Audit Committee Feedback and Direction

CONSIDERATION OF 2024 RISK ASSESSMENT AND 2024 AUDIT PLAN

Feedback

Ms. Freidenrich (SF) thanked David Kim (DK) for including the heat maps for the audit topics and applauded DK for continuing to perform first time audits.

Mr. Prevatt acknowledged DK for the work on the Employer Transmittal Audits especially for including the monitoring of extra help hours and rehired retirees reporting.

Direction

Audit Committee directed DK to adjust the audit program to:

- perform only one Final Average Salary (FAS) in Q4; and
- revise the scope of the Alameda audit by performing calculations on fewer samples and focus more on data gathering.

DK will adjust the audit program as per direction from the Audit Committee and present the revised audit program at the March Audit Committee meeting. However, the Audit Committee was comfortable with Internal Audit starting audits with the proposed Employer Transmittal Audits in the meantime.

SF suggested Member Services going forward to provide quarterly results of their quality reviews. The Audit Committee will then base the frequency of the FAS Audits to be performed by Internal Audit based the Member Services' quality review results.

EXTERNAL QUALITY ASSESSEMENT (EQA) REPORT

Feedback

The EQA performed by the Institute of Internal Auditors (IIA) noted OCERS' Internal Audit (IA) received the top rating of Generally Conforms and the IIA noted IA appropriately monitors the effectiveness of governance, risk management and controls. Also, IA is considered highly valued and a trusted partner. The report included the best practices noted for OCERS' IA which included areas such as due care and performance management. The IIA shared the results of survey noting that OCERS' IA scored higher compared to the universe of IA organizations reviewed by the IIA since 2013, specifically around IA governance, IA staff performance, IA management, and IA processes. Stakeholders positively view IA as a partner noting how well IA is operating. This level of positive survey results is not frequently seen by the IIA.

SF noted great news on the survey results, recognizing DK's efforts to be a partner to OCERS management. SF noted this it is evident that IA exceeded the goals which is wonderful and provide objective feedback which is a difficult balance. SF congratulated DK on a very positive EQA report.

Direction

After discussion of the new Compliance Program and its coordination with Internal Audit, the Audit Committee would like to provide a level of monitoring over the Compliance Program and would like General Counsel, representing the Compliance Program and Chief Compliance Officer, to report Compliance activities to the Audit Committee before going to the full Board.

KEY PERFORMANCE INDICATORS (KPI)

Feedback

One of the KPIs noted that audit workpapers will be reviewed 4 weeks after initial draft of the audit report. SF thanked DK for clarifying what is meant by draft audit report and providing the additional details that the 4-week timing is based on references from the PCAOB (45 days) and GAAP (60 days).

Direction

Two KPIs will be adjusted with the italicized wording below:

- The audit workpapers will be reviewed *within* 4 weeks after initial draft of the audit report.
- 80% of draft audit reports are issued to management within *four* (changed from six) months from the start of fieldwork.

The Audit Committee would like to see aging included in the Management Action Plan (MAP) report. DK noted that the new MAP report will include aging, details and when MAPs are delayed. CEO Delaney noted that MAPs will be included on the agenda of the OCERS monthly executive meeting.

DK normally provides a status report of the IA activities at the Audit Committee meetings as well as a separate MAP report. A status report was not provided as this was the first Committee meeting of the year. The Audit Committee would like DK to consider consolidating the IA status report with the MAP report.



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: Brenda Shott, Assistant CEO, Finance and Internal Operations
SUBJECT: OPERATIONAL RISK MANAGEMENT ANNUAL REPORT

Written Report

Background/Discussion

OCERS considers risk management an essential component of strategic, operational, financial and reputational management. Ensuring that OCERS is aware of and prepared for risks facing the organization is the primary objective of the Operational Risk Management program. This annual report provides information on the activities of the Operational Risk Committee and the status of the Operational Risk Management Program

A. **Operational Risk Management – Committee Charter**

The Operational Risk Committee Charter, approved by OCERS Chief Executive Officer, governs the duties and responsibilities of the Operational Risk Committee Charter (Attachment 1). The Operational Risk Committee is comprised of OCERS staff as designated by the CEO. The current Committee make up includes the CEO, two Assistant CEOs, General Counsel, Director of Internal Audit, Director of Information Security, Information Security Manager, and the Contracts, Risk and Performance Administrator. Below are the duties and responsibilities of the Committee included in the Charter:

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

B. **Annual Reporting**

Pursuant to item #4 above and Section 5 of the Board's Operational Risk Policy (Attachment 2), the Operational Risk Committee is submitting this annual report to the Audit Committee for review.

C. **Report Summary**

Specifics about the risks identified, mitigating factors and current risk score contain highly sensitive information that could have adverse security implications if published. As such, this report contains a high-level overview of the information. The following items summarize the current activities and status of the Operational Risk Management program:

1. The Operational Risk Committee Charter was adopted September, 2018



Memorandum

2. An in-house tool was developed to record, track and report the OCERS' Operational Risks
3. All departments have been evaluated for Operational Risks. There is a total of 66 active risks that have been identified and recorded
4. Department Directors and their teams give each risk identified in their area of responsibility a total of three scores: Initial Score (based on conditions at the time the risk is identified), Current Score (based on current situation after considering existing mitigating factors and operational conditions) and Target Score (based on mitigating factors planned for the future and expected operational conditions). Each score is comprised of two components: Likelihood of risk occurring and the impact the risk would have should it occur. Both the likelihood and impact are given a numeric value between 1 and 5. The two scores are multiplied together to get the risk score for each of three scenarios.
5. The Contracts, Risk and Performance Administrator met with each Department to review the risks identified. During the review meetings, each risk was reviewed to determine if any changes to mitigating factors had occurred, new risks identified were evaluated (if any) and each risk score was reassessed and updated if appropriate.
6. The Operational Risk Committee met quarterly to review the results of the department meetings. The Committee has evaluated all of the risks identified in the program and deemed the scores assigned appropriate.
7. The initial risk score of the entire organization was 9.56 on a scale of 1 to 25
8. After current mitigating factors were considered, the overall Current Risk Score is 6.24 (Low).
9. The overall Target Risk Score is 3.87 (Low)
10. Page three (3) of this report includes a visual representation of the current and prior year scores.

Attachments

Submitted by:



BMS- Approved

Brenda Shott
Assistant CEO, Finance and Internal Operations



Memorandum

All Departments – Risk Management Scorecard

2023 Scores



2022 Scores



2021 Scores





Staff Committee Charter

Operational Risk Committee Charter

Introduction

1. The Operational Risk Committee (“Committee”) is charged with developing, implementing and administering procedures and practices to assess, measure and manage operational risks. The Committee will carry out its duties with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a like capacity and familiar with these matters would use.
2. The Committee’s core objectives are to:
 - a. Develop a more risk-intelligent organization;
 - b. Establish operational risk management program standards; and
 - c. Independently assess and challenge existing department level controls and processes to ensure program compliance.
3. The Committee will be comprised of OCERS staff as designated by the CEO; and
4. The CEO will designate the Committee Chair.

Definition

Operational Risk: The risk of loss resulting from inadequate or failed internal processes, people, or systems or from external events. An operational risk management process should help prevent or detect in advance an operational risk event, and help OCERS effectively meet regulatory and on-going operational obligations.

Duties and Responsibilities

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

Meetings

11. The Committee will meet once a quarter and otherwise on an as needed basis as determined by the Committee Chair in consultation with the CEO.



Staff Committee Charter

Operational Risk Committee Charter

Review and Amendment of Charter

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

Charter History

13. This Charter was adopted by the CEO on September 24, 2018, and reviewed by the Committee on December 28, 2022. The Operational Risk Committee was first convened on March 2, 2018.

Secretary's Certificate

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

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

Steve Delaney
Secretary of the Board

01/17/2023

Date



OCERS Board Policy Operational Risk Policy

Background

1. The Board considers risk management an essential component of strategic, operational, financial and reputational management.

Policy Objectives

2. To help achieve long-term sustainability by ensuring that OCERS is aware of and prepared for risks facing the organization.

Policy Guidelines

3. OCERS embeds risk management in all business practices to keep it relevant, effective and efficient.
4. Management through the Operational Risk Management Committee is responsible for identifying, assessing, and responding to risks and timely communication to the Board of the results of these processes, with accountability addressed in annual performance evaluations.
5. At least annually, management through the Operational Risk Management Committee will report to the Audit Committee regarding operational risk management and the related responsibilities, strategies, risks identified and actions for addressing material risks facing OCERS.

Policy Review

6. The Board will review this policy at least every 3 years to ensure that it remains relevant and appropriate.

Policy History

7. This policy was adopted by the Board of Retirement on November 16, 2015.
8. This policy was revised by the Board of Retirement on February 19, 2019, and on April 17, 2023.

Secretary's Certificate

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

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

Steve Delaney
Secretary of the Board

04/17/2023

Date



Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **MANAGEMENT ACTION PLAN VERIFICATION REPORT**

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.

Please note, the report has been modified to report open action plans by project followed by closed action plans by project.

Attachment

Submitted by:

 **DK- Approved**

David Kim
Director of Internal Audit



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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REPORTING FOR: 2018, 2019, 2020, 2021, 2022, 2023, ARCHIVED	OPEN	Closed - No Further Action Required (YTD)	Closed - No Further Action Required (Prior Years)	Total
Process Owner				
EMPLOYER	2	4	15	21
EXECUTIVE	0	1	7	8
FINANCE	0	0	3	3
HUMAN RESOURCES	3	0	2	5
INFORMATION SECURITY	7	4	2	13
INFORMATION TECHNOLOGY	5	2	9	16
INVESTMENTS	0	0	9	9
MEMBER SERVICES	1	3	35	39
Total Count:	18	14	82	114

Executed: 3/21/2024 10:48:57 AM
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- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Project: 6 - 1901 - Finance Contributions audit

REPORT DATE: 05/16/2019

OPEN

Open Observations: 1

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.

Process Owner:	INFORMATION TECHNOLOGY	
Due Date:	12/31/2024	On Schedule
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 reviews to begin in Q1 2024 with policies documented by Dec 2024.	

Project: 36 - 1943 2019 BCDR Audit

REPORT DATE: 10/17/2019

OPEN

Open Observations: 2

OBSERVATION #3 - 3. A FORMAL PROCESS INVOLVING CRITICAL OCERS STAKEHOLDERS IS NOT IN PLACE TO TEST THE RECOVERY OF DEPENDENT IT APPLICATIONS.

Process Owner:	INFORMATION TECHNOLOGY	
Due Date:	04/15/2024	On Schedule
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:	New systems had been implemented. IT will develop testing templates and scenarios and will coordinate with management to perform testing for IT managed systems.	

OBSERVATION #6 - 6. RECOVERY PROCEDURES FOR DEPENDENT IT APPLICATIONS ARE NOT DOCUMENTED IN THE RECOVERY PLANS.

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- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Process Owner:	INFORMATION TECHNOLOGY	
Due Date:	04/15/2024	On Schedule
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:	New systems have been implemented. Documentation of the recovery process to be finalized by Q2 2024. 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.	

Project:	39 - 1971-IT General Controls	
REPORT DATE:	06/04/2020	OPEN
Open Observations:	1	
OBSERVATION #3 - OCERS DOES NOT MAINTAIN DATA FLOW DIAGRAMS OR OTHER DOCUMENTATION OF INFORMATION FLOW BOTH INTERNALLY AND TO EXTERNAL PARTIES.		
Process Owner:	INFORMATION TECHNOLOGY	
Due Date:	12/31/2024	On Schedule
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.	

Project:	33 - 2090 - Vulnerability and Patch Management	
REPORT DATE:	03/22/2021	OPEN
Open Observations:	1	
OBSERVATION #1 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION		

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		Missed Due Date (2nd Time) since latest Revised Due Date	



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Process Owner:	INFORMATION SECURITY	
Due Date:		On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:		

Project:	56 - 2133 - Dependent Survivor Eligibility Audit	
REPORT DATE:	10/04/2021	OPEN
Open Observations:	1	

OBSERVATION #3 - A LUMP SUM BENEFICIARY PAYMENT TO A DECEASED DRO SURVIVOR PAYEE'S ESTATE WAS OVERPAID BY \$200.

Process Owner:	MEMBER SERVICES	
Due Date:	04/30/2024	On Schedule
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:	Primary SME is currently on leave. Item will be addressed upon return.	

Project:	66 - 2171 - IT Automated Controls	
REPORT DATE:	02/14/2023	OPEN
Open Observations:	1	

OBSERVATION #1 - 1. AN OPPORTUNITY EXISTS TO ENHANCE DOCUMENTATION OF THREE SPECIFIC AREAS DESCRIBED ACROSS SIX OF THE 19 PENSION ADMINISTRATION SYSTEM SPECIFICATION DOCUMENTS REVIEWED BY INTERNAL AUDIT.

Process Owner:	INFORMATION TECHNOLOGY	
Due Date:	07/31/2024	On Schedule
Action Plan:	IT Management will work with our PAS vendor and Member Services to update the identified PAS Design Specification documents to include the detailed logic and calculations configured for our PAS.	

Executed: 3/21/2024 10:48:57 AM Executed By: OCERS\dkim	<table border="0"> <tr> <td style="width: 20px; height: 15px; background-color: #90EE90; border: 1px solid black;"></td> <td>On Schedule to complete MAP</td> </tr> <tr> <td style="width: 20px; height: 15px; background-color: #FFFF99; border: 1px solid black;"></td> <td>Missed Due Date (1st Time), planned to complete by Revised Due Date</td> </tr> <tr> <td style="width: 20px; height: 15px; background-color: #FFB6C1; border: 1px solid black;"></td> <td>Missed Due Date (2nd Time) since latest Revised Due Date</td> </tr> </table>		On Schedule to complete MAP		Missed Due Date (1st Time), planned to complete by Revised Due Date		Missed Due Date (2nd Time) since latest Revised Due Date	Doc. No. 0080-0120-R0001 Page 4 of 45
	On Schedule to complete MAP							
	Missed Due Date (1st Time), planned to complete by Revised Due Date							
	Missed Due Date (2nd Time) since latest Revised Due Date							



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up:

Project: 63 - 2235 - The Toll Roads Employer Audit

REPORT DATE: 02/14/2023

OPEN

Open Observations: 1

OBSERVATION #4 - TWO PROCESS AND REVIEW CONTROLS RELATED TO MEMBER ELIGIBILITY AND PREMIUM PAY ARE NOT FORMALLY DOCUMENTED.

Process Owner:	EMPLOYER	
Due Date:	07/15/2024	On Schedule
Action Plan:	<ul style="list-style-type: none"> Quarterly review of total hours worked by Extra Help and temporary staff: TCA currently requires managers to monitor the hours of temporary project employees. The Controller reviews and signs off on each payroll register as evidence of review of payroll, which includes the hours of temporary project employees. The quarterly review is prepared as a visual aid to note the YTD hours of service for these employees. For additional documentation, TCA's Assistant Controller will begin signing off on her quarterly tracking spreadsheet. Auto allowance: TCA will add verbiage to the employee handbook describing the auto allowance program. This will be incorporated in the employee handbook revised draft for Board approval. 	
IA Follow-Up:	IA confirmed the quarterly review process is now performed. Due to change in management, awaiting updates regarding the Policy revision.	

Project: 71 - 2361 - HR audit of hiring practices

REPORT DATE: 10/11/2023

OPEN

Open Observations: 3

OBSERVATION #1 - HUMAN RESOURCES (HR) DOES NOT HAVE FORMAL PROCEDURAL DOCUMENTATION FOR THE HIRING AND RECRUITING PROCESS.

Process Owner:	HUMAN RESOURCES	
Due Date:	12/31/2024	On Schedule
Action Plan:	The Human Resources department will develop procedures for the hiring and recruitment practices.	
IA Follow-Up:		

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- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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OBSERVATION #3 - OCERS IS USING THE STANDARD COUNTY BACKGROUND CHECK INSTEAD OF OCERS' MORE EXTENSIVE 3RD PARTY BACKGROUND CHECK FOR ALL NEW COUNTY EMPLOYEES WHO WILL GAIN ACCESS TO CONFIDENTIAL MEMBER DATA WITHIN THE PENSION ADMINISTRATION SYSTEM (PAS).

Process Owner:	HUMAN RESOURCES	
Due Date:	12/31/2024	On Schedule
Action Plan:	The HR department will schedule a meeting with the County to discuss next steps needed to institute more extensive background checks.	
IA Follow-Up:		

OBSERVATION #4 - HUMAN RESOURCES IS MAINTAINING TERMINATED EMPLOYEE PERSONNEL RECORDS BEYOND THAT ALLOWED PER OCERS BOARD RECORDS MANAGEMENT POLICY.

Process Owner:	HUMAN RESOURCES	
Due Date:	12/31/2024	On Schedule
Action Plan:	A request to increase the retention period for personnel files from 4 to 7 years will be made to the Governance Committee at their next review of the Records Management policy. All personnel files outside of the 7-year window were destroyed.	
IA Follow-Up:		

Project: 74 - 2337 - Employer audit of IHSS Public Authority

REPORT DATE: 10/11/2023

OPEN

Open Observations: 1

OBSERVATION #2 - FOR ONE ACTIVE MEMBER, IHSS PA INCORRECTLY REPORTED THE SERVICE HOURS IN THE TRANSMITTAL FILES FOR 12 CONSECUTIVE PAY PERIODS FROM AUGUST 2022 TO JANUARY 2023.

Process Owner:	EMPLOYER	
Due Date:	09/29/2023	1st Missed Due Date
Revised Due Date:	08/01/2024	
Action Plan:	IHSS PA will correct the member's transmittal records to reflect actual hours worked in the service hours column via payroll transmittal adjustment files.	
IA Follow-Up:	IHSS PA is working on the update and requested additional information.	

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- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Project: 76 - 2391 - M365 IS Audit

REPORT DATE: 01/19/2024

OPEN

Open Observations: 6

OBSERVATION #102 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
Due Date:		On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:		

OBSERVATION #104 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
Due Date:		On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:		

OBSERVATION #105 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
Due Date:		On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:		

OBSERVATION #202 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
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- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Due Date:		On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:		
OBSERVATION #203 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION		
Process Owner:	INFORMATION SECURITY	
Due Date:		On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:		
OBSERVATION #303 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION		
Process Owner:	INFORMATION SECURITY	
Due Date:		On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:		

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 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Project: 5 - Audit of the Benefit Setup Process (2012)

REPORT DATE: 12/04/2012

CLOSED

Closed Observations: 3

OBSERVATION #1 - MANUAL FAS OVERRIDE

Process Owner:	MEMBER SERVICES	
Completion Date:	09/13/2022	MAP Status Unassigned
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 #8 - MANUAL FAS SUPPORTING DOCUMENTATION

Process Owner:	MEMBER SERVICES	
Completion Date:	09/16/2021	MAP Status Unassigned
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

Process Owner:	MEMBER SERVICES	
Completion Date:	04/27/2020	MAP Status Unassigned
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.	

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 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Project: 7 - Review of OCERS' Derivatives Investments (2014)

REPORT DATE: 07/10/2014

CLOSED

Closed Observations: 2

OBSERVATION #2 - ANNUAL REPORTING OF DERIVATIVES TO THE INVESTMENT COMMITTEE

Process Owner:	INVESTMENTS	
Completion Date:	08/10/2020	MAP Status Unassigned
Action Plan:	<p>Currently, the quarterly Derivatives Report provides information relating to the separately managed accounts. The commingled fund investments do not provide similar level of transparency, therefore the quarterly report does not include commingled funds data.</p> <p>The Investments staff has created a template (undergoing internal review) which could be used as a tool to receive information relating to derivatives directly from the investment managers. Such a disclosure and declaration is outside the norm, so it is difficult to predict how many or if the investment managers will comply. As soon as the template is finalized, staff will send it out to gather responses from the various investment managers. Our current expectation is that OCERS will not be able to impose periodic reporting requirements of our own on certain managers, and that in some if not most cases, we will be compelled to accept data as it can be provided by them on their annual cycles. Efforts will be made to achieve more-frequent reporting, but at this time there can be no assurance that such efforts will be successful.</p> <p>The Investment Policy Statement, approved at the 6/25/14 Investment Committee meeting, was amended in part to include the following: "The compliance report for separate account managers will be reviewed with the Investment Committee on a quarterly basis. The CIO shall report to the Committee annually on the staff and consultants' surveillance of diversification and risk controls associated with [derivatives]."</p>	
IA Follow-Up:	<p>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.</p> <p>Updated 8/10/20</p> <p>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.</p>	

OBSERVATION #3 - COUNTERPARTY RISK REPORTING

Process Owner:	INVESTMENTS	
Completion Date:	05/21/2020	MAP Status Unassigned

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- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Action Plan:	<p>Management has agreed to the recommendation: Counterparty risk, the risk that a financial institution will not honor the terms of a derivative contract due to poor financial health, is a key risk for derivatives.</p> <p>The Board is not getting complete information on the counterparty risks of all investment managers. Because many of OCERS' investment managers use the same institutions as counterparties, if a counterparty fails, it would affect several investment managers in the OCERS' portfolio simultaneously. Therefore, reporting on total counterparty risk to OCERS would be useful for accessing a concentration of risk with a single counterparty.</p> <p>OCERS' custodian bank, State Street, provides data on investment holdings and counterparty holdings that can be used to create a compilation of counterparties in the OCERS portfolio, though this will only include the OCERS' separately managed accounts.</p> <p>OCERS should request that State Street on a quarterly basis provide a report listing derivatives holdings by counterparty with amounts of currency forward contracts, swaps, and total fair value. The report should also include a credit rating agency's rating.</p> <p>This report should be included with the derivatives report to the Investment Committee.</p>
IA Follow-Up:	Internal Audit reviewed the 2019 Counterparty Risk Report reviewed and signed by the CIO.

Project: 17 - Audit of OCERS' Due Diligence Process (2015)

REPORT DATE: 08/06/2015

CLOSED

Closed Observations: 5

OBSERVATION #1 - NO DUE DILIGENCE POLICY

Process Owner:	INVESTMENTS
Completion Date:	01/07/2021 MAP Status Unassigned
Action Plan:	<p>Management has agreed to the recommendation: The CIO and his staff should create written procedures that specifically document the steps necessary to conduct adequate due diligence. We concur with the recommendation that written procedures are desirable, and staff is working on the development of a document that would fulfill this objective.</p>
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

Process Owner:	INVESTMENTS
Completion Date:	02/13/2020 MAP Status Unassigned
Action Plan:	<p>Management has agreed to the recommendation: For non-traditional pension fund managers that have not undergone an operational due diligence review from the OCERS' investment consultants, OCERS should consider the following on a case-by-case basis or at the CIO's discretion. A criteria or threshold (e.g., a dollar amount of an investment) should be set by the CIO to trigger when such a review will occur.</p> <p>Management agrees that a "deeper dive" could be appropriate for certain non-traditional managers, but only if a majority of the Board considers such measures to be necessary, cost-beneficial or justifiable on a risk-vs-cost basis. Cost-sharing strategies and outsourcing-versus-internal capacity should be explored and considered, along with a prioritization protocol.</p>

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Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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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

Process Owner:	INVESTMENTS	
Completion Date:	02/13/2020	MAP Status Unassigned
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.	

OBSERVATION #4 - MANAGER RFP STANDARDIZED QUESTIONING

Process Owner:	INVESTMENTS	
Completion Date:	01/07/2021	MAP Status Unassigned
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

Process Owner:	INVESTMENTS	
Completion Date:	02/13/2020	MAP Status Unassigned
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.	

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 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Project: 8 - Audit of OCERS' Private Equity Managers Abbott Capital and Pantheon (2016)

REPORT DATE: 03/21/2016

CLOSED

Closed Observations: 1

OBSERVATION #4 - CONSIDERATION OF ILPA BEST PRACTICES

Process Owner:	INVESTMENTS	
Completion Date:	01/25/2021	MAP Status Unassigned
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.	

Project: 16 - Audit of OCERS' Death Match Process (2016)

REPORT DATE: 06/24/2016

CLOSED

Closed Observations: 7

OBSERVATION #1 - OVERPAYMENT TO DECEASED MEMBERS

Process Owner:	MEMBER SERVICES	
Completion Date:	12/21/2021	MAP Status Unassigned
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	

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Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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OBSERVATION #2 - MANUAL QUERY OF V3 UNTIL NEW REPORT IS CREATED

Process Owner:	MEMBER SERVICES	
Completion Date:	12/21/2021	MAP Status Unassigned
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	

OBSERVATION #3 - CERTIFICATION LETTERS

Process Owner:	MEMBER SERVICES	
Completion Date:	04/07/2021	MAP Status Unassigned
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 #4 - DEATH DATA VENDORS

Process Owner:	MEMBER SERVICES	
Completion Date:		MAP Status Unassigned
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 6/30/2023. This observation and action plan will be tracked under the ITGC audit	

OBSERVATION #5 - MEMBER BANKING INFORMATION WITHIN V3

Process Owner:	MEMBER SERVICES	
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 Process Owner(s): ALL

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Completion Date:	09/23/2021	MAP Status Unassigned
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

Process Owner:	MEMBER SERVICES	
Completion Date:	02/25/2021	MAP Status Unassigned
Action Plan:	<p>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.</p> <p>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.</p> <p>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</p>	
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

Process Owner:	MEMBER SERVICES	
Completion Date:	04/17/2020	MAP Status Unassigned
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.	

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 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Project: 19 - Audit of V3 Benefit Setup Process (2016)

REPORT DATE: 07/21/2016

CLOSED

Closed Observations: 2

OBSERVATION #1 - USE OF 2,088 HOURS FOR BENEFIT CALCULATION

Process Owner:	MEMBER SERVICES	
Completion Date:	04/01/2020	MAP Status Unassigned
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

Process Owner:	MEMBER SERVICES	
Completion Date:	04/02/2020	MAP Status Unassigned
Action Plan:	The workflow module in V3 was an area that contained defects when we went live with the new system which prevented effective use. The majority of the defects have been addressed and staff is utilizing the workflows as part of their daily operations. However, we have found that a workflow can be completed without all of the steps being marked individually and as a result additional modifications to the overall configuration are being discussed. Management will work with staff to ensure that proper use of the workflow is being followed for all benefit setups. In addition, we will review the workflow steps as currently configured and make enhancements as needed to ensure all critical steps in the process are appropriated captured.	
IA Follow-Up:	IA confirmed worksteps are completed and V3 enhancements were implemented.	

Project: 20 - Audit of OCERS' Service Credit Purchase Process (2016)

REPORT DATE: 11/29/2016

CLOSED

Closed Observations: 1

OBSERVATION #1 - WORK IN PROCESS REPORTING

Process Owner:	MEMBER SERVICES
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 Process Owner(s): ALL

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Completion Date:	04/07/2021	MAP Status Unassigned
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.	

Project:	14 - Audit of City of San Juan Capistrano Payroll Transmittals (2017)	
REPORT DATE:	03/22/2017	CLOSED
Closed Observations:	3	

OBSERVATION #1 - MANUAL TRANSMITTAL FILE ADJUSTMENTS

Process Owner:	EMPLOYER	
Completion Date:	08/11/2020	MAP Status Unassigned
Action Plan:	Management agreed to the following recommendation: San 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

Process Owner:	EMPLOYER	
Completion Date:	04/27/2020	MAP Status Unassigned
Action Plan:	San Juan Capistrano's V3 transmittal file should reflect the correct reciprocal start date or the correct enrollment date with OCERS in the transmittal file field labeled "Reported Contribution Basis Date" in order to prevent these payroll exceptions from occurring again in V3. San Juan Capistrano concurs with this recommendation, which has been addressed based on information provided by OCERS' Member Services to SJC's Payroll Accountant.	
IA Follow-Up:	IA examined a recent V3 payroll transmittal exception report for PP#2, 2020 and noted there were no exceptions related to reported contribution basis dates.	

OBSERVATION #3 - EARNABLE SALARY RECORDS

Process Owner:	EMPLOYER	
Completion Date:	08/11/2020	MAP Status Unassigned

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Management Action Plan Status Report

Project(s): ALL
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 Process Owner(s): ALL

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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.

Project: 26 - Audit of Orange County Fire Authority (2018)

REPORT DATE: 10/23/2018

CLOSED

Closed Observations: 1

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.

Process Owner: INFORMATION TECHNOLOGY

Completion Date: 01/11/2024

MAP Status Unassigned

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

IA Follow-Up: IA confirmed the delegation of the configuration uploads to the IT Programming team and the review by Member Services of the updates to the pension administration system.

Project: 22 - Audit of Orange County Superior Court Payroll Transmittal (2018)

REPORT DATE: 11/08/2018

CLOSED

Closed Observations: 1

OBSERVATION #4 - SUPERIOR COURT'S HR DEPARTMENT DOES NOT HAVE POLICIES AND PROCEDURES IN PLACE TO DETERMINE IF THE INDEPENDENT CONTRACTOR STATUS FOR ITS INDEPENDENT CONTRACTORS COMPLIES WITH IRS RULES

Process Owner: EMPLOYER

Completion Date: 01/05/2022

MAP Status Unassigned

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.

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 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up: Superior Court no longer use independent contractors as court reporters. New employee classification/class spec for "Assignment Court Reporter" was created.

Project: 31 - Disability Payment Audit (2018)

REPORT DATE: 01/28/2019

CLOSED

Closed Observations: 1

OBSERVATION #1 - DISABILITY PAYMENT CALCULATION

Process Owner: MEMBER SERVICES

Completion Date: 01/05/2022

MAP Status Unassigned

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: 36 - 1943 2019 BCDR Audit

REPORT DATE: 10/17/2019

CLOSED

Closed Observations: 1

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.

Process Owner: FINANCE

Completion Date: 02/26/2020

MAP Status Unassigned

Action Plan: We concur with the observation and will formalize the approval of the document.

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Project(s): ALL
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 Process Owner(s): ALL

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IA Follow-Up: IA confirmed the Business Continuity Standard Operating Procedure document has been formally approved by the CMT.

Project: 44 - 1944 - Finance Benefits Audit

REPORT DATE: 01/13/2020

CLOSED

Closed Observations: 2

OBSERVATION #2 - FINANCE DOES NOT SYSTEMATICALLY DELETE V3'S ACH FILES CONTAINING BENEFICIARIES' BANKING INFORMATION FROM LOCAL HARD DRIVES.

Process Owner: FINANCE

Completion Date: 03/14/2022

MAP Status Unassigned

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.

Process Owner: FINANCE

Completion Date: 10/05/2020

MAP Status Unassigned

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.

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Project(s): ALL
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 Process Owner(s): ALL

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Project: 39 - 1971-IT General Controls

REPORT DATE: 06/04/2020

CLOSED

Closed Observations: 3

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.

Process Owner:	INFORMATION TECHNOLOGY	
Completion Date:	01/13/2022	MAP Status Unassigned
Action Plan:	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	
IA Follow-Up:	<p>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</p>	

OBSERVATION #2 - OCERS SHOULD FORMALIZE A PROCESS TO ANNUALLY OBTAIN AND REVIEW SOC REPORTS FOR RELEVANT IT VENDORS.

Process Owner:	INFORMATION TECHNOLOGY	
Completion Date:	08/23/2023	MAP Status Unassigned
Action Plan:	<p>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</p>	
IA Follow-Up:	<p>Enhancements have been made to the vendor management system. Processes and Procurement policy needs to be formally updated.</p>	

OBSERVATION #4 - EVIDENCE OF TESTING OF INTRANET PORTAL CHANGES ARE NOT RETAINED.

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 Process Owner(s): ALL

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Process Owner:	INFORMATION TECHNOLOGY	
Completion Date:	06/12/2020	MAP Status Unassigned
Action Plan:	<p>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.</p> <p>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'.</p>	
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:	40 - 1945- FAS Pay Items Audit	
REPORT DATE:	06/04/2020	CLOSED
Closed Observations:	3	

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.

Process Owner:	MEMBER SERVICES	
Completion Date:	09/16/2021	MAP Status Unassigned
Action Plan:	<p>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.</p> <p>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.</p>	
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.

Process Owner:	MEMBER SERVICES	
Completion Date:	09/16/2020	MAP Status Unassigned

Executed: 3/21/2024 10:48:57 AM	 On Schedule to complete MAP	Doc. No. 0080-0120-R0001 Page 22 of 45
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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

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

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

OBSERVATION #3 - A PROCESS DOES NOT EXIST TO IDENTIFY UPDATES TO EMPLOYER DOCUMENTATION THAT MAY IMPACT THE LIST OF PAY ITEMS.

Process Owner: MEMBER SERVICES

Completion Date: 03/14/2023 MAP Status Unassigned

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: IA confirmed a process and supporting documentation was implemented.

Project: 43 - 2031 - Audit of Orange County Sanitation District (OCSD) Payroll Transmittals

REPORT DATE: 06/04/2020 CLOSED

Closed Observations: 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).

Process Owner: EMPLOYER

Completion Date: 05/21/2020 MAP Status Unassigned

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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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: 42 - 2032 - Actuarial Extract Audit

REPORT DATE: 10/13/2020

CLOSED

Closed Observations: 7

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

Process Owner:	INFORMATION TECHNOLOGY	
Completion Date:	09/22/2021	MAP Status Unassigned
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.

Process Owner:	INFORMATION TECHNOLOGY	
Completion Date:	03/11/2021	MAP Status Unassigned
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.

Process Owner: INFORMATION TECHNOLOGY

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Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Completion Date:	03/11/2021	MAP Status Unassigned
Action Plan:	The IT Programming team will formalize and document the process of how actuarial extract validation code changes will be approved, including how all approvals will be tracked and logged within our system.	
IA Follow-Up:	IT Programming has formalized the code change validations process.	
OBSERVATION #4 - NUMERICAL THRESHOLDS UNDER WHICH FURTHER INVESTIGATION OF VALIDATION RESULTS ARE NO LONGER CONSIDERED NECESSARY ARE NOT FORMALLY DEFINED.		
Process Owner:	INFORMATION TECHNOLOGY	
Completion Date:	01/11/2024	MAP Status Unassigned
Action Plan:	The IT Programming team with 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 updated the related procedures.	
OBSERVATION #5 - 5. MEMBER SERVICES DOES NOT HAVE POLICIES AND PROCEDURES RELATED TO THE USE OF THE PENSION ADMINISTRATION SYSTEM MEMBER DATA VALIDATION QUERIES.		
Process Owner:	MEMBER SERVICES	
Completion Date:	05/15/2023	MAP Status Unassigned
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:	Internal Audit confirmed a Member Services procedural document was created.	
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.		
Process Owner:	INFORMATION TECHNOLOGY	
Completion Date:	03/11/2021	MAP Status Unassigned
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.		
Process Owner:	INFORMATION TECHNOLOGY	

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Completion Date:	03/11/2021	MAP Status Unassigned
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:	47 - 2020 - Continuous Audit of Final Average Salary Calculations (Q3/Q4 2020)	
REPORT DATE:	03/22/2021	CLOSED
Closed Observations:	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.

Process Owner:	MEMBER SERVICES	
Completion Date:		MAP Status Unassigned
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). <ol style="list-style-type: none"> 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).

Process Owner:	MEMBER SERVICES	
Completion Date:	04/02/2021	MAP Status Unassigned
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.	
IA Follow-Up:	Internal Audit noted the checklist was included in the new FAS tool.	

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Project: 33 - 2090 - Vulnerability and Patch Management

REPORT DATE: 03/22/2021

CLOSED

Closed Observations: 1

OBSERVATION #2 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION TECHNOLOGY	
Completion Date:	05/27/2021	MAP Status Unassigned
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:	Closed	

Project: 48 - 2132 - Continuous Audit of Final Average Salary Calculations (Q2 2021)

REPORT DATE: 06/04/2021

CLOSED

Closed Observations: 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.

Process Owner:	MEMBER SERVICES	
Completion Date:	05/20/2021	MAP Status Unassigned
Action Plan:	<p>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.</p> <p>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.</p> <p>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</p>	

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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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).

Process Owner: MEMBER SERVICES

Completion Date: 05/20/2021

MAP Status Unassigned

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.

Project: 55 - 2135 - Quarterly FAS Review (Q4 2021)

REPORT DATE: 10/04/2021

CLOSED

Closed Observations: 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.

Process Owner: MEMBER SERVICES

Completion Date: 10/01/2021

MAP Status Unassigned

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.

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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Project: 56 - 2133 - Dependent Survivor Eligibility Audit

REPORT DATE: 10/04/2021

CLOSED

Closed Observations: 3

OBSERVATION #1 - 1. OCERS DOES NOT HAVE A FORMALIZED AND SYSTEMATIC PROCESS TO ADDRESS SURVIVOR BENEFITS UNCLAIMED OVER AN EXTENDED PERIOD OF TIME.

Process Owner:	MEMBER SERVICES	
Completion Date:	01/05/2022	MAP Status Unassigned
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: <ul style="list-style-type: none"> • 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 #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.

Process Owner:	MEMBER SERVICES	
Completion Date:	01/26/2023	MAP Status Unassigned
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:	Confirmed procedures were updated for Member Services to verify COLA and Pension amounts for survivor benefit payments.	

OBSERVATION #4 - 4. A MEMBER'S DISABILITY APPLICATION WAS NOT LOCATED IN THE MEMBER'S V3 RECORDS.

Process Owner:	MEMBER SERVICES	
Completion Date:	03/16/2022	MAP Status Unassigned

Executed: 3/21/2024 10:48:57 AM
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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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: 57 - 2231 - SSA Employer Audit

REPORT DATE: 03/30/2022

CLOSED

Closed Observations: 1

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.

Process Owner: MEMBER SERVICES

Completion Date: 01/30/2023

MAP Status Unassigned

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: Internal Audit confirmed the reconciliation of job title and job codes between the County and OCERS PAS. The issue identified has been corrected.

Project: 58 - 2211 - Investment Manager Fee Report

REPORT DATE: 03/30/2022

CLOSED

Closed Observations: 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

Process Owner: INVESTMENTS

Completion Date: 09/12/2022

MAP Status Unassigned

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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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.

Project: 59 - 2232 - Quarterly FAS Review (Q1 2022)

REPORT DATE: 03/30/2022

CLOSED

Closed Observations: 1

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

Process Owner: MEMBER SERVICES

Completion Date: 01/26/2023

MAP Status Unassigned

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: Internal Audit confirmed the training was performed and a JIRA ticket was created to identify the proration issue.

Project: 60 - 2261 - Procurement Audit

REPORT DATE: 10/03/2022

CLOSED

Closed Observations: 8

OBSERVATION #1 - OCERS DID NOT COMPLY WITH OCERS PROCUREMENT AND CONTRACTING POLICY (POLICY) REGARDING CONTRACTS AWARDED TO TWO DIFFERENT VENDORS.

Process Owner: EXECUTIVE

Completion Date: 01/11/2024

MAP Status Unassigned

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Project(s): ALL
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 Process Owner(s): ALL

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Action Plan:
 A. Management will communicate with all Executives the requirements for issuing an RFP and will coordinate the RFP's per Policy requirements.
 B. Management will propose changes to the Procurement Policy to include a requirement of the Contracts Administrator to educate staff and confirm Policy compliance.
 C. Proof of bids and competitive price comparisons will be retained in the Contracts Management System ("CMS") for future reference

IA Follow-Up: IA confirmed management developed the training, updated the Policy and retained documents in the CMS.

OBSERVATION #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:

Process Owner: EXECUTIVE

Completion Date: 01/30/2023

MAP Status Unassigned

Action Plan: 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.

IA Follow-Up: IA confirmed a new due diligence process was implemented. Additional samples were tested.

OBSERVATION #3 - AUTHORIZING SIGNATURES, AS REQUIRED BY THE POLICY, WERE NOT OBTAINED ON FIVE CONTRACTS WITHIN OUR SAMPLE.

Process Owner: EXECUTIVE

Completion Date: 04/20/2023

MAP Status Unassigned

Action Plan:
 A. Management will recommend changes to the Procurement and Contracting Policy to include a duty of the Contract Administer to ensure the appropriate signatures for contracts are obtained.
 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.

IA Follow-Up: IA confirmed the Policy was updated with the provision for the Contract Administrator to ensure signatures comply with signature requirements.

OBSERVATION #4 - THE LEGAL DIVISION'S REVIEW WAS NOT OBTAINED FOR AN IT CONSULTANT'S CONTRACT AWARDED IN 2021. (CONTRACT VALUE OF \$126,000).

Process Owner: EXECUTIVE

Completion Date: 09/12/2022

MAP Status Unassigned

Action Plan: 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.

IA Follow-Up: Internal Audit reviewed sample of Legal approval of final contracts

OBSERVATION #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.

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 Process Owner(s): ALL

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Process Owner:	EXECUTIVE	
Completion Date:	01/30/2023	MAP Status Unassigned
Action Plan:	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.	
IA Follow-Up:	Internal Audit confirmed COIs were obtained for an additional sample.	

OBSERVATION #6 - POLICY IS ABSENT GUIDANCE OF WHEN A CONTRACT IS NEEDED AND HOW TO MONITOR ROUTINE ITEMS THAT DO NOT WARRANT A CONTRACT.

Process Owner:	EXECUTIVE	
Completion Date:	04/20/2023	MAP Status Unassigned
Action Plan:	Policy Issue: 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.	
IA Follow-Up:	IA confirmed the Policy was updated to define when a written contract was required.	

OBSERVATION #7 - UPON REVIEW OF OCERS' CONTRACT MANAGEMENT SYSTEM (CMS), WE NOTED DATA ENTRY ERRORS WITH SIX VENDORS IN OUR SAMPLE.

Process Owner:	EXECUTIVE	
Completion Date:	01/24/2023	MAP Status Unassigned
Action Plan:	Management has approval to hire an additional Team Member in this department. Review procedures will be created and implemented at that time.	
IA Follow-Up:	New Senior Manager hired. Internal Audit reviewed the Data Entry review schedule provided by management.	

OBSERVATION #8 - 8. WE NOTED POTENTIAL ROOM FOR IMPROVEMENT WITH EITHER THE POLICY OR WITH THE ADDITION OF NEW PROCEDURES.

Process Owner:	EXECUTIVE	
Completion Date:	04/20/2023	MAP Status Unassigned
Action Plan:	Policy Issue: 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. B. Management will recommend changes to the Procurement and Contracting Policy to clarify proper approval of Named Service Providers C. Management will implement a process to track diverse and/or minority owned businesses in an RFP distribution sheet.	

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 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up: IA confirmed the Policy was updated to address instances when a contract value is not known at the time of execution, and to clarify the proper approval of Named Service Providers. Diverse Vendor tracking action plan is complete

Project: 62 - 2233 - Quarterly FAS Review (Q2 2022)

REPORT DATE: 10/03/2022

CLOSED

Closed Observations: 1

OBSERVATION #1 - INTERNAL AUDIT NOTED A 2.4% ERROR RATE (ONE ERROR) WITH THE 41 FAS CALCULATIONS SAMPLED FROM THE 2ND QUARTER OF 2022.

Process Owner: MEMBER SERVICES

Completion Date: 03/17/2023

MAP Status Unassigned

Action Plan: 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.

IA Follow-Up: IA confirmed Member Services provided the additional training and communicated the error with OC Sanitation District.

Project: 63 - 2235 - The Toll Roads Employer Audit

REPORT DATE: 02/14/2023

CLOSED

Closed Observations: 3

OBSERVATION #1 - 1. FOR ONE MEMBER IN OUR TEST SAMPLE, THE MEMBER AFFIDAVIT FORM WAS INCOMPLETE REGARDING THE MEMBER'S PREVIOUS PUBLIC SERVICE.

Process Owner: EMPLOYER

Completion Date: 03/22/2023

MAP Status Unassigned

Action Plan: TCA ensures all member affidavits are completed for previous public service. The instance identified was for the HR Director. He did not fill out the previous experience because he knew it would not be eligible for reciprocity. TCA reminded the HR Director to ensure all member affidavits have this section completed, regardless of the employee's service credit reciprocity eligibility.

IA Follow-Up: IA confirmed the HR Director was made aware to ensure all sections are completed in a member's affidavit.

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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OBSERVATION #2 - FOR TWO MEMBERS IN OUR TEST SAMPLE, THE EMPLOYER INCORRECTLY REPORTED THE PAYROLL INFORMATION TO THE OCERS PENSION ADMINISTRATION SYSTEM (PAS).

Process Owner:	EMPLOYER	
Completion Date:	05/02/2023	MAP Status Unassigned
Action Plan:	TCA has adjusted the employee's reported hours for PP13 & PP14 to correctly reflect the hours worked. TCA noted our internal OCERS schedules properly reflected the number of hours worked, but they were incorrectly copied over to the OCERS transmittal. Additionally, TCA noted the internal schedule for the second employee properly reflected the hourly rate for the pay periods noted. TCA will adjust the employee's reported hourly rate for these periods. TCA reminded the staff and supervisor responsible for preparing and reviewing the transmittal to confirm all hours and information agree to our internal documentation prior to submission. TCA is also working to automate the process of updating the OCERS transmittals with the data from our payroll reports to limit the potential for manual data entry mistakes.	
IA Follow-Up:	IA confirmed transmittal adjustments were recorded in V3. TCA has been working with OCERS to find opportunities to automate the payroll transmittal.	

OBSERVATION #3 - 3. WE NOTED A SINGLE INSTANCE IN WHICH A TIMESHEET LACKED SUPERVISORY SIGNOFF.

Process Owner:	EMPLOYER	
Completion Date:	03/22/2023	MAP Status Unassigned
Action Plan:	The Sr. Accounting Clerk responsible for ensuring timesheets were properly approved for the selected pay period and the supervisor of the selected employee are no longer with TCA. TCA reminded the new payroll Sr. Accounting Clerk and Accounting Supervisor responsible for review to confirm all timecards (including partial timecards under a different supervisor) include supervisor approval prior to payroll submission.	
IA Follow-Up:	IA confirmed communication was made to the Sr. Accounting Clerk and Accounting Supervisor responsible for ensuring timesheets are approved.	

Project: 65 - 2332 - OC Superior Court

REPORT DATE: 04/05/2023

CLOSED

Closed Observations: 2

OBSERVATION #1 - THIRTEEN MEMBERS PREVIOUSLY SEPARATED FROM SUPERIOR COURT WERE STILL CLASSIFIED WITH ACTIVE STATUS IN THE PENSION ADMINISTRATION SYSTEM (PAS).

Process Owner:	EMPLOYER	
Completion Date:	08/01/2023	MAP Status Unassigned
Action Plan:	OC Superior Court to send existing records of OCERS Termination Notices to eaa@ocers.org for all 13 members indicating the separation dates.	
IA Follow-Up:	IA confirmed status for all 13 members.	

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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OBSERVATION #2 - 2. TWO MEMBERS DID NOT HAVE A MEMBER AFFIDAVIT ON FILE IN THE PAS AND FIVE ADDITIONAL MEMBER AFFIDAVITS WERE SENT TO OCERS WITH EITHER MISSING INFORMATION OR ON AN OUTDATED FORM.

Process Owner:	EMPLOYER	
Completion Date:	04/17/2023	MAP Status Unassigned
Action Plan:	The Court will complete the following: <ul style="list-style-type: none"> • Send the two OCERS Member Affidavits that are missing from OCERS Records to employerpayroll@ocers.org • OCERS Member Services instructed the Court to obtain emails from the three members with missing information answering the following: "Are you a member of any other public retirement system in the state of California?" If yes, please list other public retirement systems along with dates of service. If no please respond to confirm you do not have any other public service in California" Emails to be sent by the Court HR to the employees to obtain their responses <ul style="list-style-type: none"> • OCERS Member Services instructed the Court to obtain emails from the two members with outdated forms answering the following: "Are you a member of any other public retirement system in the state of California?" If yes, please list other public retirement systems along with dates of service. If no please respond to confirm you do not have any other public service in California" Emails to be sent by the Court HR to the employees to obtain their responses	
IA Follow-Up:	IA Confirmed the necessary information was provided to OCERS	

Project:	67 - 2202 - Alameda Audit
REPORT DATE:	04/05/2023
Closed Observations:	3

CLOSED

OBSERVATION #1 - 1. INTERNAL AUDIT NOTED A 6.7% ERROR RATE (TWO ERRORS OUT OF THE SAMPLE OF 30) WITH THE FAS CALCULATIONS SAMPLED.

Process Owner:	MEMBER SERVICES	
Completion Date:	05/15/2023	MAP Status Unassigned
Action Plan:	These errors were associated to the first 30 transactions performed by external contractors. The prior 6 transactions (October and November 2022) where Member Services did not have any errors were performed by seasoned team members. From our review of these items, the contractors did not follow the documented processes and training they were provided; had the process been followed errors would not have occurred. The issue has been addressed with the contractors and they fully understand the need for following the documented process. The Member Services management team is also considering extending the payroll deadlines to allow for more time to perform the processing and QA. We believe rushing to get transactions processed before the deadline has contributed to the errors and think extending the timeline will help prevent future errors.	
IA Follow-Up:	Internal Audit confirmed the communication was made to the contractors to follow the documented procedure. The payroll deadline was also extended from 30 to 45 days.	

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
- Missed Due Date (2nd Time) since latest Revised Due Date



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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OBSERVATION #2 - INTERNAL AUDIT NOTED A 13.3% ERROR RATE (FOUR ERRORS OUT OF THE SAMPLE OF 30) WITH THE MANUAL ALLOCATION OF THE TOTAL OVERPAID BENEFITS TO BE RECOVERED BETWEEN THE RETIREE AND THE EMPLOYER (NOT FAS IMPACTING).

Process Owner:	MEMBER SERVICES	
Completion Date:	05/15/2023	MAP Status Unassigned
Action Plan:	These errors were on a new Excel tab specifically created for Alameda recalculations. With the Board direction to only collect overpayments from 10/1/2020 forward from the member, Member Services needed to create a manual calculation process. This tab was created so we could split the amount of the overpayment between the Member and the Employer. V3 automatically calculates the total overpayment, however V3 cannot automate the split between Member and Employer. The data in this tab is a direct extract from members' V3 accounts and the errors occurred when the contractors entered the data manually vs extracting it from V3. In addition, the QA team did not validate the numbers thinking they were a direct extract. Member Services management team will be modifying our controls to ensure this new data tab is calculated separately by our QA team to validate the numbers.	
IA Follow-Up:	Confirmed new control for overpayment allocation was implemented.	

OBSERVATION #3 - FOR ONE RETIREE IN OUR SAMPLE, THREE PAY ITEMS IN ONE PARTIAL PAY PERIOD WERE NOT PRORATED IN A CONSISTENT MANNER.

Process Owner:	MEMBER SERVICES	
Completion Date:	01/19/2024	MAP Status Unassigned
Action Plan:	Member Services followed a standing practice for this observation. OCERS current practice is to accept pay items that have already been prorated by the employer as reported in the transmittal. We will however ensure our current practice is documented in our procedure. We will also review our procedures to determine if it can be simplified even further to eliminate any manual proration of pay items passed to us from the employer.	
IA Follow-Up:	Member Services provided the updated procedure.	

Project: 64 - 2331 - Children and Families Commission

REPORT DATE: 04/05/2023

CLOSED

Closed Observations: 3

OBSERVATION #1 - FOUR MEMBERS PREVIOUSLY SEPARATED FROM CFCOC WERE STILL CLASSIFIED WITH ACTIVE STATUS IN THE PENSION ADMINISTRATION SYSTEM (PAS).

Process Owner:	EMPLOYER	
Completion Date:	05/02/2023	MAP Status Unassigned
Action Plan:	The CFCOC Assistant to CEO will add the required termination form to the off-boarding process when an employee terminates. Once completed, the CFCOC Director of Finance will review for accuracy and submit to OCERS.	

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up: IA confirmed the status was updated for the four members.

OBSERVATION #2 - ONE MEMBER DID NOT HAVE A MEMBER AFFIDAVIT ON FILE IN THE PAS AND FIVE ADDITIONAL MEMBER AFFIDAVITS WERE SENT TO OCERS WITH MISSING INFORMATION.

Process Owner: EMPLOYER

Completion Date: 08/01/2023

MAP Status Unassigned

Action Plan: All future Member Affidavit forms will be reviewed for accuracy and completeness by the CFCOC Assistant to CEO at time of onboarding new staff. A final review of the form will be performed by CFCOC Director of Finance before being submitted to OCERS.

CFCOC will either amend or correct affidavits currently on file that are incomplete depending on direction from OCERS.

IA Follow-Up: IA confirmed updated member affidavit forms.

OBSERVATION #3 - THERE ARE NO FORMAL INTERNAL GUIDELINES HELPING TO MONITOR INDEPENDENT CONTRACTORS FOR COMPLIANCE WITH IRS REGULATIONS DEFINING INDEPENDENT CONTRACTORS.

Process Owner: EMPLOYER

Completion Date: 05/04/2023

MAP Status Unassigned

Action Plan: CFCOC staff will work with Commission Counsel and develop internal guidelines.

IA Follow-Up: IA confirmed internal guidelines were developed.

Project: 68 - 2334 - Member Data Maintenance_Bank Account Changes

REPORT DATE: 06/01/2023

CLOSED

Closed Observations: 5

OBSERVATION #1 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner: MEMBER SERVICES

Completion Date: 06/01/2023

MAP Status Unassigned

Action Plan: Details Removed - Discussed in Closed Session

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up: Internal Audit confirmed management action plan has been implemented.

OBSERVATION #2 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner: MEMBER SERVICES

Completion Date: 12/18/2023

MAP Status Unassigned

Action Plan: Details Removed - Discussed in Closed Session

IA Follow-Up: Member Services provided examples of reviewed confirmation letters.

OBSERVATION #3 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner: MEMBER SERVICES

Completion Date: 12/18/2023

MAP Status Unassigned

Action Plan: Details Removed - Discussed in Closed Session

IA Follow-Up: Member Services provided IT ticket to PAS vendor for letter generation.

OBSERVATION #4 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner: MEMBER SERVICES

Completion Date: 01/18/2024

MAP Status Unassigned

Action Plan: Details Removed - Discussed in Closed Session

IA Follow-Up: Member Services confirmed direct deposit information, included reminders in meeting agendas and updated member facing information with reminders.

OBSERVATION #5 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner: MEMBER SERVICES

Completion Date: 01/18/2024

MAP Status Unassigned

Action Plan: Details Removed - Discussed in Closed Session

Executed: 3/21/2024 10:48:57 AM
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up: Member Services included reminders during team meetings and updated materials to verify information.

Project: 72 - 2301 - Alameda 2nd audit

REPORT DATE: 10/11/2023

CLOSED

Closed Observations: 1

OBSERVATION #1 - INTERNAL AUDIT NOTED 13% OF THE ALAMEDA CONTRIBUTION REFUND RE-CALCULATIONS WERE INCORRECT DUE TO A RECENT CHANGE IN THE PENSION ATTRIBUTE FOR A SPECIFIC PAY ITEM. THIS DOES NOT IMPACT FAS.

Process Owner: MEMBER SERVICES

Completion Date: 12/18/2023

MAP Status Unassigned

Action Plan: Member Services Management team reviewed the process for performing the recalculation of the Contribution Refunds as it pertains to the PHP pay item. As Internal Audit confirmed with the subsequent months' members affected by PHP, our process was corrected to include these amounts (reverse pickup rate) in our subsequent calculations. Member Services has also provided Internal Audit with the files containing the corrected contribution refund calculations for the five members noted. These revised contribution and interest amounts were used in total to offset the member's overpayment and thus did not get paid directly to the members as a refund.

We have also worked with the county to create a new pay item for PHP pay item in the PAS as a result to ensure future benefits automatically include the pay in the retirement benefits.

IA Follow-Up: Member Services adjusted the process to include the reverse pickup rate.

Project: 73 - 2333 - Audit of OCFA employer audit

REPORT DATE: 10/11/2023

CLOSED

Closed Observations: 3

OBSERVATION #1 - FOR ONE MEMBER IN OUR TEST SAMPLE, THE MEMBER AFFIDAVIT FORM WAS INCOMPLETE REGARDING THE MEMBER'S PREVIOUS PUBLIC SERVICE.

Process Owner: EMPLOYER

Completion Date: 09/14/2023

MAP Status Unassigned

Action Plan: The member has checked the appropriate box to indicate no prior public service. The amended form has been provided to OCERS Internal Audit team to provide to Member Services.

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up: IA confirmed the updated member affidavit.

OBSERVATION #2 - TWO PERSONNEL ACTION FORM (PAF) APPROVALS DID NOT HAVE AN APPROVAL SIGNATURE FROM THE DEPARTMENT HEAD, ONLY APPROVAL FROM HUMAN RESOURCES.

Process Owner: EMPLOYER

Completion Date: 09/12/2023

MAP Status Unassigned

Action Plan: The PAF is designed to cover all of the personnel actions that occur within the agency. While the form has multiple signature lines, not every signature line is required to authorize a given action (e.g., a COLA increase, changing Org numbers (which occurs frequently based on reassignments to different stations). An Assistant Chief or Deputy Chief can be the single signatory in those instances. In the case of a COLA increase, a PAF, while not required, is done to simply document the increase and would not need multiple signatures. Multiple signatures are required for Merit Increases, Initial Hire, and Reductions. However, if it's a HR employee then a single signature from the Assistant Chief of Human Resources or Deputy Chief of Administration and Support would suffice, which is the case with one of the two sampled PAFs.

IA Follow-Up: OCFA noted the Assistant Chief of Human Resources has signed the PAF.

OBSERVATION #3 - MEMBERSHIP ELIGIBILITY REVIEW OCCURS BUT IS NOT FORMALLY DOCUMENTED.

Process Owner: EMPLOYER

Completion Date: 01/11/2024

MAP Status Unassigned

Action Plan: The Human Resources Manager over Benefits will review and sign the biweekly Extra-Help report submitted by Finance. HR Benefits and Payroll personnel have communicated regarding new process going forward.

IA Follow-Up: IA confirmed OCFA HR Manager is signing the biweekly Extra-Help report.

Project: 74 - 2337 - Employer audit of IHSS Public Authority

REPORT DATE: 10/11/2023

CLOSED

Closed Observations: 3

OBSERVATION #1 - IHSS PA IS INCORRECTLY ADDING NON-PENSIONABLE OVERTIME PAY TO PENSIONABLE SALARY IN ITS BI-WEEKLY PAYROLL TRANSMITTAL FILES.

Process Owner: EMPLOYER

Completion Date: 01/10/2024

MAP Status Unassigned

Action Plan: IHSS PA will work with OCERS Member Services to add non-pensionable overtime as a separately reported pay item in the transmittal files, as described in OCERS Board Pay Item Review policy.

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up: IHSS provided support for the implementation of a new pay item.

OBSERVATION #3 - IHSS PA'S SALARY INCREASE AUTHORIZATION FORMS DO NOT HAVE THE EMPLOYEE'S TITLE CODE, TITLE DESCRIPTION, AND PAY GRADE.

Process Owner:	EMPLOYER	
Completion Date:	03/18/2024	On Schedule
Action Plan:	IHSS PA will amend its Salary Increase Authorization forms to evidence the title code, title description and pay grade consistent with The County of Orange's pay schematics.	
IA Follow-Up:	IHSS PA updated the Salary Adjustment Authorization form	

OBSERVATION #4 - FOR NINE MEMBERS IN OUR TEST SAMPLE, THE MEMBER AFFIDAVIT FORM WAS INCOMPLETE REGARDING THE MEMBER'S PREVIOUS PUBLIC SERVICE OR MISSING A WITNESS SIGNATURE.

Process Owner:	EMPLOYER	
Completion Date:	03/21/2024	On Schedule
Action Plan:	IHSS PA will work with OCERS employer payroll team and determine if an amended Member Affidavit form should be sent to OCERS, or if another form of documentation should be sent to OCERS. IHSS PA will develop a process to confirm the forms are completed when onboarding a new employee.	
IA Follow-Up:	IHSS PA provided updated Member Affidavit forms and updated their process.	

Project: 71 - 2361 - HR audit of hiring practices

REPORT DATE: 10/11/2023

CLOSED

Closed Observations: 1

OBSERVATION #2 - OCERS'S INTERNAL EMPLOYMENT OFFER WORKSHEET IS NOT FORMALLY DOCUMENTED WITH THE RATIONALE FOR HIRING A CANDIDATE.

Process Owner:	HUMAN RESOURCES	
Completion Date:	09/21/2023	MAP Status Unassigned
Action Plan:	The HR department has added language that supports the CEO's approval criteria to the Employment Offer Worksheet. Hiring managers will now be required to acknowledge they have met the CEO's approval requirements. Additionally, the CEO will acknowledge that he has met with the hiring manager and approve extending an offer of employment to the selected candidate.	

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
- Missed Due Date (1st Time), planned to complete by Revised Due Date
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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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IA Follow-Up: Internal Audit confirmed the Employment Offer Worksheet was updated with the CEO acknowledgement.

Project: 75 - 2361 - HR audit of hiring practices

REPORT DATE: 10/11/2023

CLOSED

Closed Observations: 1

OBSERVATION #5 - FOR ONE SAMPLE, DOCUMENTATION OF A CANDIDATE'S REFERENCE VERIFICATION WAS MISSING THE HR ANALYST'S SIGNATURE AND DATE.

Process Owner: HUMAN RESOURCES

Completion Date: 11/21/2023

MAP Status Unassigned

Action Plan: Phone records demonstrated the reference was completed timely however the form was not signed and dated for one sample. In the third quarter of 2022, the HR department implemented Survey Monkey to automate the employment & reference verification process. Employers and references are emailed a link and asked to complete the survey by a specific date. The survey requires the verifier to provide their name and job title and includes a time stamp to confirm the verification was completed prior to the new employee's start date.

IA Follow-Up: Confirmed the use of Survey Monkey for reference checks.

Project: 76 - 2391 - M365 IS Audit

REPORT DATE: 01/19/2024

CLOSED

Closed Observations: 6

OBSERVATION #101 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner: INFORMATION SECURITY

Completion Date: 03/13/2024

On Schedule

Action Plan: Details Removed - Discussed in Closed Session

IA Follow-Up: Item complete

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

On Schedule to complete MAP
 Missed Due Date (1st Time), planned to complete by Revised Due Date
 Missed Due Date (2nd Time) since latest Revised Due Date

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Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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OBSERVATION #103 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
Completion Date:	03/13/2024	On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:	Item Complete	

OBSERVATION #106 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
Completion Date:	03/13/2024	On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:	Item complete	

OBSERVATION #201 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
Completion Date:	03/13/2024	On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:	Item complete	

OBSERVATION #301 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
Completion Date:	12/29/2023	On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:		

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
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- Missed Due Date (2nd Time) since latest Revised Due Date



Management Action Plan Status Report

Project(s): ALL
 Mgmt. Status: OPEN, CLOSED - NO FURTHER ACTION REQUIRED
 Process Owner(s): ALL

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OBSERVATION #302 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION

Process Owner:	INFORMATION SECURITY	
Completion Date:	12/29/2023	On Schedule
Action Plan:	Details Removed - Discussed in Closed Session	
IA Follow-Up:	Item closed	

Executed: 3/21/2024 10:48:57 AM
 Executed By: OCERS\dkim

- On Schedule to complete MAP
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Memorandum

DATE: March 28, 2024
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: STATUS UPDATE OF 2024 AUDIT PLAN

Written Report

Background/Discussion

Attached is a comparison of budgeted 2024 audit plan hours versus the completed program actual hours, by project.

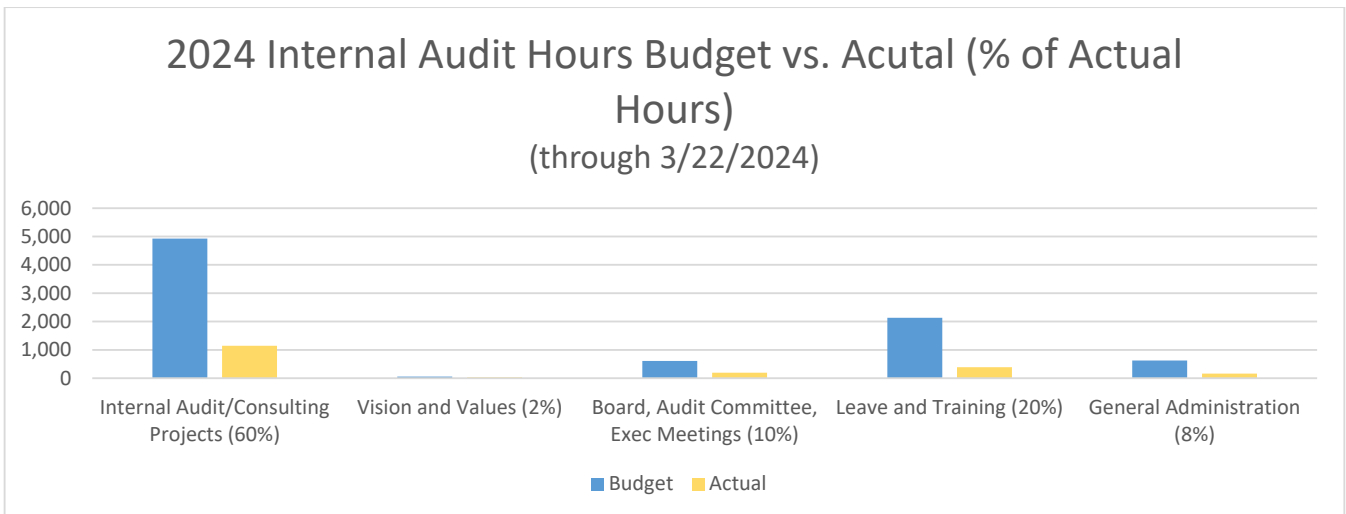
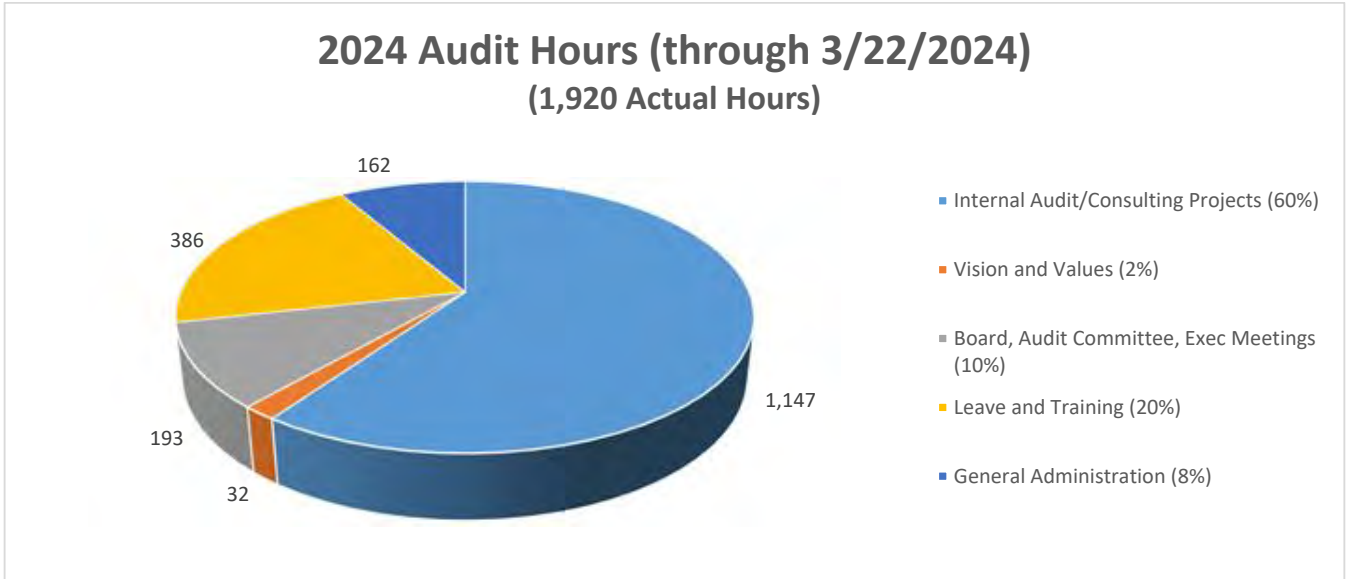
Attachment

Submitted by:

 **DK- Approved**

David Kim
Director of Internal Audit

2024 Internal Audit Plan



**Orange County Employees Retirement System
2024 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
Internal Audit/Consulting/Planning/QAIP		4,926	1,147	3,863	
Internal Audits - Assurance		3,906	895	3,095	
Governance - Asset Allocation/Rebalancing (carryover from 2023 audit plan)	Review of controls ensuring OCERS asset allocation/rebalancing activities are reviewed and fully reported to the Investment Committee as per Investment Policy Statement.	70	80	0	Complete
Transmittal Processing (carryover from 2023 audit plan)	Review the Employer Payroll team's controls over the processing of payroll transmittals in V3.	40	80	0	Complete Additional data pulled to confirm error processing
Employer Audit (OCTA) (carryover from 2023 audit)	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.	96	110	0	Complete Additional work performed to confirm pay schedules and sample testing
Accounts Payable (carryover from 2023 audit)	Review of controls over the account payable process, from payment request through payment of invoice.	40	50	0	Complete
Alameda 2 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 for Alameda phase 2	370	0	370	
Continuous Audit - Final Average Salary (FAS) Calculation	Continuous audit of FAS calculations. Sample on quarterly basis for Q3	280	0	280	
Employer (County of Orange-Healthcare 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.	350	210	140	First time audit
Employer (Orange County - Local Agency Formation Commission - LAFCO)	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.	350		350	First time audit
Employer (County of Orange-Public Law Library)	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.	350	140	210	First time audit
Employer (OCERS)	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	350		350	First time audit
Employer (San Juan Capistrano)	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.	350	0	350	Last audited in 2017
Payroll for Retirees	Review the Finance Department's controls over the general ledger recording of monthly benefit payments	360		360	Last audited in 2019

**Orange County Employees Retirement System
2024 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
COLA Adjustments	Perform an independent review of the controls in place to ensure COLA adjustments are accurately calculated.	360	0	360	First time audit
CIS Controls Assessment	Perform an independent assessment of Information Security's implementation of the Center of Internet Security (CIS) Top 18 Controls, and provide recommendations on management's assessment of the department's implementation status and maturity level as appropriate.	120		120	First time audit
Investment Compensation Review	Perform independent review of annual investment compensation calculations	160	70	90	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	260	155	105	Ongoing review of implemented MAPs from completed audits, redesign of MAP reports
Internal Audits - Consulting		220	30	190	
Consulting/Ad-hoc projects	Open for any ad-hoc project TBD	220	30	190	Includes time to assist with Annual Employer Report and OCERS by the Numbers, assisted with Master Repository Project
Internal Audits - Planning		500	34	466	
Annual Audit Planning	Review and update Risk and Control Matrix.	200	0	200	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	300	34	266	
Internal Audits - Quality Assurance and Improvement Program		300	188	112	
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program and external peer review	240	180	60	Updates to the Internal Auditing Standards on the Audit Charter, Audit Manual and Audit Committee Charter
	Hotline reporting system.	60	8	52	Transition responsibilities to Compliance
Vision and Values		60	32	28	
	Vision and Values Committee (Internal OCERS Committee)	60	32	28	Internal committee to promote a positive culture at OCERS - Committee Vice Chair.
Board, AC, OCERS Executive Meetings		608	193	416	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	510	165	345	
	Weekly meetings with CEO	26	8	19	
	Monthly meeting with Audit Committee Chair	72	20	52	
General admin time		625	162	463	
	General admin time	625	162	463	8% of total hours.
Leave (Holiday/Annual) and Training		2,133	386	1,747	
	Holidays (12 days), Annual Leave (15 days) Other Leave (180 days)	1,958	293	1,665	
	Training and Continuing Education	175	93	82	
Grand Total Hours		8,352	1,920	6,517	