AGENDA

A SPECIAL MEETING OF THE AUDIT COMMITTEE

AND BOARD OF RETIREMENT AND BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

8:00 A.M., THURSDAY, MARCH 14, 2019

Teleconference Location for Trustees and the Public at
3733 Ostrom Avenue, Long Beach, CA 90808

*The Committee may take action on any item on the agenda*
*and agenda items may be taken out of order.*

2019 AUDIT COMMITTEE MEMBERS
Alan Bernstein
Shawn Kehoe
Joseph Kelly
Les Robbins
Gina Sanchez
Herman Santos

AUDIT COMMITTEE CONSULTANT
Rick Wentzel

I. CALL TO ORDER

II. ELECTION OF OFFICERS (Election of Chair, Vice Chair, and Secretary)

III. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of December 12, 2018

IV. PUBLIC COMMENT

V. NON-CONSENT ITEMS

A. Recommendation, as submitted by Richard Bendall, Chief Audit Executive: That the Committee review the proposed Audit Committee Meeting Schedule for the remaining two meetings of 2019 and provide direction to staff. (Memo dated March 1, 2019)

B. Recommendation, as submitted by Richard Bendall, Chief Audit Executive: That the Committee approve the two-year extension of the Audit Committee Consultant Agreement and authorize staff to execute the contract extension with Grant Thornton, LLP
(Memo dated March 1, 2019)

C. Recommendation, as submitted by Richard Bendall, Chief Audit Executive: That the Committee review and discuss the following engagement report to take the following action(s):

1. Accept and file report: and/or

2. Instruct staff to forward report to Boards or Committees: and/or

3. Provide further instruction to staff

a. Corporate Credit Card Audit
Kathryn Ton, Senior Internal Auditor
(Report Issued February 25, 2019)

VI. REPORTS

A. Internal Audit Risk Assessment Process
Richard Bendall, Chief Audit Executive
(Memo dated March 1, 2019)

B. Internal Audit Staffing Report
Richard Bendall, Chief Audit Executive
(Verbal Presentation)

C. Status of Other External Audits Not Conducted at the Discretion of Internal Audit
Richard Bendall, Chief Audit Executive
(Verbal Presentation)

VI. REPORTS (Continued)

D. Audit Plan Status Report
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated February 28, 2019)

E. Recommendation Follow-Up Report
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated February 28, 2019)

F. Attorney-Client Privilege/Confidential Memo
Privacy Audit Recommendation Follow-Up
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated February 28, 2019)

G. Attorney-Client Privilege/Confidential Memo
Human Resources Compliance Audit [by Liebert Cassidy Whitmore] Recommendation Follow-Up
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated March 1, 2019)

VII. CONSULTANT COMMENTS
Rick Wentzel, Audit Committee Consultant
(Verbal Presentation)

VIII. GOOD OF THE ORDER
(For Information Purposes Only)

IX. ADJOURNMENT

***The Board of Retirement and Board of Investments have adopted a policy permitting any member of the Boards to attend a standing committee meeting open to the public. In the event five (5) or more members of either the Board of Retirement and/or the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement and/or Board of Investments. Members of the Board of Retirement and Board of Investments who are not members of the Committee may attend and participate in a meeting of a Board Committee but may not vote on any matter discussed at the meeting. Except as set forth in the Committee's Charter, the only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.***

***Documents subject to public disclosure that relate to an agenda item for an open session of the Board and/or Committee that are distributed less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the members of any such Board and/or Committee at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101 during normal business hours [e.g., 8:00 a.m. to 5:00 p.m. Monday through Friday].***

***Persons requiring an alternative format of this agenda pursuant to Section 202 of the Americans with Disabilities Act of 1990 may request one by calling the Board Offices at (626) 564-6000, Ext. 4401/4402, from 8:30 a.m. to 5:00 p.m. Monday through Friday, but no later than 48 hours prior to the time the meeting is to commence. Assistive Listening Devices are available upon request. American Sign Language (ASL) Interpreters are available with at least three (3) business days notice before the meeting date.***

MINUTES OF THE SPECIAL MEETING OF THE AUDIT COMMITTEE OF THE

BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA

9:00 A.M., WEDNESDAY, DECEMBER 12, 2018

PRESENT: Michael S. Schneider, Chair

Herman Santos, Secretary

Joseph Kelly

David Green

ABSENT: Shawn R. Kehoe

Vivian Gray, Vice Chair

STAFF, ADVISORS, PARTICIPANTS

Richard Bendall, Chief Audit Executive

Steven P. Rice, Chief Counsel

Rick Wentzel, Audit Committee Consultant

Leisha Collins, Principal Internal Auditor

George Lunde, Senior Internal Auditor

Christina Logan, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Kathryn Ton, Senior Internal Auditor

Nathan Amick, Internal Auditor

I. CALL TO ORDER

The meeting was called to order at 12:13 p.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF THE MINUTES

A. Approval of the Minutes of the Regular Meeting of September 12, 2018.

Mr. Schneider made a motion, Mr. Green seconded, to approve the minutes of the regular Audit Committee meeting of September 12, 2018. The motion passed unanimously.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT AGENDA

A. Recommendation as submitted by Richard Bendall, Chief Audit Executive: That the Committee review and discuss the Wire Transfer Audit and take the following action(s):

1. Accept and file report and/or,

2. Instruct staff to forward report to Boards or Committees and/or,

3. Provide further instruction to staff. (Memo Dated on November 30, 2018)

Mr. Schneider made a motion, Mr. Green seconded, to accept and file the report. The motion passed unanimously.

IV. NON-CONSENT AGENDA (Continued)

B. Recommendation as submitted by Richard Bendall, Chief Audit Executive: That the Committee review and discuss the 2018 Information Technology Risk Assessment and take the following action(s):

1. Accept and file report and/or,

2. Instruct staff to forward report to Boards or Committees and/or,

3. Provide further instruction to staff. (Memo Dated on November 30, 2018)

Mr. Schneider made a motion, Mr. Green seconded, to accept and file the report. The motion passed unanimously.

C. Recommendation as submitted by Richard Bendall, Chief Audit Executive: That the Committee review and discuss the Member Applications Change Control report and take the following actions(s):

1. Accept and file report and/or,

2. Instruct staff to forward report to Boards or Committees and/or,

3. Provide further instruction to staff. (Memo Dated on November 30, 2018)

Mr. Schneider made a motion, Mr. Green seconded, to accept and file the report. The motion passed unanimously.

D. Recommendation as submitted by Richard Bendall, Chief Audit Executive: That the Committee review and discuss the Los Angeles County Rehire Retiree Audit report and take the following action(s):

1. Accept and file report and/or,

2. Instruct staff to forward report to Boards or Committees and/or,

3. Provide further instruction to staff. (Memo Dated on November 30, 2018)

Mr. Schneider made a motion, Mr. Green seconded, to accept and file the report. The motion passed unanimously.

V. REPORT ON STAFF ACTION ITEMS

There was nothing to report.

VI. GOOD OF THE ORDER
(For information purposes only)

Mr. Kelly thanked staff for their hard work.

VII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 12:44 p.m.

L//.CERA

March 1, 2019

TO: 2019 Audit Committee
Alan Bernstein
Shawn Kehoe
Joseph Kelly
Les Robbins
Gina Sanchez
Herman Santos

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

FOR**:** March 14, 2019 Audit Committee Meeting

SUBJECT: **Audit Committee Meeting Dates**

**RECOMMENDATION**

**It is recommended that the Audit Committee review the proposed Audit Committee Meeting Schedule for the remaining two meetings of 2019 and provide direction to staff.**

**BACKGROUND**

In December 2005, the Audit Committee adopted a Resolution to hold meetings at 9:00 am on the third Wednesday of March, July and November. In November 2011, your Committee approved rescheduling the November meeting to the first Thursday of December to accommodate Committee Member attendance at SACRS. Both the 2005 Resolutions and 2011 Committee Date Revision Memo are included for your reference.

For the 2019 calendar, some Committee members expressed that they were unable to attend some of the scheduled meetings. Staff would like your Committee to provide direction on the proposed dates for the remaining meetings this year. The 2019 Audit Committee meetings are currently planned for July 17th and December 5th.

RB:lc
Attachments

**BEFORE THE AUDIT COMMITTEE**

**OF THE BOARDS OF RETIREMENT AND INVESTMENTS**

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION**

| | |
|---|---|
| RESOLUTION FIXING TIME AND PLACE FOR HOLDING REGULAR MEETINGS (Govt. Code Sec. 54954) | ) RESOLUTION NO. AC 05-001 ) ) |

**WHEREAS**, Section 54954 requires this Committee, as a standing committee of the boards of Retirement and Investments, to adopt a rule, resolution, or other similar measure fixing the time and place for holding regular meetings.

**NOW THEREFORE, IT IS HEREBY RESOLVED** that the Committee shall hold regular meetings as follows:

Time: 9:00 am on the third Wednesday of March, July and November

Place: LACERA's Robert J. Hermann Board Room
300 N. Lake Avenue, Suite 810,
Pasadena, CA 91101

Adopted December 14, 2005, by:

AUDIT COMMITTEE OF THE BOARDS OF RETIREMENT and INVESTMENTS, LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCATION

Approved as to Form

David L. Muir
Chief Counsel

Leonard Unger
Chair,
AUDIT COMMITTEE OF THE BOARDS OF RETIREMENT AND INVESTMENTS

L//.CERA

DATE: November 15, 2011

TO: 2011 Audit Committee
Simon S. Russin, Chair
Michael Schneider, Vice Chair
John M. Barger, Secretary
Edward C. Morris,
Les Robbins

Audit Committee Consultant
Timothy O'Brien

FROM: Sarah Marks
Principal Internal Auditor

**SUBJECT: AUDIT COMMITTEE MEETING DATES**

**Recommendation**
Approve Internal Audit's recommendation to permanently reschedule the annual November Audit Committee Meeting to the first Thursday of each December.

**Background**
Staff recommends the Audit Committee approve the revision of the fixed audit committee meeting schedule. Meetings are currently scheduled for the third Wednesdays of March, July, and November. Each November, the Audit Committee meeting is scheduled to occur during the time period in which the State Association of County Retirement Systems (SACRS) Conference takes place. Historically, the Audit Committee Meetings have been rescheduled to accommodate Committee Member attendance at SACRS. To lessen the need for rescheduling future Committee meetings, Internal Audit recommends the permanent rescheduling of the November Audit Committee Meetings, to the first Thursday of each December.

**Reviewed and Concur:**

**Richard Bendall**
**Chief Audit Executive**

11-16-2011
**Date**

L//CERA

March 1, 2019

TO: 2019 Audit Committee
Alan Bernstein
Shawn Kehoe
Joseph Kelly
Les Robbins
Gina Sanchez
Herman Santos

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

FOR: March 14, 2019 Audit Committee Meeting

SUBJECT: **Audit Committee Consultant Agreement Extension**

**RECOMMENDATION**:

**Approve the two-year extension of the Audit Committee Consultant Agreement and authorize staff to execute the contract extension with Grant Thornton, LLP**

**BACKGROUND**

The Audit Committee Consultant Agreement (Agreement) was executed on March 21, 2016 between LACERA and Rick Wentzel of Grant Thornton, LLP. The Agreement is for three years ending December 31, 2018 and at LACERA options, and upon mutual written agreement, may extend for an additional two (2) one-year periods. Attached, for your reference, is the Agreement.

Mr. Wentzel has provided excellent service as your Consultant and has provided staff with his written intent to continue as your consultant for the next two years at Grant Thornton's current billing rate of $700 per hour. Staff recommends extending the Agreement for the additional two years.

RB:lc
Attachment

**CONSULTING SERVICES AGREEMENT**
**BETWEEN**
**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION**
**AND**
**Grant Thornton LLP**

This Consulting Services Agreement ("AGREEMENT") is made and entered into as of March 21, 2016 (Effective Date) between Los Angeles County Employees Retirement Association ("LACERA") and Grant Thornton, LLP ("CONSULTANT").

**Recitals**

A. LACERA desires CONSULTANT to provide certain consulting services to the Audit Committee ("Committee") established jointly by the LACERA Board of Investments and Board of Retirement and to LACERA staff; and

B. CONSULTANT has represented to the Committee that CONSULTANT possesses the qualifications and expertise necessary to provide consulting services to assist the Committee in the performance of its duties and desires to provide such services to LACERA.

NOW, THEREFORE, the parties agree as follows:

1. Services to be Provided.

a. CONSULTANT shall perform the work described generally in Exhibit A Statement of Work, attached to and made a part of this Agreement, as directed by the Committee.

b. CONSULTANT will complete his work by the deadlines established by the Committee. Where no deadline is established, CONSULTANT will complete his work within a reasonable time given the size of the project. Consultant shall not be liable for delays beyond its reasonable control.

c. CONSULTANT will choose his hours of work, consistent with his obligation to complete his work in timely fashion.

d. All Deliverables prepared or furnished by CONSULTANT to LACERA in the performance of this Agreement shall, upon payment of Consultant's fees be the exclusive property of LACERA and may be used by LACERA, as LACERA deems appropriate for its internal business purposes only.

2. Independent Contractor.

a. CONSULTANT agrees to perform the Services as an independent contractor and agrees it will be acting at all times as such. Neither party intends, and this Agreement may not to be construed, to create any relationship of agent, servant, employee, partnership, joint venture or association between CONSULTANT and LACERA. CONSULTANT is not, and will not be deemed to be for any purpose (including, without limitation, Workers' Compensation) an employee of Los Angeles County (the "County"). CONSULTANT is not entitled to any rights, benefits, or privileges of County employees. CONSULTANT is not eligible to participate in any insurance, savings, pension or deferred compensation offered by LACERA or the County.

b. CONSULTANT has no power or authority to assume or create any obligation or responsibility, express or implied, on behalf of LACERA or the County, or to bind LACERA or the County in any way whatsoever.

c. CONSULTANT accepts full and complete responsibility for filing all tax returns and paying all taxes, which may be required, or due for payments received from LACERA under this Agreement. LACERA will memorialize payments for CONSULTANT's services on a Form 1099.

d. CONSULTANT represents and warrants that it complies with all applicable federal, state, and local laws, including without limitation, those laws respecting business licenses, withholding, reporting, and payment of taxes. CONSULTANT further represents and warrants that he will report any income accruing to it from this Agreement to the appropriate taxing authorities. This warranty and any others contained herein are in lieu of, and Consultant expressly disclaims, all other warranties, express, implied or otherwise, including without limitation any implied warranties of merchantability or fitness for a particular purpose. Consultant cannot and does not warrant computer hardware, software or services provided by other parties.

3. LACERA's Project Director.

LACERA's Project Director, or designee, has responsibility for determining whether the Services are performed to LACERA's satisfaction. LACERA's Project Director is Richard Bendall, Chief Audit Executive.

4. Indemnification and Insurance.

CONSULTANT shall indemnify, defend and save harmless LACERA, its agents, officers and employees from and against any and all liability, damage, suit, cost of suit, or expense, including defense costs and attorney's fees, arising out of or connected with third party claims, arising from or connected with CONSULTANT's operations or its servicesforbodily injury, death, personal injury, or property damage, including damage to CONSULTANT's property, caused by CONSULTANT in the performance of this agreement. Notwithstanding the foregoing, Consultant and its present and former partners, principals and employees shall not be liable for any special, consequential, incidental, exemplary damages or loss (or any lost profits, taxes, interest, tax penalties, savings or business opportunity) or any loss, damage, or liability arising from the negligence or willful misconduct of the LACERA.

LACERA agrees that the liability of Consultant and its present, future and former partners, principals and employees for any claim, including but not limited to, Consultant's negligenceshall not exceed five times the fees it receives for the portion of the work giving rise to such liability. In addition, LACERA agrees that Consultant and its present, future and former partners, principals and employees shall not under any circumstances be liable for any special, consequential, incidental or exemplary damages or loss (nor any lost profits, taxes, interest, tax penalties, savings or business opportunity), even if Consultant was advised in advance of such potential damages. This limitation shall not apply to the extent that it is finally determined to be the result of the Consultant's willful misconduct or fraud. This paragraph shall apply to any type of claim asserted, including contract, statute, tort, or strict liability, whether by LACERA, Consultant, or others.

Without limiting CONSULTANT's indemnification of LACERA, CONSULTANT shall provide and maintain at its own expense during the term of this Agreement the following policy or policies of insurance covering its operations hereunder. Such insurance shall be secured through a carrier satisfactory to LACERA and certificates evidencing such insurance shall be delivered to LACERA on or before the effective date of this Agreement. LACERA is to be given by CONSULTANT at least thirty (30) days written notice in advance of any modification or cancellation of any policy of insurance.

a. Liability. Such insurance shall be primary in all instances and shall name Los Angeles County Employees Retirement Association as an additional insured, and shall include:

(i) Comprehensive General Liability Insurance (excluding automobiles); Products and Completed Operations; for bodily injury and property damage, with combined single limit of $1,000,000.00 each occurrence.

(ii) Automobile Liability Insurance for all owned and non-owned vehicles, with bodily injury and property damage combined single limit of $300,000.00 each occurrence.

(iii) Professional Liability Insurance covering errors and omissions with combined single limit of $1,000,000.00 each claim.

b. Workers' Compensation. CONSULTANT's employees shall be covered by Worker's Compensation insurance in an amount and form to meet all requirements of applicable Labor Codes of the State of California.

All surety certificates or affidavits of insurance, and cancellation of change notices affecting such insurance coverage, must be received via Registered Mail at:

Los Angeles County Employees Retirement Association
Gateway Plaza
300 North Lake Avenue, Suite 840
Pasadena, CA 91101

Attn: Richard Bendall
Internal Audit

5. Term.

The term of this Agreement commences on the EFFECTIV DATE and continues through December 31, 2018. At LACERA options, and upon mutual written agreement, parties may extend for two (2) one year periods. LACERA may terminate this Agreement for its convenience by giving CONSULTANT at least 30 days prior written notice of termination. CONSULTANT may terminate the Agreement for his convenience by giving LACERA's Committee at least 30 days prior written notice of termination.

6. Non-Exclusive Services.

This Agreement is not exclusive. CONSULTANT has the right to perform services for others during the term of this Agreement.

7. Compensation.

LACERA will compensate CONSULTANT for services rendered hereunder at the rate of $615 per hour plus reasonable expenses. Expenses include, for example and without limitation, postage, copying fees, and similar expenses, but specifically exclude, without limitation, workplace rental, office equipment and supplies, internet access, facsimile, pager and telephone expenses, utilities, clerical support, and mileage (except as mileage may be expressly authorized under LACERA's Education and Travel Policy dated June 10, 2015). In no event, except as otherwise provided herein or by law, shall CONSULTANT's compensation exceed $25,000 per calendar year during the term of this Agreement, unless the Audit Committee engages the CONSULTANT to perform assignments supplemental to this agreement. From time to time, Consultant may receive certain incentives in the form of bonuses and rewards from its corporate card and other vendors. Such incentives to the extent received will be retained by Consultant to cover firm expenses.

8. Invoices.

CONSULTANT agrees to submit invoices to LACERA's Project Director, in arrears, by the tenth day of each calendar month for Services performed during the previous calendar month. Each invoice must (a) describe in detail the Services performed and expenses incurred by CONSULTANT during the invoice period, (b) show the cumulative charges year-to-date (based on a fiscal year beginning July 1) for all Services and expenses, and (c) include such other information as LACERA may reasonably request. Each invoice will be payable within thirty days of receipt by LACERA. If LACERA's Project Director disputes any portion of an invoice, however, LACERA will pay the undisputed portion only and notify CONSULTANT in writing of the disputed portion. CONSULTANT and LACERA agree to act in good faith to resolve such disputes.

9. Agreement Not Assignable.

Neither party may assign any of its rights, duties, or obligations under this Agreement without the prior written consent of the other party, which party may grant or withhold in its sole discretion.

10. Confidentiality.

CONSULTANT agrees to respect and maintain the confidentiality of all of LACERA's records, files, systems, and communications. CONSULTANT will handle confidential information pertaining to LACERA, its members and its investments in performing his duties. CONSULTANT acknowledges that all such information is confidential, and CONSULTANT agrees not to disclose such information directly or indirectly, or use it in any way, during the term of this Agreement or any time thereafter, without the prior written consent of LACERA, except as required to perform his duties under this Agreement or in response to a court order, subpoena, administrative process or request from an accounting oversight body. Any disclosure of information contrary to this Section may constitute a material breach of this Agreement.

11. Nondiscrimination.

CONSULTANT hereby promises and agrees that it will comply with Subchapter VII of the Civil Rights Act of 1964, 43USC Section 2000e through 2000e (17), to the end that no person shall, on grounds of race, creed, color, sex, or national origin, be excluded from participation in, be denied the benefits of, or be otherwise subjected to discrimination under this Agreement, or under any project, program or activity supported by this Agreement.

CONSULTANT shall take affirmative action to ensure that applicants and employees are treated in an unbiased manner without regard to their race, color, religion, sex, age, ancestry, or national origin, physical or mental handicap, marital status, or political affiliation. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.

12. Compliance with Laws.

CONSULTANT shall comply with all applicable Federal, State and local laws, rules, regulations, ordinances, and directives, and all provisions required to be included in this Agreement are incorporated by this reference. CONSULTANT shall indemnify and hold LACERA harmless from any loss, damage or liability resulting from a violation by CONSULTANT of any such laws, rules, regulations, ordinances, and directives. Notwithstanding the foregoing, Consultant and its present and former partners, principals and employees shall not be liable for any special, consequential, incidental, exemplary damages or loss (or any lost profits, taxes, interest, tax penalties, savings or business opportunity) or any loss, damage, or liability arising from the negligence or willful misconduct of the LACERA

13. Conflict of Interest.

No officer or employee of LACERA whose position enables him or her to influence the award of this Agreement or any competing agreement, and no spouse or economic dependent of such officer or employee shall be employed in any capacity or in any way remunerated by CONSULTANT, or have any direct or indirect financial interest in this Agreement or in CONSULTANT.

14. Modifications.

Any modification to this Agreement must be in writing, signed by CONSULTANT and LACERA, to be effective.

15. Termination for Default.

Services performed under this Agreement may be terminated in whole or in part by LACERA providing to CONSULTANT a written Notice of Default if (1) CONSULTANT fails to perform the services within the time specified in this Agreement or any extension approved by LACERA, provided Consultant shall not be liable for delays beyond its reasonable control, (2) CONSULTANT fails to materially perform any other covenant or condition of this Agreement, or (3) CONSULTANT fails to make progress so as to endanger its performance under this Agreement provided Consultant shall not be liable for delays beyond its reasonable control.

CONSULTANT shall have ten (10) calendar days from the date of the Notice of Default in which to cure the Default(s), however, in its sole discretion, LACERA may extend this period or authorize a longer period for cure.

Without limitation of any additional rights or remedies to which it may be entitled, if LACERA terminates all or part of the services for CONSULTANT's Default, LACERA, in its sole discretion, may procure replacement services.

If it is determined that CONSULTANT was not in Default under the provisions of this Agreement, or that the Default was excusable, then the rights and obligations of the parties shall be the same as if the Notice of Termination had been issued under Section 16. Termination for Convenience.

16. Termination for Convenience.

Services performed under this Agreement may be terminated in whole or in part at any time after thirty (30) days notice if LACERA or CONSULTANT deems that termination is in its best interest. LACERA or CONSULTANT shall terminate services by delivering a written Termination Notice which specifies the extent to which services are terminated and the effective termination date.

After receiving a Termination Notice under this section, and unless otherwise expressly directed by LACERA, CONSULTANT shall take all necessary steps and shall stop services on the date and to the extent specified in the Termination Notice and shall complete services not so terminated.

Rick Wentzel shall be Grant Thornton's key person in performance of this agreement. Mr. Wentzel and Grant Thornton will make efforts to ensure that Mr. Wentzel is not removed from performance without LACERA's consent, not to be unreasonably denied conditioned or delayed, but due to circumstances outside Mr. Wentzel's or Grant Thornton's control, or for termination of employment, health or other personal reasons, Mr. Wentzel may cease performance for LACERA, which shall not be deemed a breach of the Agreement. Grant Thornton will consult with LACERA regarding substituting another Grant Thornton partner, principal or employee as key person and LACERA shall have the right to provide written approval of such new partner, principal or employee, not to be unreasonably denied conditioned or delayed. In the event that LACERA reasonably declines to approve a replacement for Mr. Wentzel, LACERA shall have the right to terminate this agreement in the event that Rick Wentzel ceases to perfrom services for LACERA.

In the event that Consultant determines, in its professional judgment, that it cannot complete the services, Consultant may withdraw from the engagement without liability. In addition, Consultant reserves the right to, in whole or in part, decline to perform services if information comes to its attention indicating that performing any Services could cause Consultant to be in violation of applicable law, regulations or standards or in a conflict of interest, or to suffer reputational damage. On termination of this Agreement for whatever reason: (i) Consultant shall render an invoice in respect of any Services performed and expenses incurred since the date of the last invoice issued, and (ii) LACERA shall pay the undisputed amounts of such invoice.

17. Entire Agreement.

This document (including Attachments A and B) constitutes the final, complete, and exclusive statement of the terms of the Agreement between LACERA and CONSULTANT for the services to be performed and supersedes all prior and contemporaneous understandings or Agreements of the parties. The unenforceability, invalidity or illegality of any term of this Agreement shall not render the other terms unenforceable, invalid or illegal.

18. Governing Law and Venue.

This Agreement shall be governed by, and construed and enforced in accordance with the laws of the State of California without regard to principles of conflicts of lawsShould either party initiate a legal proceeding over any matter relating to or arising out of this Agreement, such proceeding shall be filed and conducted in the state courts located in the County of Los Angeles, California, and all parties consent to such venue and the personal jurisdiction of all such courts.

19. Attorney's Fees.

In the event of litigation between the parties concerning this Agreement, the prevailing party shall be entitled to recover reasonable costs and expenses incurred therein, including attorney's fees, which shall be included in the limitation of liability described in Section 4. These expenses shall be in addition to any other relief to which the prevailing party may be entitled and shall be included in and as part of the judgment or decision rendered in such proceeding.

20. Interpretation.

CONSULTANT acknowledges he has been given the opportunity to have counsel of his own choosing to participate fully and equally in the review and negotiation of this Agreement. The language in all parts of this Agreement shall be construed in all cases according to its fair meaning, and not strictly for or against any party hereto. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in interpreting this Agreement.

21. Waiver.

No waiver of a breach, failure of any condition, or any right or remedy contained in or granted by the provisions of this Agreement shall be effective unless it is in writing and signed by the party waiving the breach, failure, right, or remedy. No waiver of any breach, failure, right or remedy shall be deemed a waiver of any other breach, failure, right or remedy, whether or not similar, or preceding or subsequent, nor shall any waiver constitute a continuing waiver unless the writing so specifies.

22. Use of Third-Party Service Providers and Affiliates

Grant Thornton LLP is the U.S. member firm of Grant Thornton International Ltd ("GTIL"), a global organization of member firms in 110 countries. Member firms are neither members of one international partnership nor otherwise legal partners with one other. There is no common ownership, control, governance, or agency relationship among member firms. Consultant may use third-party service providers, such as independent contractors, specialists, or vendors, to assist in providing our professional services. Consultant may also use GTIL member firms, other affiliates of Consultant, or other accounting firms. Such entities may be located within or outside the United States. Such third party service providers shall be specified in the applicable SOW. Additionally, Consultant may use third-parties to provide administrative and operational support to Consultant business operations. All of these third party service providers are subject to confidentiality obligations to protect the confidentiality of LACERA data. Such entities may be located within or outside the United States.

23. Standards of Performance. LACERA acknowledges that the Services will involve analysis, judgment and other performance from time to time in a context where the participation of LACERA or others is necessary, where answers often are not certain or verifiable in advance, and where facts and available information change with time. Accordingly, evaluation of Consultant's Services shall be based solely on its substantial conformance with any standards or specifications expressly set forth in this Agreement and any applicable Statement of Work hereunder, and all applicable federal and state laws and regulations and applicable professional standards (including, but not limited to, the American Institute of Certified Public Accountants ("AICPA") Statements on Standards for Consulting Services). LACERA acknowledges that the Services will involve the participation and cooperation of management and others of LACERA. Unless LACERA and Consultant agree otherwise, in writing, Consultant shall have no responsibility to update any of its work after its completion.

24. Other Costs. Unless expressly provided for, the Services do not include giving testimony or appearing or participating in discovery proceedings, in administrative hearings, in court, or in other legal or regulatory inquiries or proceedings. Except with respect to a dispute or litigation between Consultant and the LACERA, Consultant's costs, expenses, and time spent in legal and regulatory matters or proceedings arising from this Agreement, such as subpoenas, testimony, bankruptcy filings or proceedings, consultation involving private litigation, arbitration, government or industry regulation inquiries, whether made at LACERA's request or the request of a third party, will be billed to LACERA separately at Consultant's standard rates for such services.

25. Third Party Beneficiaries. The information contained in documents prepared by Consultant in the course of providing services under the terms of this Agreement is for the sole use of LACERA in accordance with the purpose of this Agreement hereunder. The Deliverables are not for a third party's benefit or reliance, and Consultant disclaims any contractual or other responsibility or duty of care to others based upon the Services, Work Product or Deliverables. Any Work Product, Deliverables, or documents delivered by Consultant shall be released only as redacted in accordance with law or with the prior written permission of Consultant. Except to the extent expressly provided hereto to the contrary, no third-party beneficiaries are intended under this Agreement.

*Remainder of Page Intentionally Left Blank*

IN WITNESS WHEREOF, CONSULTANT has signed this Agreement, and the Chief Executive Officer of LACERA has signed this Agreement, effective as of the date indicated in Section 5.

LACERA:

Los Angeles County Employees
Retirement Association

By: ______________________
Gregg Rademacher
Chief Executive Officer

Address for notices:

Mr. Richard Bendall
Chief Audit Executive
LACERA
300 N. Lake Avenue, Suite 840
Pasadena, CA 91101

CONSULTANT:

Grant Thornton LLP

______________________
Rick Wentzel
Partner

Address for notices:

Rick Wentzel
Grant Thornton
515 S. Flower Street, 7th Floor
Los Angeles, CA 90071

Approved as to form:

______________________
John Harrington
LACERA Staff Counsel

**ATTACHMENT A**
**STATEMENT OF WORK**

## I. Audit Committee Consultant Services

The Audit Committee Consultant serves as the Audit Committee's designated technical expert and provides advice on audit and financial matters. Consultant services include, but are not limited to the following:

- To advise the Audit Committee as necessary on the review of:
  - LACERA's annual financial statement audit
  - Internal Audit's Organization-Wide Risk Assessment
  - Internal Audit's Annual Audit Plan
  - Internal Audit's strategic plan and goals
  - Specific projects or reports presented to the Audit Committee
  - Public company regulatory matters that may affect LACERA (e.g. SEC, Sarbanes- Oxley, PCAOB, PEPRA, etc.)
  - Roles and responsibilities of Committee members and Internal Audit staff

- To Respond To:
  - Questions regarding accounting and financial regulatory sources (GASB, GAAP,
  - GAAS, etc.) and any changes to these regulations that may impact or affect
  - LACERA
  - Financial matters related to other public pension funds that may impact LACERA
  - Issues related to fraud or misconduct common within pension funds or other organizations similar in size and operations to LACERA
  - The educational needs of the Audit Committee

- To attend Audit Committee meetings. There are three regular Audit Committee Meetings held each calendar year. The meetings are conducted on the third Wednesday of March, and July and the first Thursday of December.
- To participate in monthly teleconference calls with the Chief Audit Executive, Committee Chair, and Vice Chair.
- To review materials presented to Audit Committee prior to each Audit Committee meeting and advise the Chief Audit Executive and the Committee Chair of any potential issues or concerns. To Coordinate with Internal Audit staff on Audit Committee matters as needed.
- To provide Audit Committee members training sessions regarding Audit Committee responsibilities or related topics is requested. Notwithstanding the foregoing, Consultant will not and is not act as a "municipal advisor" as that term is defined in Section 15B of the Securities Exchange Act of 1934.

LACERA

February 28, 2019

TO: 2019 Audit Committee
Alan Bernstein
Shawn Kehoe
Joseph Kelly
Les Robbins
Gina Sanchez
Herman Santos

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Principal Internal Auditor

Kathryn Ton KT
Senior Internal Auditor

FOR**:** March 14, 2019 Audit Committee Meeting

SUBJECT: **Corporate Credit Card Audit**

**RECOMMENDATION**

**In accordance with your current Audit Committee Charter, staff recommends that the Audit Committee review and discuss the following engagement report to take the following action(s):**

1. **accept and file report and/or,**
2. **instruct staff to forward report to Boards or Committees and/or,**
3. **provide further instruction to staff.**

**ENGAGEMENT REPORTS**

a. Corporate Credit Card Audit
Kathryn Ton, Senior Internal Auditor
(Report issued: February 25, 2019)

Please note: attached to the report is another version of the report that includes questions and comments that staff received from your Committee as well as Internal Audit's responses.

Attachments

KT

LACERA INTERNAL AUDIT DIVISION

# Corporate Credit Card Audit

February 25, 2019

**AUDIT PERFORMED BY:**
Kathryn Ton, CPA, CFE
*Senior Internal Auditor*

## EXECUTIVE SUMMARY

We reviewed LACERA's corporate credit card policy as part of the fiscal year 2018/19 audit plan. Corporate credit cards, or P-Cards, facilitate purchases authorized by the LACERA Boards or Chief Executive Officer (CEO) for business-related expenses. Generally, P-Cards are issued to division and assistant division managers, in addition to certain administrative positions that have been pre-approved by the Executive Office. The Financial and Accounting Services Division (FASD) administers LACERA's Corporate Credit Card Policy (policy) and program. Internal Audit routinely audits P-Cards to ensure that it is effectively managed and compliant with LACERA's policy. The last time the program was audited was in 2011, and there were no significant issues to report. Since that audit, LACERA has changed credit card providers to Bank of America and made improvements to the policy. For this audit, we assessed whether P-Cards are used in accordance with the April 2016 policy. In addition, we evaluated security controls in place to detect improper credit card use.

The corporate credit card is a large component of LACERA's procurement activities. For fiscal year 2017/18, LACERA had total credit card expenditures of $1,230,724 across 15 divisions. Cumulatively, there were 3,497 transactions from 40 accounts from July 1, 2017 to June 30, 2018.

In general, Internal Audit found LACERA to have adequate controls and procedures in place to manage credit card use. Notably, we observed the following good practices with FASD's administration of the program:

- Segregation of duties exist between cardholders and the FASD Disbursements Unit.
- The policy sets forth guidelines, responsibilities, and expectations for cardholders.
- Card authorizations and credit agreements are properly recorded and maintained.
- Lost or comprised cards are reported and replaced timely to avoid misuse.
- User access controls exist within the Bank of America WORKS online payment management system.

While we observed some good practices, we also identified opportunities for LACERA to strengthen controls over the program:

- Ensure cardholders are adequately trained on the policy and held accountable for noncompliance.
- FASD Disbursements Unit to escalate issues of noncompliance to management, and revise policy and procedures as needed for clarification.
- FASD to assess options to streamline receipt management and expense reporting in Bank of America WORKS.

The details of our observations and recommendations are addressed in the report. We thank FASD for their assistance and cooperation with this audit.

# CORPORATE CREDIT CARD AUDIT

## INTRODUCTION

We reviewed LACERA's corporate credit card policy as part of the fiscal year 2018/19 audit plan. Corporate credit cards, or P-Cards, facilitate purchases authorized by the LACERA Boards or Chief Executive Officer (CEO) for business-related expenses. Generally, P-Cards are issued to division and assistant division managers, in addition to certain administrative positions that have been pre-approved by the Executive Office. The Financial and Accounting Services Division (FASD) administers LACERA's Corporate Credit Card Policy (policy) and program. Internal Audit routinely audits P-Cards to ensure that it is effectively managed and compliant with LACERA's policy. The last time the program was audited was in 2011, and there were no significant issues to report. Since that audit, LACERA has changed credit card providers to Bank of America and made improvements to the policy. For this audit, we assessed whether P-Cards are used in accordance with the April 2016 policy. In addition, we evaluated security controls in place to detect improper credit card use.

The corporate credit card is a large component of LACERA's procurement activities. For fiscal year 2017/18, LACERA had total credit card expenditures of $1,230,724 across 15 divisions. Cumulatively, there were 3,497 transactions from 40 accounts through June 30, 2018.

## BACKGROUND

LACERA has partnered with Bank of America's Works Card Program (WORKS) since 2013 to offer credit cards to staff members who make regular purchases of goods and services. Goods and services are purchased in accordance with the policy and annual budget. Personal use of the card is strictly prohibited. The table below shows the types of budgeted services and supplies that can be purchased on the P-Cards by division. Board member purchases for the Board of Investments (BOI) and Board of Retirement (BOR) are made by the Executive Office secretaries.

| | LACERA DIVISIONS | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SERVICES AND SUPPLIES | Admin Serv | Benefits | BOI | BOR | Comm | Disability Lit | Disability Ret | Exec Office | FASD | HR | Int Audit | Investments | Legal | Member Serv | QA | RHC | Systems |
| Auto Expense | x | | | | | x | | x | | | | x | x | | | | |
| Bank Services | | | | | | | | | x | | | | | | | | |
| Building Costs | x | | | | | | | | | | | | | | | | |
| Communication | | | x | x | | | | | | | | | | | | | x |
| Computer Services & Support | | | | | x | | | | | x | | | | | | | x |
| Disability Fees & Services | | | | | | | x | | | | | | | | | | |
| Educational Expenses | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x |
| Equipment Maintenance | x | | | | | | | | | | | | | | | | x |
| Equipment Rents & Leases | x | | | | | | | | | | | | | | | | |
| Insurance | x | | | | | | | | | | | | | | | | |
| Legal Fees & Services | | | | | | x | x | | | | | | x | | | | |
| Miscellaneous | x | x | | | x | x | x | x | x | x | x | x | x | x | x | | x |
| Office Supplies & Equipment | x | x | | | | x | x | x | x | x | x | x | x | x | x | x | x |
| Operational Costs | | | | | | | | | | | | | | | | x | |
| Parking Fees | | | | | | | | | | x | | | | | | | |
| Postage | x | | | | x | | | | | | | | | | | x | x |
| Professional & Specialized Services | x | x | | | | | x | x | | x | x | | x | | x | x | x |
| Stationery & Forms | x | | | | x | | | | | | | | | | | | |
| Transportation | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x |

***Issuance of Credit Cards***

P-Cards are issued to staff members who have the appropriate purchasing authorities within their divisions. Generally, division managers, assistant managers, and certain administrative service positions are granted P-Cards. The division manager initiates the request by submitting the corporate card request form, along with the corporate card agreement, to the Executive Office for approval. Usually, the CEO reviews the request and makes a determination on the credit limit for the cardholder. Credit limits range from $450 to $50,000 based on the frequency and level of use. Approved requests are forwarded to FASD for processing. The FASD Program Administrator acts as the liaison between Bank of America and LACERA, and works with Bank of America to issue the card.

***Reconciliation of Credit Card Charges***

Credit card charges are reconciled on a monthly basis by the cardholder/proxy and FASD. The LACERA policy allows cardholders to designate proxies to access and submit receipts on their behalf. Once a month, cardholders/proxies are required to sign into the Bank of America online payment management system (WORKS) to verify that each charge on their credit card statement is correct. In addition, the system requires that cardholders/proxies assign expense codes to each charge, so that charges can be linked to the appropriate fund and division budget. Once expense codes have been entered, the cardholders/proxies certify in the system that all transactions have been properly reviewed. When charges are made, cardholders' credit lines are reduced. Once cardholders/proxies sign-off on the transactions, the available credit for purchases is restored.

***Substantiation of Charges***

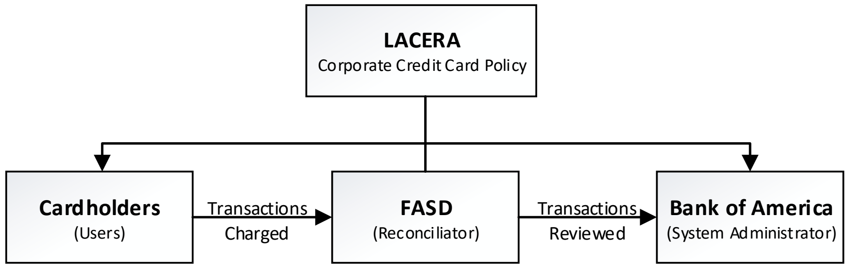
FASD also substantiates charges against cardholder receipts, but only after credit card balances have been paid from the LACERA bank account. The LACERA policy requires that cardholders/proxies submit receipts within five business days after month-end close. The FASD Disbursements Unit, which is comprised of five accounting staff, maintains and enforces the policy. Each month, the Disbursements Unit reconciles credit card statements to the itemized receipts, invoices, and supporting documentation, and follows up on potential issues with cardholders.

## AUDIT OBJECTIVES

The audit objectives were to assess whether P-Cards are used in accordance with the policy. In addition, Internal Audit evaluated security controls in place to monitor and detect improper credit card use. Specifically, we verified the following:

1. Authorization of credit cards and credit limits.
2. Substantiation of charges.
3. Completeness of the LACERA policy.

The diagram below illustrates the process flows between the parties involved when administering the program.




## AUDIT SCOPE

The audit scope covered fiscal year 2017/18 and involved:

- Discussions with FASD staff about administering the corporate credit card program.
- Review of LACERA's corporate credit card policy and procedures.
- List of corporate cardholders and credit limits.
- List of division budgets and general ledger accounts.
- Cardholders' monthly credit card statements.
- Cardholders' submission of supporting documentation.
- Review of the Bank of America online payment management system (WORKS) as it relates to:
    - User access controls
    - Certification of credit card transactions
- Controls and transactions testing to determine whether operations are performed according to established procedures.

**Note:** Internal Audit did not review Board and Staff Travel, because this will be performed in a separate audit.

## AUDIT METHODOLOGY

1. To test for the authorization of credit cards and credits limits:
    - Verified cardholders are LACERA employees. Compared credit limits established for each cardholder to supporting documentation.
    - Confirmed that P-Cards issued to staff who retired/resigned/transferred divisions were deactivated and destroyed.
    - Confirmed that staff with temporary credit increases obtained approval from the Executive Office.
    - Verified that staff who had lost or compromised cards were issued replacement cards with new account numbers.
    - Obtained assurance that P-Cards were administered by appropriate FASD staff.

2. To test for the substantiation of charges:
   - Calculated and reviewed 100% of credit card transactions for 40 accounts ($1,230,724 total dollar value). Verified that charges were allocated to the correct expense codes. Exceptions noted in the Audit Results section of the report.
   - Calculated total expenditures for each division. Determined that division expenditures are within the approved budget for fiscal year 2017/18.
   - Confirmed that monthly credit card balances are paid timely to Bank of America.
   - Sampled 90 credit card transactions to check on the appropriateness of the charges. Reviewed supporting documentation for completeness. Exceptions noted in the Audit Results section of the report.

3. To test for the completeness of the LACERA policy:
   - Discussed controls with the FASD Program Administrator and Disbursements Unit.
   - Reviewed policies, procedures, and processes in place to assess the completeness and comprehensiveness of the policy.

## AUDIT RESULTS

Overall, Internal Audit found LACERA to be compliant with some, but not all, policy areas reviewed. The table below summarizes Internal Audit's assessment of LACERA's Corporate Credit Card Policy.

## Table A: Audit Areas Reviewed

| Rating | Sample Exceptions |
|---|---|
| Good | None |
| Fair | Between 1-10% |
| Needs Improvement | More than 10% |

| Audit Area | Metric | Policy Guidelines / Audit Observations | Compliance Assessment | |
|---|---|---|---|---|
| | | | Cardholders | FASD |
| Authorization of Cards | Cardholder approvals | **Policy:** Generally, division managers are granted corporate cards, in addition to certain positions that have been pre-approved by the Executive Office to be authorized cardholders. | Good | Good |
| | Credit limits | **Policy:** Individual corporate card limits have been established and identified on the Corporate Card Agreement. | Good | Good |
| | Replacement cards | **Policy:** The Cardholder is required to sign a new Agreement in situtations where a new Corporate Card with a new number is issued, such as replacement of stolen, lost, or compromised Corporate Card, and replacement of expired Corporate Card. | Good | Good |
| Substantiation of Charges | Division-approved purchases | **Policy:** Funding must be available in each individual Division's current budget in order to fund purchases. | Good | Good |
| | Monthly statement reviews | **Policy:** The cardholder is required to log on to Bank of America's Online Works System at the end of each billing cycle to compare each transaction to his/her receipts, order confirmation, and/or any shipping documents. After the sign off/s, the accompanying receipts, along with the Corporate Card Program Submission of Supporting Documentation, must be sent to FASD's Disbursements Unit within five (5) business days after the end of each calendar month-end cycle.<br>**Audit Observations:** 281 improper codings of expenses from cardholders/proxies. Incomplete supporting documentation. | Fair | Fair |
| | Itemized receipts, supported by business purpose | **Policy:** FASD staff will review and reconcile all expenditures charged on the Corporate Card to the actual itemized receipt, invoice, or supporting documentation. All receipts must individually list the items purchased. A receipt showing only the total dollar amount will NOT be accepted.<br>**Audit Observations:** Late submission of expense reports and non-itemized receipts from cardholders. | Needs Improvement | Fair |
| | Personal purchases | **Policy:** In order to promote the public's confidence in the integrity of the Corporate Card Program and avoid any appearance of commingling of business-related expenditures with personal expenditures, use of the Corporate Card for personal purchases is strictly prohibited.<br>**Audit Observations:** 2 personal expenses later reimbursed to LACERA. | Fair | Good |
| Policies and Admin. Systems | Meals<br>(Clarification needed) | **Policy:** Purchases of food and beverages by Board Secretaries for Board member functions, Brown Bag coordinators for monthly CEO Brown Bag, and other LACERA sponsored employee events are assigned to expense code 9984. All other divisions must obtain pre-approval from the Executive Office before they make food and beverage purchases other than those instances noted above.<br>**Audit Observations:** 40 business meals with affiliates (i.e. Board members and fund managers) expensed. | Fair | Fair |
| | Equipment | **Policy:** The following goods and services must be requested through the Procurement Unit, or as defined otherwise, with Executive Office's written approval, or obtained through the regular request process:<br>Capital Equipment<br>Furniture<br>Software (Systems Division)<br>Standard Stock<br>Consulting Agreements/Contracts<br>Time and Material Agreements<br>Any special contractual agreements with suppliers<br>Contracts with Exmployment Agencies for temporary help.<br>**Audit Observations:** 108 software and hardware equipment purchases made on Amazon for $9,853 that did not fall within the Corporate Credit Card Policy. | Needs Improvement | Needs Improvement |
| | Memberships<br>(Clarification needed) | **Policy:** No general description provided.<br>**Audit Observations:** 2 Amazon Prime Memberships expensed. | Fair | Fair |
| | Bank of America WORKS<br>(Improvements needed) | **Policy:** Procedural guide.<br>**Audit Observations:** Limited knowledge of system features/functionality. | Fair | Fair |

Internal Audit observed the following good practices with FASD's administration of the program:

- Segregation of duties exist between cardholders and the FASD Disbursements Unit.
- The policy sets forth guidelines, responsibilities, and expectations for cardholders.
- Card authorizations and credit agreements are properly recorded and maintained.
- Lost or comprised cards are reported and replaced timely to avoid misuse.
- User access controls exist within the Bank of America WORKS online payment management system.

While we observed some good practices as noted above, we also identified controls that can be strengthened. The following is a summary of audit results and recommendations to address the issues of accountability, policies and procedures, and outdated systems (WORKS).

***Issue #1: Cardholders were not held accountable for noncompliant transactions.***

During our audit, we identified several areas of noncompliance with the current policy, such as:

- ***Personal Purchases***
  Per the policy, personal purchases are strictly prohibited. We identified two personal purchases made by two different cardholders. One of the cardholders immediately reported and reimbursed LACERA for the purchase. The other purchase was identified by FASD during the review process, and once contacted, the cardholder reimbursed LACERA for the personal charge.

- ***Equipment and Supplies***
  According to the policy, software and hardware equipment should be purchased through the Administrative Services Procurement Unit (Procurement), albeit an emergency. Our test work identified 108 software and hardware equipment purchases that were expensed on the P-Cards. We noted a pattern of purchases made through Amazon ($9,853 in equipment purchases during fiscal year 2017/18), and in some instances, delivered directly to individuals. Regardless of the vendor used for purchases, items such as these should have been procured and delivered through Procurement, as stated in the LACERA credit card and procurement policies.

- ***Business Meals***
  The policy allows charges for food and beverages during travel, for Board member functions, monthly CEO Brown Bags, and other LACERA-sponsored employee events. Per the policy, any meals outside of these activities require Executive Office approval. During our audit, we identified 40 meals expensed on P-Cards without documented Executive Office approval. The majority of these meals were for business meetings with Board members and fund managers. Without sufficient documentation of the business purpose and appropriate approvals, these meals could be perceived as a conflict of interest. To minimize potential conflicts of interest, the policy should state clearly the types and purpose of business meals that are allowable.

- ***Membership Fees***
  The policy allows cardholders to charge memberships on P-Cards, and even though the policy does not specify which memberships are allowable, it is generally assumed to mean business association fees. During our audit, we noted two cardholders (not associated with Procurement) charged Amazon Prime memberships on their P-Cards. From an operational standpoint, LACERA may benefit from centralizing purchases under one Amazon Prime account to reduce costs and monitor purchases. Since the procurement policy is overseen by Administrative Services, we suggest that this division assess the need for an Amazon Prime account.

- ***Telephone and Internet Coverage***
  Similar to membership subscriptions, the policy does not address charges made for business related telephones and internet coverage. Our audit identified monthly telephone and internet service charges, totaling $883. Since these were monthly repeat charges with no written approval from the Executive Office, at some point, the Disbursements Unit should have questioned the charges and obtained documentation of the business purpose during the review process. Executive Office approval should be documented and updated in the policy for the continuation of these monthly charges.

- ***Training Courses***
  The policy allows for the purchase of educational materials, but does not include training courses. This type of service is typically handled by the Human Resources Training Coordinator. We noted that a $3,900 contracted coaching fee was expensed on a P-Card when it should have gone through the training coordinator.

- ***Insufficient Documentation***
  Per the policy, cardholders are required to submit itemized receipts as supporting documentation. A receipt showing only the total dollar amount is not acceptable. Based on our sample of 90 transactions, the majority of cardholders failed to submit itemized receipts, invoices, or written justification for the business purpose. In many cases, the explanation listed the item(s) purchased, but failed to explain who received the items and the business purpose. Without more information, it is difficult for Internal Audit to determine the appropriateness of some purchases. Better monitoring controls during the review process can assist in the early detection of inappropriate or unauthorized transactions.

Based on the findings noted above, cardholders should be held accountable and adequately trained to ensure their understanding of acceptable charges. Furthermore, the Disbursements Unit needs to follow established procedures when reconciling credit card purchases to supporting documentation and elevate noncompliant transactions to management when necessary.

**RECOMMENDATION**

1. FASD management should ensure that cardholders are adequately trained on the policy, and hold cardholders accountable for noncompliance. FASD management should assess the need and frequency of training provided to cardholders, and implement a timeline for training.
2. FASD management should assess the need to obtain missing documentation and/or recover amounts from cardholders for noncompliant transactions that were identified during the audit.

***Management Response***

1. Management agrees with the recommendation. The Corporate Credit Card Policy is under review and revision. The policy will require reviews and approvals for all cardholders including Division Managers to enhance cardholder accountability. FASD is working with the LACERA management team to schedule the corporate credit card policy training event. This recommendation is expected to be completed by March 31, 2019.

2. Management agrees with this recommendation and will complete the assessment. This recommendation is expected to be implemented by June 30, 2019.

***Issue #2: The policy needs to be updated to clearly define allowable charges.***

It is a good business practice to routinely review and revise the policy. Process issues are often associated with policies and procedures, accountability, and outdated systems. Consequently, as these areas are enhanced, processes will also change. As detailed above, we identified purchases that the Disbursements Unit should have raised with FASD management during the review process. Specifically, we identified transactions that were not covered in the policy, missing detailed receipts, or missing approvals. To prevent these types of transactions from occurring in the future, it is important that the Disbursements Unit escalate exceptions to management so that appropriate action can be taken for noncompliance. Once management determines that a purchase is unacceptable, it should be documented in the policy and communicated across the organization to prevent repeat purchases. Likewise, purchases considered acceptable or labeled management exceptions should be clearly documented and explained in the policy. Ongoing training and communication can minimize the number of missing receipts and unauthorized purchases, enhance the effectiveness of existing processes, and ensure that key information is reinforced.

**RECOMMENDATION**

3. FASD Disbursements Unit escalate issues to management, and management revise policies and procedures as needed for clarification.
4. FASD management train and educate cardholders on new policies and procedural changes with divisions involved.

***Management Response***

3. Management agrees with the recommendation. Management has instructed staff to elevate exceptions on policy non-compliance. In addition, the cardholder training will reinforce compliance with the policy at the cardholder level and the importance of the supervisory review for identifying and addressing instances of non-compliance. This recommendation is expected to be completed by March 31, 2019.

4. Management agrees with the recommendation. The Corporate Credit Card Policy will be scheduled for review and update at least every 3 years. Management is in the process of updating the April 2016 version. This recommendation is expected to be completed by March 31, 2019.

***Issue #3: Management needs to assess the options to streamline expense reporting in WORKS.***

Another good business practice is to make the expense reporting process as straightforward as possible. The easier the process, the less the likelihood that cardholders will make mistakes. During our audit, we noted 281 instances (or 8%) when charges were expensed to GL account #4590. GL account #4590 is the code for missing receipts or receipts submitted late. Every month, FASD is responsible for clearing the #4590 account, so improvements should be made within Bank of America WORKS to minimize the number of late/lost receipts and incomplete reports.

One suggestion to address this issue is to add a feature within WORKS to allow receipts to be scanned and uploaded. If there is a WORKS mobile app, then cardholders can snap photos of their receipts and upload them onto the application. The other option is for cardholders to log onto the system and upload digital images of their receipts. Additionally, there should be a feature that allows for descriptions to be inputted next to the receipts, so that FASD can monitor monthly statements online. With these modifications, cardholders can certify in WORKS that transactions have been reviewed and supported, without having to submit hard copies of their expense reports. Since our audit, FASD has contacted Bank of America to implement this recommendation, and the WORKS system now allows for the uploading of receipts. However, this latest feature needs to be documented in the current policy and procedures established.

**RECOMMENDATION**

5. FASD to assess options to streamline expense reporting in Bank of America WORKS so that cardholders are less likely to lose receipts and submit incomplete reports. Additional features should allow for receipts to be scanned and uploaded, and fields to describe the nature of the charges.

***Management Response***

5. Management agrees with the recommendation. Management will work with Bank of America and LACERA Systems Division to study and evaluate the feasibility of implementing a receipt capture tool. This recommendation is expected to be implemented by June 30, 2019.

We thank FASD for their assistance and cooperation with this audit.

**NOTED AND APPROVED**

______________________________ **Date:** February 25, 2019

Richard Bendall
*Chief Audit Executive*

**REPORT DISTRIBUTION**

| | | |
|---|---|---|
| *2019 Audit Committee* | *Lou Lazatin* | *Beulah Auten* |
| *Rick Wentzel* | *JJ Popowich* | *Ted Granger* |
| *Steven Rice* | *Internal Audit Staff* | |

LACERA INTERNAL AUDIT DIVISION

# Corporate Credit Card Audit

**Version with Audit Committee Comments & Internal Audit Responses**

February 25, 2019

**AUDIT PERFORMED BY:**
Kathryn Ton, CPA, CFE
*Senior Internal Auditor*

## EXECUTIVE SUMMARY

We reviewed LACERA's corporate credit card policy as part of the fiscal year 2018/19 audit plan. Corporate credit cards, or P-Cards, facilitate purchases authorized by the LACERA Boards or Chief Executive Officer (CEO) for business-related expenses. Generally, P-Cards are issued to division and assistant division managers, in addition to certain administrative positions that have been pre-approved by the Executive Office. The Financial and Accounting Services Division (FASD) administers LACERA's Corporate Credit Card Policy (policy) and program. The last time the program was audited was in 2011, when credit cards were issued by Bank of New York Mellon. Internal Audit did not identify any significant issues in that audit. Since then, LACERA has changed credit card providers to Bank of America and reissued the policy. For this audit, we assessed whether P-Cards are used in accordance with the April 2016 policy. In addition, we evaluated security controls in place to detect improper credit card use.

The corporate credit card is a large component of LACERA's procurement activities. For fiscal year 2017/18, LACERA had total credit card expenditures of $1,230,724 across 15 divisions. Cumulatively, there were 3,497 transactions from 40 accounts between July 1, 2017 and June 30, 2018.
**AC QUESTION: Any reason you didn't site the relative percentage of procurement?**
**IA RESPONSE: A better first sentence is to say that corporate credit cards are used to supplement LACERA's procurement activities. Except for use within the Procurement Unit itself, credit cards are generally approved for non-procurement activities. As such, we did not cite the relative percentage of procurement.**

In general, Internal Audit found LACERA to have adequate controls and procedures in place to manage credit card use. Notably, we observed the following good practices with FASD's administration of the program:

- Segregation of duties exist between cardholders and the FASD Disbursements Unit.
- The policy sets forth guidelines, responsibilities, and expectations for cardholders.
- Card authorizations and credit agreements are properly recorded and maintained.
- Lost or comprised cards are reported and replaced timely to avoid misuse.
  **AC QUESTION: Is a lost or compromised card reported timely?**
  **IA RESPONSE: Correct. We found lost or compromised cards were reported timely.**
- User access controls exist within the Bank of America WORKS online payment management system.

While we observed some good practices, we also identified opportunities for LACERA to strengthen controls over the program:

- Ensure cardholders are adequately trained on the policy and held accountable for noncompliance.
- FASD Disbursements Unit to escalate issues of noncompliance to management, and revise policy and procedures as needed for clarification.

- FASD to assess options to streamline receipt management and expense reporting in Bank of America WORKS.

The details of our observations and recommendations are addressed in the report. We thank FASD for their assistance and cooperation with this audit.

# CORPORATE CREDIT CARD AUDIT

## INTRODUCTION

We reviewed LACERA's corporate credit card policy as part of the fiscal year 2018/19 audit plan. Corporate credit cards, or P-Cards, facilitate purchases authorized by the LACERA Boards or Chief Executive Officer (CEO) for business-related expenses. Generally, P-Cards are issued to division and assistant division managers, in addition to certain administrative positions that have been pre-approved by the Executive Office.

**AC QUESTION: Please be more specific as to the actual type of card this is. Your use of the phrase P-Card suggests that it could be other things besides a credit card that needs to be paid in full each month. A P-Card can restrict purchases to certain vendors and limit purchases above a certain $ threshold. Some P-Cards are also not credit cards but debit cards. Others have mechanisms through which the vendor agrees to be paid at a discount if paid within a certain period after the transaction date, with the difference retained by LACERA.**

**IA RESPONSE: You are correct. This is actually a credit card and not a procurement or P-Card. The credit card has a spending limit set for each individual cardholder. The credit card is used to purchase items identified in the annual budget (reference table below) that has been pre-approved by the LACERA Boards. Currently, the credit card does restrict purchases to some vendors, but there is not a single transaction dollar limit. In addition, LACERA does not use debit cards, or have an early payment discount arrangement with vendors.**

The Financial and Accounting Services Division (FASD) administers LACERA's Corporate Credit Card Policy (policy) and program. The last time the program was audited was in 2011, when credit cards were issued by Bank of New York Mellon. Internal Audit did not identify any significant issues in that audit. Since then, LACERA has changed credit card providers to Bank of America and reissued the policy. For this audit, we assessed whether P-Cards are used in accordance with the April 2016 policy. In addition, we evaluated security controls in place to detect improper credit card use.

The corporate credit card is a large component of LACERA's procurement activities. For fiscal year 2017/18, LACERA had total credit card expenditures of $1,230,724 across 15 divisions. Cumulatively, there were 3,497 transactions from 40 accounts between July 1, 2017 and June 30, 2018.

## BACKGROUND

LACERA has partnered with Bank of America's Works Card Program (WORKS) since 2013 to offer credit cards to staff members who make regular purchases of goods and services. Goods and services are purchased in accordance with the policy and annual budget. Personal use of the card is strictly prohibited. The table below shows the types of budgeted services and supplies that can be purchased on the P-Cards by division. Board member purchases for the Board of Investments (BOI) and Board of Retirement (BOR) are made by the Executive Office secretaries.

| | LACERA DIVISIONS | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SERVICES AND SUPPLIES | Admin Serv | Benefits | BOI | BOR | Comm | Disability Lit | Disability Ret | Exec Office | FASD | HR | Int Audit | Investments | Legal | Member Serv | QA | RHC | Systems |
| Auto Expense | x | | | | | x | | x | | | | x | x | | | | |
| Bank Services | | | | | | | | | x | | | | | | | | |
| Building Costs | x | | | | | | | | | | | | | | | | |
| Communication | | | x | x | | | | | | | | | | | | | x |
| Computer Services & Support | | | | | x | | | | | x | | | | | | | x |
| Disability Fees & Services | | | | | | | x | | | | | | | | | | |
| Educational Expenses | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x |
| Equipment Maintenance | x | | | | | | | | | | | | | | | | x |
| Equipment Rents & Leases | x | | | | | | | | | | | | | | | | |
| Insurance | x | | | | | | | | | | | | | | | | |
| Legal Fees & Services | | | | | | x | x | | | | | | x | | | | |
| Miscellaneous | x | x | | | x | x | x | x | x | x | x | x | x | x | x | | x |
| Office Supplies & Equipment | x | x | | | | x | x | x | x | x | x | x | x | x | x | x | x |
| Operational Costs | | | | | | | | | | | | | | | | x | |
| Parking Fees | | | | | | | | | | x | | | | | | | |
| Postage | x | | | | x | | | | | | | | | | | x | x |
| Professional & Specialized Services | x | x | | | | | x | x | | x | x | | x | | x | x | x |
| Stationery & Forms | x | | | | x | | | | | | | | | | | | |
| Transportation | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x | x |

***Issuance of Credit Cards***

P-Cards are issued to staff members who have the appropriate purchasing authorities within their divisions. Generally, division managers, assistant managers, and certain administrative service positions are granted P-Cards. The division manager initiates the request by submitting the corporate card request form, along with the corporate card agreement, to the Executive Office for approval. Usually, the CEO reviews the request and makes a determination on the credit limit for the cardholder. Credit limits range from $450 to $50,000 based on the frequency and level of use. Approved requests are forwarded to FASD for processing. The FASD Program Administrator acts as the liaison between Bank of America and LACERA, and works with Bank of America to issue the card.

**AC QUESTION: The card is a payment method, it is not an approval to purchase. What control mechanisms are in place to ensure a manager approves the purchase, prior to the purchase?**

**IA RESPONSE: The corporate credit cards are issued to division managers, who are familiar with the LACERA Corporate Credit Card and Procurement Policies and must sign a Corporate Credit Card Agreement. The majority of LACERA staff do not have credit cards and would need to obtain pre-approval from their managers, prior to making a purchase.**

***Reconciliation of Credit Card Charges***

Credit card charges are reconciled on a monthly basis by the cardholder/proxy and FASD. The LACERA policy allows cardholders to designate proxies to access and submit receipts on their behalf. Once a month, cardholders/proxies are required to sign into the Bank of America online payment management system (WORKS) to verify that each charge on their credit card statement is correct. In addition, the system requires that cardholders/proxies assign expense codes to each charge, so that charges can be linked to the appropriate fund and division budget. Once expense codes have been entered, the cardholders/proxies certify in the system that all transactions have been properly reviewed. When charges are made, cardholders' credit lines are reduced. Once cardholders/proxies sign-off on the transactions, the available credit for purchases is restored.

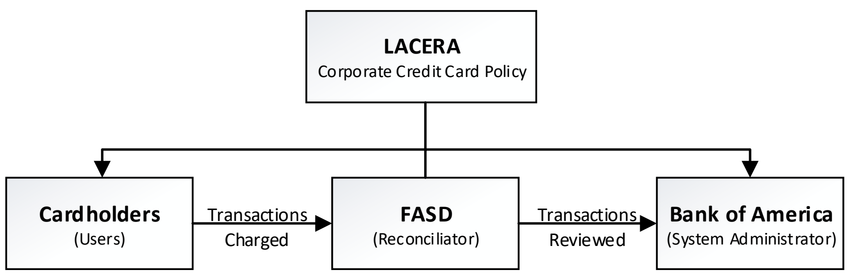
***Substantiation of Charges***
FASD also substantiates charges against cardholder receipts, but only after credit card balances have been paid from the LACERA bank account. The LACERA policy requires that cardholders/proxies submit receipts within five business days after month-end close. The FASD Disbursements Unit, which is comprised of five accounting staff, maintains and enforces the policy. Each month, the Disbursements Unit reconciles credit card statements to the itemized receipts, invoices, and supporting documentation, and follows up on potential issues with cardholders.

## AUDIT OBJECTIVES

The audit objectives were to assess whether P-Cards are used in accordance with the policy. In addition, Internal Audit evaluated security controls in place to monitor and detect improper credit card use. Specifically, we verified the following:

1. Authorization of credit cards and credit limits.
2. Substantiation of charges.
3. Completeness of the LACERA policy.

The diagram below illustrates the process flows between the parties involved when administering the program.




## AUDIT SCOPE

The audit scope covered fiscal year 2017/18 and involved:

- Discussions with FASD staff about administering the corporate credit card program.
- Review of LACERA's corporate credit card policy and procedures.
- List of corporate cardholders and credit limits.
- List of division budgets and general ledger accounts.
- Cardholders' monthly credit card statements.
- Cardholders' submission of supporting documentation.
- Review of the Bank of America online payment management system (WORKS) as it relates to:
    - User access controls
    - Certification of credit card transactions

- Controls and transactions testing to determine whether operations are performed according to established procedures.

**Note:** Internal Audit did not review Board and Staff Travel, because this will be performed in a separate audit.
**AC QUESTION: It appears through the Card Policy that LACERA is de-centralizing purchases. One of the benefits of centralizing purchases is that LACERA can obtain better pricing. I am surprised to see that you don't raise that. Also, is there any specific reason you did not include the Credit Card Policy itself as an attachment?**
**IA RESPONSE: The credit cards do not decentralize purchasing. The credit cards are supposed to be used to supplement purchases outside of procurement, such as airfare, registration fees, and education materials. We generally do not attach the policies and procedures when we perform audits.**

## AUDIT METHODOLOGY

1. To test for the authorization of credit cards and credits limits:
    - Verified cardholders are LACERA employees. Compared credit limits established for each cardholder to supporting documentation.
    - Confirmed that P-Cards issued to staff who retired/resigned/transferred divisions were deactivated and destroyed.
    - Confirmed that staff with temporary credit increases obtained approval from the Executive Office.
    - Verified that staff who had lost or compromised cards were issued replacement cards with new account numbers.
    - Obtained assurance that P-Cards were administered by appropriate FASD staff.

2. To test for the substantiation of charges:
    - Calculated and reviewed 100% of credit card transactions for 40 accounts ($1,230,724 total dollar value). Verified that charges were allocated to the correct expense codes. Exceptions noted in the Audit Results section of the report.
    - Calculated total expenditures for each division. Determined that division expenditures are within the approved budget for fiscal year 2017/18.
      **AC QUESTION: Is that the only control in place to ensure expenses are appropriate – don't spend more than budget?**
      **IA RESPONSE: FASD administers the policy and acts as another control. The FASD Disbursements Unit is responsible for reviewing and reconciling monthly purchases on the credit cards to the actual receipts, invoices, and supporting documentation.**
    - Confirmed that monthly credit card balances are paid timely to Bank of America.
    - Sampled 90 credit card transactions to check on the appropriateness of the charges. Reviewed supporting documentation for completeness. Exceptions noted in the Audit Results section of the report.

3. To test for the completeness of the LACERA policy:
    - Discussed controls with the FASD Program Administrator and Disbursements Unit.
    - Reviewed policies, procedures, and processes in place to assess the completeness and comprehensiveness of the policy.

## AUDIT RESULTS

Overall, Internal Audit found LACERA to be compliant with some, but not all, policy areas reviewed. The table below summarizes Internal Audit's assessment of LACERA's Corporate Credit Card Policy.

## Table A: Audit Areas Reviewed

| Rating | Sample Exceptions |
| --- | --- |
| Good | None |
| Fair | Between 1-10% |
| Needs Improvement | More than 10% |

| Audit Area | Metric | Policy Guidelines / Audit Observations | Compliance Assessment: Cardholders | Compliance Assessment: FASD |
| --- | --- | --- | --- | --- |
| **Authorization of Cards** | Cardholder approvals | **Policy:** Generally, division managers are granted corporate cards, in addition to certain positions that have been pre-approved by the Executive Office to be authorized cardholders. | Good | Good |
| | Credit limits | **Policy:** Individual corporate card limits have been established and identified on the Corporate Card Agreement. | Good | Good |
| | Replacement cards | **Policy:** The Cardholder is required to sign a new Agreement in situtations where a new Corporate Card with a new number is issued, such as replacement of stolen, lost, or compromised Corporate Card, and replacement of expired Corporate Card. | Good | Good |
| **Substantiation of Charges** | Division-approved purchases | **Policy:** Funding must be available in each individual Division's current budget in order to fund purchases. | Good | Good |
| | Monthly statement reviews | **Policy:** The cardholder is required to log on to Bank of America's Online Works System at the end of each billing cycle to compare each transaction to his/her receipts, order confirmation, and/or any shipping documents. After the sign off/s, the accompanying receipts, along with the Corporate Card Program Submission of Supporting Documentation, must be sent to FASD's Disbursements Unit within five (5) business days after the end of each calendar month-end cycle.<br>**Audit Observations:** 281 improper codings of expenses from cardholders/proxies. Incomplete supporting documentation. | Fair | Fair |
| | Itemized receipts, supported by business purpose | **Policy:** FASD staff will review and reconcile all expenditures charged on the Corporate Card to the actual itemized receipt, invoice, or supporting documentation. All receipts must individually list the items purchased. A receipt showing only the total dollar amount will NOT be accepted.<br>**Audit Observations:** Late submission of expense reports and non-itemized receipts from cardholders. | Needs Improvement | Fair |
| | Personal purchases | **Policy:** In order to promote the public's confidence in the integrity of the Corporate Card Program and avoid any appearance of commingling of business-related expenditures with personal expenditures, use of the Corporate Card for personal purchases is strictly prohibited.<br>**Audit Observations:** 2 personal expenses later reimbursed to LACERA. | Fair | Good |
| **Policies and Admin. Systems** | Meals<br>(Clarification needed) | **Policy:** Purchases of food and beverages by Board Secretaries for Board member functions, Brown Bag coordinators for monthly CEO Brown Bag, and other LACERA sponsored employee events are assigned to expense code 9984. All other divisions must obtain pre-approval from the Executive Office before they make food and beverage purchases other than those instances noted above.<br>**Audit Observations:** 40 business meals with affiliates (i.e. Board members and fund managers) expensed. | Fair | Fair |
| | Equipment | **Policy:** The following goods and services must be requested through the Procurement Unit, or as defined otherwise, with Executive Office's written approval, or obtained through the regular request process:<br>Capital Equipment<br>Furniture<br>Software (Systems Division)<br>Standard Stock<br>Consulting Agreements/Contracts<br>Time and Material Agreements<br>Any special contractual agreements with suppliers<br>Contracts with Exmployment Agencies for temporary help.<br>**Audit Observations:** 108 software and hardware equipment purchases made on Amazon for $9,853 that did not fall within the Corporate Credit Card Policy. | Needs Improvement | Needs Improvement |
| | Memberships<br>(Clarification needed) | **Policy:** No general description provided.<br>**Audit Observations:** 2 Amazon Prime Memberships expensed. | Fair | Fair |
| | Bank of America WORKS<br>(Improvements needed) | **Policy:** Procedural guide.<br>**Audit Observations:** Limited knowledge of system features/functionality. | Fair | Fair |

**AC QUESTION: What are the total $ associated with the 281 improper codings?**
**IA RESPONSE: The total dollar amount associated with the 281 late and/or lost receipts is $203,056 (16%).**

Internal Audit observed the following good practices with FASD's administration of the program:

- Segregation of duties exist between cardholders and the FASD Disbursements Unit.
- The policy sets forth guidelines, responsibilities, and expectations for cardholders.
- Card authorizations and credit agreements are properly recorded and maintained.
- Lost or comprised cards are reported and replaced timely to avoid misuse.
- User access controls exist within the Bank of America WORKS online payment management system.

While we observed some good practices as noted above, we also identified controls that can be strengthened. The following is a summary of audit results and recommendations to address the issues of accountability, policies and procedures, and outdated systems (WORKS).

***Issue #1: Noncompliant transactions.***

During our audit, we identified several areas of noncompliance with the current policy, such as:

- ***Personal Purchases***
  Per the policy, personal purchases are strictly prohibited. We identified two personal purchases made by two different cardholders. One of the cardholders immediately reported and reimbursed LACERA for the purchase. The other purchase was identified by FASD during the review process, and once contacted, the cardholder reimbursed LACERA for the personal charge.

- ***Equipment and Supplies***
  According to the policy, software and hardware equipment should be purchased through the Administrative Services Procurement Unit (Procurement), unless there is an emergency which necessitates an immediate purchase. Our test work identified 108 software and hardware equipment purchases that were expensed on the P-Cards. We noted a pattern of purchases made through Amazon ($9,853 in equipment purchases during fiscal year 2017/18), and in some instances, delivered directly to individuals.
  **AC QUESTION: At LACERA or their home addresses? Again, what are the mechanisms in place to approve a purchase, regardless of whether the Procurement Unit purchases it, or the employee purchases it with a P-Card?**
  **IA RESPONSE: Purchases are delivered to the named recipient at LACERA for staff members, and to the home addresses for Board members. It is the responsibility of the cardholder to ensure that he or she complies with the LACERA policy. FASD performs an additional review on the cardholder's supporting documentation for compliance with the LACERA policy.**

Regardless of the vendor used for purchases, items such as these should have been procured and delivered through Procurement, as stated in the LACERA credit card and procurement policies.

- ***Business Meals***

  The policy allows charges for food and beverages during travel, for Board member functions, monthly CEO Brown Bags, and other LACERA-sponsored employee events.
  **AC QUESTION: LACERA pays for lunches for all staff who attend monthly brown bag lunches? What is the total expense of that for the most recent fiscal year?**
  **IA RESPONSE: The total brown bag expense for FY2017/18 was approximately $1,842 or $153 per month.**
  Per the policy, any meals outside of these activities require Executive Office approval.
  **AC QUESTION: Prior to incurring the expenditure or after?**
  **IA RESPONSE: Prior to incurring the expenditure.**
  During our audit, we identified 40 meals expensed on P-Cards without documented Executive Office approval. The majority of these meals were for business meetings with Board members and fund managers. Without sufficient documentation of the business purpose and appropriate approvals, these meals could be perceived as a conflict of interest.
  **AC QUESTION: So a LACERA staff person had lunch with an investment manager and the staff person used her P-card? How do you know that the charge to the P-card is not exclusively related to what the staff person ordered? Assuming the staff person indicated on the receipt that it was for herself and a fund manager, why is LACERA buying a meal for a fund manager?**
  **IA RESPONSE: Cardholders are supposed to submit itemized receipts documenting the recipients of the meal, whether they are LACERA staff or Board members. Staff are not authorized to purchase meals on behalf of fund managers.**
  To minimize potential conflicts of interest, the policy should state clearly the types and purpose of business meals that are allowable.

- ***Membership Fees***

  The policy allows cardholders to charge memberships on P-Cards, and even though the policy does not specify which memberships are allowable, it is generally assumed to mean business association fees. During our audit, we noted two cardholders (not associated with Procurement) charged Amazon Prime memberships on their P-Cards. From an operational standpoint, LACERA may benefit from centralizing purchases under one Amazon Prime account to reduce costs and monitor purchases. Since the procurement policy is overseen by Administrative Services, we suggest that this division assess the need for an Amazon Prime account.

- ***Telephone and Internet Coverage***

  Similar to membership subscriptions, the policy does not address charges made for business related telephones and internet coverage. Our audit identified monthly telephone and internet service charges, totaling $883. Since these were monthly repeat charges with no written approval from the Executive Office, at some point, the

Disbursements Unit should have questioned the charges and obtained documentation of the business purpose during the review process. Executive Office approval should be documented and updated in the policy for the continuation of these monthly charges.

- ***Training Courses***
  The policy allows for the purchase of educational materials, but does not include training courses. This type of service is typically handled by the Human Resources Training Coordinator. We noted that a $3,900 contracted coaching fee was expensed on a P-Card when it should have gone through the training coordinator.
  **AC QUESTION: This speaks to payment. What about approval to charge the coaching fee to LACERA in the first place?**
  **IA RESPONSE: We agree that the coaching fee on the credit card should have gone through the Human Resources Training Coordinator for approval.**

- ***Insufficient Documentation***
  Per the policy, cardholders are required to submit itemized receipts as supporting documentation. A receipt showing only the total dollar amount is not acceptable. Based on our sample of 90 transactions, the majority of cardholders failed to submit itemized receipts, invoices, or written justification for the business purpose. In many cases, the explanation listed the item(s) purchased, but failed to explain who received the items and the business purpose. Without more information, it is difficult for Internal Audit to determine the appropriateness of some purchases.
  **AC QUESTION: Again, why are we asking after we paid for something if we should have purchased it. I am not seeing any pre-purchase approval processes in place here and that is very unsettling.**
  **IA RESPONSE: Pre-approval is required for some, but not all, credit card purchases according to the policy. However, our concern is that there is enough documentation to support a purchase, which was not always adequate.**

Based on the findings noted above, cardholders should be held accountable and adequately trained to ensure their understanding of acceptable charges. Furthermore, the Disbursements Unit needs to follow established procedures when reconciling credit card purchases to supporting documentation and elevate noncompliant transactions to management when necessary.

**RECOMMENDATION**

**AC QUESTION: I would first re-evaluate the necessity for this program. I don't know why if staff needs to purchase something staff can't request it from procurement.**
**IA RESPONSE: Noted. We agree that credit cards are supposed to supplement, and not replace the formal approval process for procurement-related purchases.**

1. FASD management should ensure that cardholders are adequately trained on the policy, and hold cardholders accountable for noncompliance. FASD

management should assess the need and frequency of training provided to cardholders, and implement a timeline for training.

2. FASD management should assess the need to obtain missing documentation and/or recover amounts from cardholders for noncompliant transactions that were identified during the audit.

***Management Response***

1. Management agrees with the recommendation. The Corporate Credit Card Policy is under review and revision. The policy will require reviews and approvals for all cardholders including Division Managers to enhance cardholder accountability. FASD is working with the LACERA management team to schedule the corporate credit card policy training event. This recommendation is expected to be completed by March 31, 2019.

2. Management agrees with this recommendation and will complete the assessment. This recommendation is expected to be implemented by June 30, 2019.

***Issue #2: Policy updates.***

It is a good business practice to routinely review and revise the policy. Process issues are often associated with policies and procedures, accountability, and outdated systems. Consequently, as these areas are enhanced, processes will also change. As detailed above, we identified purchases that the Disbursements Unit should have raised with FASD management during the review process. Specifically, we identified transactions that were not covered in the policy, missing detailed receipts, or missing approvals. To prevent these types of transactions from occurring in the future, it is important that the Disbursements Unit escalate exceptions to management so that appropriate action can be taken for noncompliance. Once management determines that a purchase is unacceptable, it should be documented in the policy and communicated across the organization to prevent repeat purchases. Likewise, purchases considered acceptable or labeled management exceptions should be clearly documented and explained in the policy. Ongoing training and communication can minimize the number of missing receipts and unauthorized purchases, enhance the effectiveness of existing processes, and ensure that key information is reinforced.

**RECOMMENDATION**

3. FASD Disbursements Unit escalate issues to management, and management revise policies and procedures as needed for clarification.
4. FASD management train and educate cardholders on new policies and procedural changes with divisions involved.

***Management Response***

3. Management agrees with the recommendation. Management has instructed staff to elevate exceptions on policy non-compliance. In addition, the cardholder training will reinforce compliance with the policy at the cardholder level and the importance of the supervisory review for identifying and addressing instances of non-compliance. This recommendation is expected to be completed by March 31, 2019.

4. Management agrees with the recommendation. The Corporate Credit Card Policy will be scheduled for review and update at least every 3 years. Management is in the process of updating the April 2016 version. This recommendation is expected to be completed by March 31, 2019.

***Issue #3: Expense reporting.***

Another good business practice is to make the expense reporting process as straightforward as possible. The easier the process, the less the likelihood that cardholders will make mistakes. During our audit, we noted 281 instances (or 8%) when charges were expensed to GL account #4590. GL account #4590 is the code for missing receipts or receipts submitted late. Every month, FASD is responsible for clearing the #4590 account, so improvements should be made within Bank of America WORKS to minimize the number of late/lost receipts and incomplete reports.

One suggestion to address this issue is to add a feature within WORKS to allow receipts to be scanned and uploaded. If there is a WORKS mobile app, then cardholders can snap photos of their receipts and upload them onto the application. The other option is for cardholders to log onto the system and upload digital images of their receipts. Additionally, there should be a feature that allows for descriptions to be inputted next to the receipts, so that FASD can monitor monthly statements online. With these modifications, cardholders can certify in WORKS that transactions have been reviewed and supported, without having to submit hard copies of their expense reports.
**AC QUESTION: Without pre-approval processes, I can go to lunch with my twin sister but not eat, then take her receipt and expense it as my own. We need more front-end approval processes, prior to incurring the expense and paying for it with a P Card.**
**IA RESPONSE: Noted.**

Since our audit, FASD has contacted Bank of America to implement this recommendation, and the WORKS system now allows for the uploading of receipts. However, this latest feature needs to be documented in the current policy and procedures established.

**RECOMMENDATION**

5. FASD to assess options to streamline expense reporting in Bank of America WORKS so that cardholders are less likely to lose receipts and submit incomplete reports. Additional features should allow for receipts to be scanned and uploaded, and fields to describe the nature of the charges.

***Management Response***

5. Management agrees with the recommendation. Management will work with Bank of America and LACERA Systems Division to study and evaluate the feasibility of implementing a receipt capture tool. This recommendation is expected to be implemented by June 30, 2019.

We thank FASD for their assistance and cooperation with this audit.

**NOTED AND APPROVED**

______________________________ **Date:** February 25, 2019

Richard Bendall
*Chief Audit Executive*

**REPORT DISTRIBUTION**

| | | |
|---|---|---|
| *2019 Audit Committee* | *Lou Lazatin* | *Beulah Auten* |
| *Rick Wentzel* | *JJ Popowich* | *Ted Granger* |
| *Steven Rice* | *Internal Audit Staff* | |

LACERA

March 1, 2019

TO: 2019 Audit Committee
Alan Bernstein
Shawn Kehoe
Joseph Kelly
Les Robbins
Gina Sanchez
Herman Santos

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

FOR: March 14, 2019 Audit Committee Meeting

SUBJECT: **Internal Audit Risk Assessment Process**

Internal Audit performs a risk assessment in accordance with the Internal Audit Charter and Institute of Internal Auditors (IIA) Professional Standards to use in the development of the Annual Audit Plan. Our risk assessment approach begins with you, the Audit Committee at this meeting. The intent of the following presentation is to explain our approach and share with you the criteria and process we plan to use in evaluating risk.

We look forward to your feedback and input regarding risk at LACERA and our risk assessment process.

We will bring our completed risk assessment along with our Audit Plan for the Fiscal Year Ending June 30, 2019 to your Committee for approval at your next meeting.

RB:lc
Attachment

# Risk Assessment Process

## FYE 2019

March 14, 2019 | Audit Committee Meeting

LACERA
Los Angeles County Employees Retirement Association



# Audit Plan

## INTERNAL AUDIT PLAN FYE 2019

The following table provides a list of the planned Internal Audit projects for the **Fiscal Year End 2019.**

| PROJECT | STATUS | TYPE | FREQUECY |
|---|---|---|---|
| **MANAGEMENT, GOVERNANCE & COMPLIANCE** | | | **Est. Hours: 3500** |
| 1. Fiduciary Review | | Ext. Audit | Planned |
| 2. Privacy Audit Recommendation Coordination | | Consulting | Planned |
| 3. Compliance Committee | | Consulting | Ongoing |
| 4. Business Continuity/Disaster Recovery | In Progress | Consulting | Planned |
| 5. Continuous Auditing Program | | Audit | Ongoing |
| 6. 960 Hours Testing | | Audit | Periodic |
| 7. Pensionable Pay code Testing | | Audit | Periodic |
| 8. Timecard Review | | Audit | Planned |
| 9. Corporate Credit Card Audit* | | Audit | Planned |
| 10. Board and Staff Travel* | | Audit | Planned |
| 11. Inventory Controls | In Progress | Audit | Planned |
| 12. Risk Assessment – FYE 2020 | | Admin | Annual |
| 13. Update Internal Audit Guide Book | | Admin | Planned |
| 14. Internal Audit Fraud Hotline | | Admin | Planned |
| **BENEFITS ADMINISTRATION** | | | **Est. Hours: 1200** |
| 15. Benefits' Exception Report Review Process | In Progress | Audit | Planned |
| 16. Active Death Process – Follow Up* | | Audit | Planned |
| 17. Death Legal Process | | Audit | Planned |
| 18. Foreign Payee Audit | | Audit | Planned |
| 19. Member Account Settlement Process | In Progress | Audit | Planned |
| **INFORMATION SYSTEMS** | | | **Est. Hours: 2100** |
| 20. IT Risk Assessment Follow-Up | In Progress | Consulting | Planned |
| 21. Member Applications Change Control | In Progress | Audit | Planned |
| 22. External Penetration Testing | | Ext. Audit | Planned |
| 23. Database Review | | Audit | Planned |
| 24. Management Project Review | | Audit | Planned |
| **FINANCIAL & INVESTMENT OPERATIONS** | | | **Est. Hours: 2400** |
| 25. External Financial Audit - Oversight | | Ext. Audit | Ongoing |
| 26. THC Real Estate Audits - Oversight | | Ext. Audit | Ongoing |
| 27. Actuarial Services - Oversight | | Consulting | Ongoing |
| 28. Foreign Tax Reclamation - Oversight | In Progress | Audit | Planned |
| 29. Wire Transfers Audit | In Progress | Audit | Planned |
| 30. THC Tax Liability Review | | Consulting | Planned |
| 31. Real Estate Investment Operations* | | Ext. Audit | Planned |
| 32. Real Estate Advisor Audits[1] | In Progress | Ext. Audit | Planned |
| 33. Custodial Bank Risk Assessment* | | Audit | Planned |
| | | | **Total Hours: 9200** |

# Risk Perspectives

# Risk Assessment Process

The diagram here represents our Risk Assessment Process to be discussed in detail in the following section.

**Define Audit Universe**

- Define auditable areas for each Division
- Review Strategic Plan
- Board & Exec Office Input

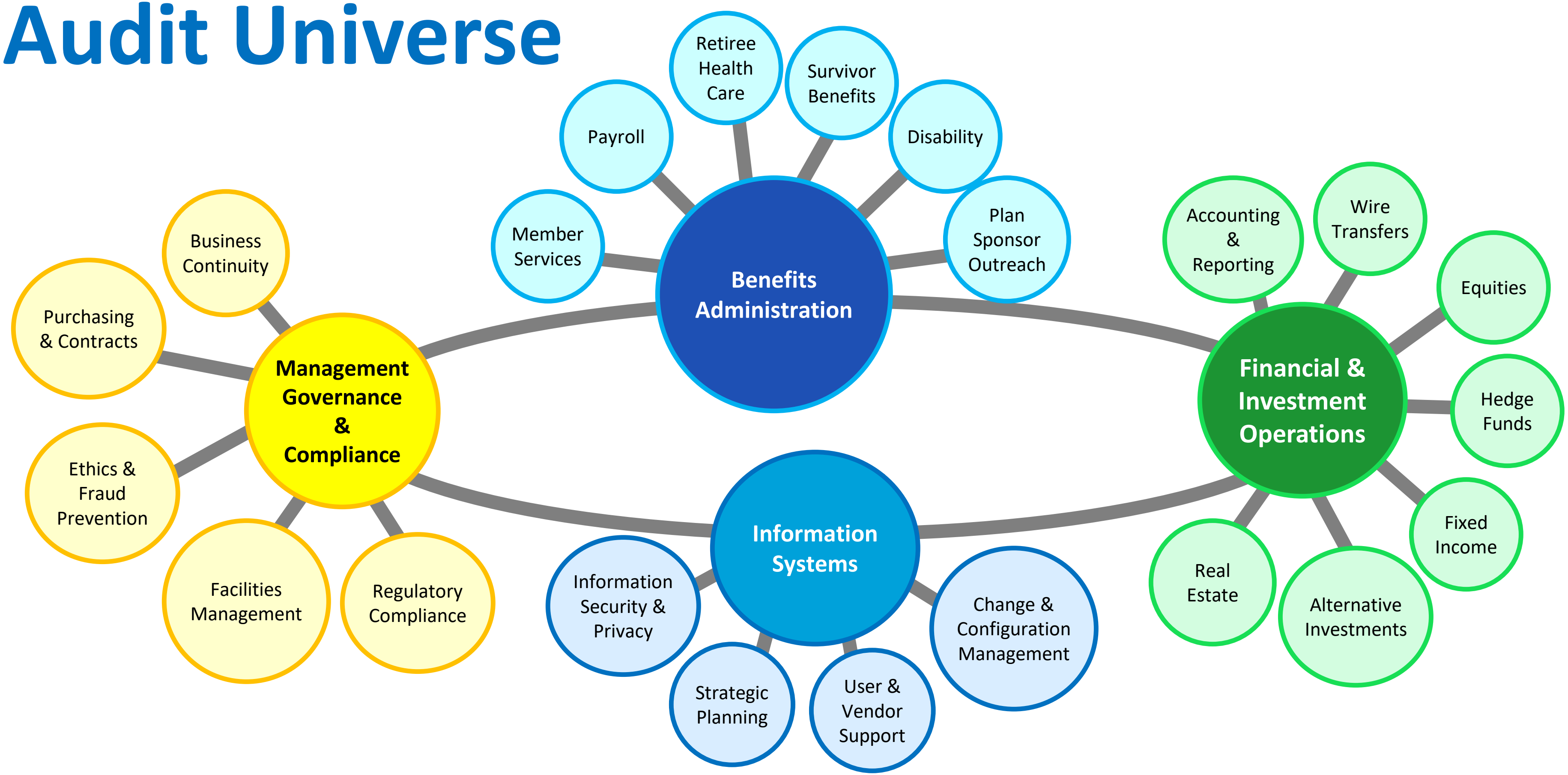
**Risk Survey**

- Survey Management
- Internal Audit Completes Survey

**Audit Plan Development**

- Based on the Risk Assessment, develop Audit Plan

# Audit Universe



# Risk Assessment Survey

Internal Audit
**Risk Assessment Survey** | FYE 2018-19

LACERA
Los Angeles County Employees Retirement Association

**Division:** ____________ **Survey Completed By:** ____________ **Date:** ________

**Instructions:** Please answer the following questions to the best of your ability. When answering the questions, you should consider risks associated with work processed within your division and controls implemented to address those risks. Feel free to add additional pages or documents as needed. Thank you!

| OPERATIONAL OBJECTIVES | |
|---|---|
| 1. What are the key objectives/goals of your division? | |
| 2. What are the most significant operational limitations that will prevent your division from accomplishing your divisional objectives? *Describe at a high level.* | |
| 3. Are there any delays or backlogs in processes performed in your division? Why have they occurred? | |
| 4. Are there any 2018-2019 strategic goals tied to work processes within your division? | |
| 5. List significant processes or procedures in your division that are **not** documented with written procedures. | |
| 6. Are there any specific control weaknesses or areas where controls could be further enhanced through additional segregation of duties or levels of approval, etc.? If so please describe at a high level. | |
| SIGNIFICANT CHANGES | |
| 7. Have there been any significant staffing changes in the past year? How did these staffing changes impact your division? | |
| 8. List new legislative mandates that have or will impact your division. | |
| 9. List **new** *(or significant changes to)* processes or work functions established in your division within the past year. How has this impacted your division? Do you anticipate any significant changes in fiscal year 2018-2019? | |
| PRIVACY | |
| 10. Do you have divisional privacy policies or procedures? | |
| 11. Describe processes in your division where member data is sent outside of the organization (e.g., other agencies, financial institutions, doctor's offices). | |
| 12. Do any vendors you oversee have access to LACERA confidential data (membership information or investment information bound by non-disclosure | |

# Fraud Risk Mitigation

- Continuous Fraud Testing
  - New Member Payroll
- Fraud Risk Considered in Every Audit
- Fraud Hotline

# Questions?

2019

FOR INFORMATION ONLY

# Audit Plan Status Report

FYE 2019 Plan Status as of February 28, 2018

**Submitted to the Audit Committee**
**March 14, 2018**

## In This Report

LACERA
Los Angeles County Employees Retirement Association

# AUDIT COMMITTEE

of the Board of Retirement & Board of Investments

**Alan J. Bernstein**
**Joseph Kelly**
**Shawn R. Kehoe**
**Les Robbins**
**Gina V. Sanchez**
**Herman B. Santos**

# INTERNAL AUDIT DIVISION

| | |
|---|---|
| **Richard Bendall,** CPA, CISA | Chief Audit Executive |
| **Leisha Collins,** CPA | Principal Internal Auditor |
| **Christina Logan,** CPA, CFE | Senior Internal Auditor |
| **George Lunde,** CIA, CISA | Senior Internal Auditor |
| **Kristina Sun,** CPA | Senior Internal Auditor |
| **Kathryn Ton,** CPA, CFE | Senior Internal Auditor |
| **Gabriel Tafoya,** CISA, ACDA | Senior Internal Auditor |
| **Summy Voong,** CISA, CISM | Senior Internal Auditor |
| **Nathan K. Amick** | Internal Auditor |
| **Perla Gonzalez** | Senior Secretary |

# AUDIT COMMITTEE CONSULTANT

**Rick Wentzel,** CPA

On behalf of the Internal Audit team, I am pleased to submit the **Internal Audit Work-In-Progress Report** *(Report)* of the Los Angeles County Employees Retirement Association *(LACERA)* for the period of November 7, 2018 to February 28, 2019. This Report provides information on the FYE 2019 Audit Plan, the assurance, consulting, and advisory projects completed as well as other Internal Audit activities.

The work performed by LACERA Internal Audit contributes toward accountability, integrity, and good management practices throughout LACERA's business units.

As of July 1, 2018, the FYE 2018 Audit Plan consisted of thirty-three (33) projects. Of the thirty-three (33) total projects on the current Audit Plan, twenty-one (21) projects have been initiated during the year with seven (7) completed and fourteen (14) in various stages of progress toward completion.

The attached report contains the status on all projects undertaken this fiscal year including the objective of the project, the rationale for the work, and a brief synopsis on the "progress" or "conclusion" of each project. We also include the justification for initiating each of the unplanned projects. Any reports issued during the period since your last Audit Committee meeting are provided to your Committee under separate cover.

I would like to thank the Committee for your continued support of Internal Audit.

Sincerely,

Richard Bendall, CPA, CISA
*Chief Audit Executive*

## INTERNAL AUDIT PLAN FYE 2018

The following table provides a list of the planned Internal Audit projects for the **Fiscal Year Ending 2019.**

| PROJECT | STATUS | TYPE | FREQUECY |
|---|---|---|---|
| **MANAGEMENT, GOVERNANCE & COMPLIANCE** | | | **Est. Hours: 3500** |
| 1. Fiduciary Review | | Ext. Audit | Planned |
| 2. Privacy Audit Recommendation Coordination | In Progress | Consulting | Planned |
| 3. Compliance Committee | In Progress | Consulting | Ongoing |
| 4. Business Continuity/Disaster Recovery | In Progress | Consulting | Planned |
| 5. Continuous Auditing Program (CAP)<br>• New Payee Validation (on going)<br>• High Risk Payees (completed) | In Progress | Audit | Ongoing |
| 6. 960 Hours Testing | Completed | Audit | Periodic |
| 7. Pensionable Pay code Testing | In Progress | Audit | Periodic |
| 8. Timecard Review | | Audit | Planned |
| 9. Corporate Credit Card Audit* | Completed | Audit | Planned |
| 10. Board and Staff Travel* | In Progress | Audit | Planned |
| 11. Inventory Controls | In Progress | Audit | Planned |
| 12. Risk Assessment – FYE 2020 | | Admin | Annual |
| 13. Update Internal Audit Guide Book | | Admin | Planned |
| 14. Internal Audit Fraud Hotline | In Progress | Admin | Planned |
| **BENEFITS ADMINISTRATION** | | | **Est. Hours: 1200** |
| 15. Benefits' Exception Report Review Process | | Audit | Planned |
| 16. Active Death Process – Follow Up* | In Progress | Audit | Planned |
| 17. Death Legal Process | | Audit | Planned |
| 18. Foreign Payee Audit | In Progress | Audit | Planned |
| 19. Member Account Settlement Process | In Progress | Audit | Planned |
| **INFORMATION SYSTEMS** | | | **Est. Hours: 2100** |
| 20. IT Risk Assessment Follow-Up | Completed | Consulting | Planned |
| 21. Member Applications Change Control | Completed | Audit | Planned |
| 22. External Penetration Testing | | Ext. Audit | Planned |
| 23. Database Review | | Audit | Planned |
| 24. Management Project Review | | Audit | Planned |
| **FINANCIAL & INVESTMENT OPERATIONS** | | | **Est. Hours: 2400** |
| 25. External Financial Audit FYE 2018 - Oversight | Completed | Ext. Audit | Ongoing |
| 26. THC Real Estate Audits - Oversight | In Progress | Ext. Audit | Ongoing |
| 27. Actuarial Services - Oversight | In Progress | Consulting | Ongoing |
| 28. Foreign Tax Reclamation - Oversight | Completed | Audit | Planned |
| 29. Wire Transfers Audit | Completed | Audit | Planned |
| 30. THC Tax Liability Review | | Consulting | Planned |
| 31. Real Estate Investment Operations* | | Ext. Audit | Planned |
| 32. Real Estate Advisor Audits[1] | In Progress | Ext. Audit | Planned |
| 33. Custodial Bank Risk Assessment* | | Audit | Planned |
| | | | **Total Hours: 9200** |

**An audit that was rolled-over from FYE 2018 Audit Plan that will commence in FYE 2019.*

[1] *Includes audits of Advisors managing debt program.*

The following provides a more detailed narrative of Internal Audit projects completed or in progress for the period of November 7, 2018 to February 28, 2019. The projects are ordered by Division. Project detail includes the objective, rationale, and a brief synopsis of the project's status or conclusion.

## ADMINISTRATIVE SERVICES

### Business Continuity Planning

| DIVISION(S) | ADMINISTRATIVE SERVICES | REPORT DATE | TBD |
|---|---|---|---|
| OBJECTIVE | Provide consulting to Administrative Services management in their revision and upgrade of LACERA's business continuity plan including:<br>1. Business impact analysis<br>a. processes that are critical and order of importance<br>b. recovery time, and recovery point objectives<br>2. Develop crisis management plan roles and responsibilities | | |
| RATIONALE | The Business Continuity Plan is critical to the continuation of LACERA in the event of a disaster. Rather than perform an audit of the current plan, we determined together with the Executive Office and Administrative Services Management that it would be more appropriate for Administrative Services to engage a consultant to evaluate and possibly upgrade the current Business Continuity platform. This will include improving board and staff awareness of the plan as well as training LACERA staff on the plan and its deployment in the event of a disaster. | | |
| STATUS | **IN PROGRESS:**<br>Internal Audit is participating in a cross-functional oversight committee. A Business Continuity Planning vendor has been selected, scope of work contract was signed and work has begun. | | |

## BENEFITS

### Member Account Settlement Collections Process

| DIVISION(S) | BENEFITS | REPORT DATE | TBD |
|---|---|---|---|
| OBJECTIVE | The purpose of the Member Account Settlement Collections Process audit is to assess internal controls and design of the process of recovering payments that members owe to the LACERA fund resulting from members underpaying their contributions to LACERA or LACERA overpaying benefits to members. | | |
| RATIONALE | As part of our fiscal year 2017-18 Audit Plan and based on a request from Management to follow-up on a previous review, Internal Audit is performing a review of LACERA's Member Account Settlements Process. The objectives of the review are to determine if the process is efficient and effective in ensuring that collections are calculated accurately, payments are tracked, and payments are appropriately reported. | | |
| STATUS | **IN PROGRESS:**<br>Due to staffing departures in mid-2018, this audit was suspended pending reassignment to available staff. The project was reassigned, and staff commenced working on this assignment in February 2019 and the anticipated completion date is April 30, 2019. | | |

## COMMUNICATIONS

### LACERA Fraud Hotline

| | | | |
|---|---|---|---|
| **DIVISION(S)** | COMMUNICATIONS | **REPORT DATE** | TBD |
| **OBJECTIVE** | The objective is to update the Internal Audit Fraud Hotline to incorporate best practices into the process. | | |
| **RATIONALE** | We reviewed LACERA's fraud hotline as part of the fiscal year 2018/2019 audit plan. Internal Audit maintains a fraud and ethics hotline that allows employees to safely and anonymously alert LACERA about improper acts. The identities of employees who report improper activities are kept confidential under California Government Code §53087.6. | | |
| **STATUS** | **IN PROGRESS:**<br>Internal Audit has started to research options and will work with the Communications team to implement changes to the hotline. We anticipate the project will be completed by July 30, 2019. | | |

## DISABILITY RETIRMENT

### Active Death Follow-Up

| | | | |
|---|---|---|---|
| **DIVISION(S)** | Disability Retirement Services | **REPORT DATE** | N/A |
| **OBJECTIVE** | Review and assess the implementation and status of all recommendations made in the July 2013 "Special Death Benefits and Active Death Process Audit." | | |
| **RATIONALE** | In July of 2013 it was determined that LACERA had not paid the required special death benefit to the survivors of 5 safety members who died in the line of duty. While the need is rare for LACERA to pay special death benefits, when LACERA misses the opportunity to pay these benefits to eligible survivors, the financial risk to those survivors and the reputational risk to LACERA are significant. Based on these risks we felt it was necessary to revisit this issue. | | |
| **STATUS** | **IN PROGRESS:**<br>Internal Audit has concluded the fieldwork portion of the audit and is currently drafting a report. We anticipate issuing the report by March 30, 2019. | | |

## EXECUTIVE OFFICE

### Compliance Committee

| DIVISION(S) | EXECUTIVE OFFICE | REPORT DATE | N/A |
|---|---|---|---|
| OBJECTIVE | Provide consulting to the Executive Office and participate in the Compliance Committee in their development of a framework for a formal compliance program at LACERA. | | |
| RATIONALE | Internal Audit has been requested by the Executive Office to assist with the development of a framework managements system of compliance. As part of the updates to the Audit Committee Charter, the Audit Committee will have responsibility for monitoring managements system of compliance. | | |
| STATUS | **IN PROGRESS:**<br>Internal Audit is continuing to meet and consult with Management and participate with the Compliance Committee on the development of the formal compliance program. Much of the work has involved the development and adoption of formal charters, policies and procedures. Formalization of the compliance framework is pending the current budget process and the hiring of a Compliance Officer in the Legal Office in by June 30, 2020, once the position is approved and created. | | |

## FINANCIAL AND ACCOUNTING SERVICES

### Corporate Credit Card Audit

| | | | |
|---|---|---|---|
| **DIVISION(S)** | FASD | **REPORT DATE** | Feb 25, 2019 |
| **OBJECTIVE** | The audit objectives were to assess whether purchase cards are used in accordance with the April 2016 LACERA Corporate Credit Card Policy. In addition, Internal Audit evaluated security controls in place to detect improper credit card use. | | |
| **RATIONALE** | We reviewed LACERA's corporate credit card policy as part of the fiscal year 2018/19 audit plan. Corporate credit cards, or P-Cards, facilitate purchases authorized by the LACERA Boards or Chief Executive Officer for business-related expenses. The Financial and Accounting Services Division (FASD) administers LACERA's Corporate Credit Card Policy (policy) and program. Internal Audit routinely audits P-Cards to ensure that it is effectively managed and compliant with LACERA's policy. | | |
| **STATUS** | **COMPLETED: Internal Audit concluded fieldwork and issued the report on February 25, 2019.**<br><br>Internal Audit found LACERA to have adequate controls and procedures to manage credit card use. While we observed some good practices, we also identified opportunities for FASD to strengthen controls over the program. We recommended that staff (1) ensure cardholders are adequately trained on the policy, and hold cardholders accountable for noncompliance; (2) escalate issues to management, and revise policy and procedures as needed for clarification; and (3) implement system improvements in Bank of America WORKS to streamline expense reporting. | | |

### Board and Staff Travel

| | | | |
|---|---|---|---|
| **DIVISION(S)** | FASD / Executive Office / Legal | **MEMO DATE** | TBD |
| **OBJECTIVE** | To determine if Board & staff compliant with LACERA's Education and Travel Policy. | | |
| **RATIONALE** | Internal Audit last audited Board and staff travel in 2016. This is an expense highly scrutinized by the media and public. For the fiscal year ended June 30, 2018, Boards' education and travel expenses were approximately $425,000 while the staffs' expenses were approximately $600,000. | | |
| **STATUS** | **IN PROGRESS:**<br><br>Internal Audit anticipates completed fieldwork in December and anticipates issuing the report in by March 30, 2019. | | |

## INTERNAL AUDIT

### Real Estate Advisor Audits

| DIVISION(S) | INTERNAL AUDIT | MEMO DATE | N/A |
|---|---|---|---|
| **OBJECTIVE** | Internal Audit issued an RFP to hire a pool of consultants to perform audits of LACERA's Real Estate Advisors and LACERA's Real Estate Debt Program. At the conclusion of the RFP process, four firms were selected for the audit pool. | | |
| **RATIONALE** | Internal Audit intends to use consultants on an as-needed basis to ensure appropriate resources are available to complete audits and projects included in the Audit Plan. | | |
| **PROGRESS** | **IN PROGRESS:**<br><br>Internal Audit selected KPM for the Stockbridge and Conrad for the Capri advisor audits. KPM and Conrad recently completed a compliance and operational review of these advisors, and shared preliminary results with Internal Audit. Both KPM and Conrad will have finalized reports by March 30, 2019. We plan to initiate two more advisor audit by April 30, 2019. | | |

## ONGOING TESTING, MONITORING & CONSULTING

The following provides a brief narrative of ongoing Internal Audit projects for the period of November 7, 2018 to February 28, 2019. These recurring projects include testing, monitoring, and consulting assignments performed on an ongoing basis to prevent fraud and ensure compliance throughout LACERA's business units. Project detail includes the objective, rationale, and a brief synopsis of the project's status.

## BENEFITS

### Continuous Auditing Program (CAP) - Over 90 High Risk Payees

| DIVISION(S) | BENEFITS | REPORT DATE | N/A |
|---|---|---|---|
| OBJECTIVES | To validate high risk members. | | |
| RATIONALE | To prevent fraud or misappropriation of member benefits. | | |
| STATUS | **IN PROGRESS:**<br>We have identified our pool of high risk payees and are working with the Benefits Protection Unit to have them verified as alive and well . | | |

### Continuous Auditing Program (CAP) - New Payee Validation

| DIVISION(S) | BENEFITS |
|---|---|
| OBJECTIVE | To assess validity of new payees added to the retirement payroll, Internal Audit performs an independent monthly continuous process test to new service and disability retirees and new survivor payees.<br>Internal Audit staff confirm by reviewing supporting file documentation that new payments added to the retiree payroll are only to eligible former Los Angeles County employees or their beneficiaries. Internal Audit examines 100% of the new benefit payees using computer assisted audit techniques. |
| RATIONALE | Internal Audit performs this monthly fraud test due to our independence from the operations. |
| STATUS | **IN PROGRESS:**<br>Internal Audit has tested 100 percent of all new benefit payees from July 2018 through February 2019. Internal Audit found no exceptions to the scheduled new benefit payees. This project will continue through the following Fiscal Year Ending June 30, 2019. |

## EXECUTIVE OFFICE

### Continuous Auditing Program (CAP) Pensionable Paycode Testing

| | | | |
|---|---|---|---|
| **DIVISION(S)** | INTERNAL AUDIT, QUALITY ASSURANCE, BENEFITS, SYSTEMS DIVISION | **REPORT DATE** | N/A |
| **OBJECTIVES** | Verify that the pay codes used by the Plan Sponsor are codes that have been approved by the Board of Retirement. The Plan Sponsor should not be using a code that has not been determined by the Board of Retirement as either pensionable or non-pensionable.<br><br>Verify that each pay code used is coded correctly by the Plan Sponsor (e.g., either "yes" as pensionable or "no" as non-pensionable)<br><br>Verify, on a sample basis, that pay codes used by the County are applied to the correct group and/or sub-group of employees (e.g., pay codes intended for Sheriff's deputies should only be used for Sheriff's deputies) | | |
| **RATIONALE** | In accordance with the Public Employees' Pension Reform Act of 2013 ("PEPRA"), LACERA's Board of Retirement ("BOR") became responsible for determining whether the components of a member's compensation are pensionable or non-pensionable while working as an active employee after January 1, 2013 | | |
| **STATUS** | **IN PROGRESS:**<br><br>Internal Audit (IA) is currently testing pay codes and will provide any errors to QA for analysis and follow-up. IA will continue to test pay codes on a quarterly and annual interval. | | |

### Privacy Audit Recommendation Monitoring

| | |
|---|---|
| **DIVISION(S)** | EXECUTIVE OFFICE |
| **OBJECTIVE** | Internal Audit will participate in the cross-functional management oversight team and record the status of the implementation of recommendations in the external Privacy Audit final report. |
| **RATIONALE** | Internal Audit has an independent oversight role in validating the implementation of audit recommendations. Due to the attorney-client privilege manner in which the audit was performed and reported to the Audit Committee, Internal Audit performs this role and reports on the status of implementation to your Committee separately. |
| **STATUS** | **IN PROGRESS:**<br><br>Executive Management has established a cross-functional team to address the implementation of the Privacy Audit recommendations, many of which will simultaneously assist in the formalization of the compliance function at LACERA. The team will coordinate the implementation and the standardization of policies and procedures and the establishment of a compliance framework. The team has identified specific divisions as the primary owners of the Privacy Audit recommendations.<br><br>Internal Audit as a part of the team is working on those recommendations for which we have primary ownership. Internal Audit also records the status update of all recommendations and we are comfortable that Management is taking the recommendations and the implementation seriously and has developed a good plan and a reasonable timeline in which to do so. We will be reporting the status of the Privacy Audit recommendation follow-up to your Committee at your March 14, 2019 meeting, under separate cover. |

## INTERNAL AUDIT

### FYE 2018 Actuarial Audit – Oversight

| | |
|---|---|
| **DIVISION(S)** | INTERNAL AUDIT |
| **OBJECTIVE** | Facilitate LACERA's ongoing, external, audit of actuarial services. |
| **RATIONALE** | External auditors require information data and documentation. Internal Audit advices, directs, assists; with inquiries and timely responsiveness from LACERA staff and management in order to complete their work satisfactorily in a suitable fashion. |
| **STATUS** | **IN PROGRESS:**<br>Internal Audit and the Financial Accounting Services Division conducted entrance meetings for the OPEB Experience Study and Validation Audit, as well as the Pension Triennial Valuation Audit. The actuarial projects are currently in progress. Internal Audit will continue to facilitate any data and/or documentation requests needed by the external auditors. |

### Recommendation Follow-up

| | |
|---|---|
| **DIVISION(S)** | INTERNAL AUDIT |
| **OBJECTIVE** | In compliance with the Institute of Internal Auditors' *International Professional Practices Framework*, the Chief Audit Executive must establish and maintain a system to monitor the disposition of audit results communicated to management. |
| **RATIONALE** | Internal Audit monitors the implementation status of prior audit recommendations made to LACERA Management to ensure that Management action plans have been effectively implemented or that Senior and Executive Management have accepted the risk of not taking action. |
| **STATUS** | **IN PROGRESS:**<br>The status of all, audit recommendation related, management action plans are reported to the Audit Committee regularly. The most recent review cycle was completed from November 1, 2018 through February 28, 2019. This project will continue through June 30, 2019. |

### General Consulting (< 2 hours)

| | |
|---|---|
| **DIVISION(S)** | INTERNAL AUDIT |
| **OBJECTIVE** | Assist LACERA Management with advice and/or resources. |
| **RATIONALE** | Internal Audit often provides consulting or additional information on organizational processes, projects, and issues. Any consulting requiring two hours or less of an auditor's time is placed in this category. |
| **STATUS** | **IN PROGRESS:**<br>Internal Audit maintains an open door policy for general consulting purposes. This is ongoing consulting that will conclude June 30, 2019. |

## INTERNAL AUDIT *continued*

### Internal Audit Quality Assurance Improvement Program (QAIP)

| | |
|---|---|
| **DIVISION(S)** | INTERNAL AUDIT |
| **OBJECTIVE** | Internal Audit will maintain a Quality Assurance and Improvement Program as required by the Institute of Internal Auditing (IIA) Standards. |
| **RATIONALE** | In our 2015 Quality Assurance Review (QAR), our consultant recommended that LACERA Internal Audit develop a formal QAIP program to be in compliance with IIA standards. Internal Audit, while always implemented some form of the QAIP program, did not have a formalized program that fully complied with standards. Internal Audit believes that a formal QAIP is important with the on-going administration of Internal Audit and will add value to the work performed by staff. Internal Audit developed and implemented a QAIP in Fiscal Year Ended June 30, 2016. |
| **STATUS** | **IN PROGRESS:**<br><br>Internal Audit is on track for the completion of the QAIP assessment by June 30, 2019. |

## INTVESTMENTS

### THC Financial Audit Oversight

| | |
|---|---|
| **DIVISION(S)** | INTERNAL AUDIT |
| **OBJECTIVE** | The objectives of this project are to hire firms to perform audit and tax services associated with LACERA's wholly owned THCs. Staff will also oversee the THC audits to ensure that audits and financial reports are provided within established guidelines. |
| **RATIONALE** | The purpose of the THC audit is to ensure that real estate advisors are providing accurate and appropriate financial reports to LACERA. IA serves as liaison between the audit firms and the key stakeholders: FASD, the Investment Office and the Legal Division to ensure that the audits comply with established procedures and financial reports are provided within established periods. |
| **STATUS** | **IN PROGRESS:**<br><br>This is an ongoing project. This project for FYE 2017-2018 was completed September 15, 2018. The financial audits for FYE June 30, 2019 will commence by May 30, 2019. |

L///CERA

**FOR INFORMATION ONLY**

February 28, 2019

TO: 2019 Audit Committee
Alan Bernstein
Shawn Kehoe
Joseph Kelly
Les Robbins
Gina Sanchez
Herman Santos

Audit Committee Consultant
Rick Wentzel

FROM: Richard Bendall RB
Chief Audit Executive

Gabriel Tafoya GR
Senior Internal Auditor

FOR: March 14, 2019 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up Report**

Internal Audit reports to the Audit Committee at each meeting the status of all outstanding audit recommendations - Audit Recommendation Follow-up summary report – **Attachment A.**

Please note, staff revised the summary report as of this meeting to provide more clarity and transparency to your Committee on the details of the findings, recommendations and status. We believe that this new format will also be beneficial in the communication between Internal Audit and the responsible divisions and ensure greater focus on the timely implementation of recommendations.

**Recent Activity**

Since the December 6, 2018 Audit Committee meeting, at which time there were twenty –three (23) outstanding audit recommendations:

- Staff added five (5) new recommendations. These recommendations were from the Corporate Credit Card audit.
- Staff verified that six (6) recommendations were implemented:
  - Three (3) were implemented by Admin Services.
  - Three (3) were implemented by Investments.

There are currently twenty-two (22) recommendations outstanding.

**AUDIT RECOMMENDATIONS STATUS BY DIVISION**
**Since December 6, 2018 Audit Committee meeting.**

| | Admin Services | Benefits | FASD | Investments | Systems |
|---|---|---|---|---|---|
| **Beginning** | 7 | 7 | 0 | 5 | 4 |
| **New** | 0 | 0 | 5 | 0 | 0 |
| **Implemented** | 3 | 0 | 0 | 3 | 0 |
| **Ending** | 4 | 7 | 5 | 2 | 4 |

## IIA Standards

The Institute of Internal Auditors' (IIA) Performance Standard #2500 pertains to monitoring the implementation progress of Internal Audit's recommendations made to Management. The Chief Audit Executive is required to establish and maintain a system to monitor the disposition of Management's corrective results and communicate those results to Executive Management and the Audit Committee.

During the audit process, Internal Audit, as well as external auditors (financial, fiduciary, actuarial, and IT), regularly identify areas where LACERA Management may implement changes to improve risk controls in its processes and Management provides action plans indicating how and when planned improvements will be made. These recommendations and action plans are included in each formal audit report. Additionally, Internal Audit makes recommendations and management identifies improvement plans during Internal Audit consulting assignments. All recommendations and management action plans are documented in Internal Audit's *Recommendation Follow-Up* database.

It is Internal Audit's responsibility to ensure that Management's action plans have been effectively implemented, or in the case of action plans that have yet to be implemented, to ensure that Management remains aware of the risks it has accepted by not taking action. In certain situations, if reported observations and recommendations are significant enough to require immediate action by Management, Internal Audit persistently monitors actions taken by Management until the observed risk is corrected.

It is not the responsibility of the Chief Audit Executive to resolve the risks identified during audit work. However, in accordance with IIA Performance Standard #2600, it is Internal Audit's responsibility to communicate the acceptance of risks when the Chief Audit Executive concludes that Management has accepted a level of risk that may be unacceptable to the organization. As a result of this responsibility, Internal Audit communicates all pending *Management Action Plans* to LACERA's Executive Management and Audit Committee for resolution. In this manner, Internal Audit escalates unsatisfactory responses or lack of Management actions - including the assumption of risk - to the appropriate levels of Executive Management and the Audit Committee.

RB/GT

Attachment

# Audit Recommendations Follow Up

**Attachment-A**

| Project Name | Risk Area / Division | Finding | Management Response | Responsible Division(s) | Original Implementation Date | Current Status |
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| **Administrative Services Division** | | | | | | |
| Purchasing/ Procurement | Administrative Services Division<br><br>5/8/2011 | **Description of Finding:**<br>Greater clarity and expansion is needed in LACERA's Purchasing Goods & Services Policy Guidelines and the Purchasing & Contract Administration Manual. The Policy and the Manual are unclear as to 1) what exact level(s) of purchasing approval authority resides with Division Managers, 2) what approval levels are for various portions of contracts, and other specifics discussed with Administrative Services Division.<br><br>**Recommendation:**<br>The Administrative Services Division should take action to modify both LACERA's Policy Guidelines and the Manual appropriately for additional precision. The Division should also update and expand the Policy Guidelines and the Manual to include all the procedures, limitations, and controls actually already practiced. Further, the Division should disseminate the updated Policy Guidelines and Manual to all Divisions in LACERA, advising the Divisions as to the changes made. | **Original Management Response:**<br>The policy guidelines will be reviewed for possible changes by December 30, 2011.<br><br>**Current Status:**<br>Administrative Services Management has drafted an updated LACERA's Purchasing Goods & Services Policy Guidelines and the Purchasing & Contract Administration Manual. Currently this draft is being reviewed by management, and planned for presentation to the Operations Oversight Committee in April 2019. Planned for completion by June 30, 2019. | Administrative Services Division | 12/30/2011 | Pending<br><br>6/30/2019 |
| Purchasing/ Procurement | Administrative Services Division<br><br>5/8/2011 | **Description of Finding:**<br>The Procurement Unit's daily operating procedures – the "written desk procedures" – need expansion to provide enhanced control procedures. The existing, written procedures do not include a number of controls, a requirement that an existing control be performed, or a requirement that performance of the control be documented.<br><br>**Recommendation:**<br>The Purchasing Unit should update and expand its written, daily operating procedures to conform to the final versions of an updated Purchasing Goods & Services Policy Guidelines and Purchasing & Contract Administration Manual. The daily operating procedures should also include all the controls it already practices as well as the missing controls mentioned above; and it should document its execution of all those controls when they are performed, thereby establishing accountability. | **Original Management Response:**<br>The policy guidelines will be reviewed for possible changes by December 30, 2011.<br><br>**Current Status:**<br>Administrative Services Management has drafted an updated LACERA's Purchasing Goods & Services Policy Guidelines and the Purchasing & Contract Administration Manual. Currently this draft is being reviewed by management, and planned for presentation to the Operations Oversight Committee in April 2019. Planned for completion by June 30, 2019. | Administrative Services Division | 12/31/2011 | Pending<br><br>6/30/2019 |
| Purchasing/ Procurement | Administrative Services Division<br><br>5/8/2011 | **Description of Finding:**<br>Of the 26 purchase orders selected for detailed review, 17 required that they either be submitted to the bidding process or have documented justification for "sole-sourcing" by the requesting division manager. The required documentation was found in other divisions for 10 of them, and another 4 were evidently sole-sourced as a result of LACERA's membership in the Western States Contracting Alliance (WSCA). For the remaining 3, no bidding documentation or sole sourcing justification could be found. Details were provided to Administrative Services Division management.<br><br>**Recommendation:**<br>The Procurement Unit should periodically promulgate to all other divisions the purchase-cost, bidding requirements and that sole-sourcing requires documented justification by the requesting division manager. The Procurement Unit should include exceptions (such as WSCA purchases) in its written, daily operating procedures. The Procurement Unit should contact FASD and obtain a definitive understanding as to the documentation that will be forwarded to FASD for retention. The Procurement Unit should update and expand its written, daily operating procedures to conform to the final versions of an updated Purchasing Goods & Services Policy Guidelines and Purchasing & Contract Administration Manual. | **Original Management Response:**<br>The policy guidelines will be reviewed for possible changes by December 30, 2011.<br><br>**Current Status:**<br>Administrative Services Management has drafted an updated LACERA's Purchasing Goods & Services Policy Guidelines and the Purchasing & Contract Administration Manual. Currently this draft is being reviewed by management, and planned for presentation to the Operations Oversight Committee in April 2019. Planned for completion by June 30, 2019. | Administrative Services Division | 12/31/2011 | Pending<br><br>6/30/2019 |

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| Contract Monitoring Program | Administrative Services Division<br><br>6/19/2018 | **Description of Finding:**<br>One area that can be improved is the database management system used to track invoice payments, which is separate from the CMS. The Administrative Services Division uses a Microsoft Access database to monitor the cumulative balances paid to a vendor. These balances are tracked outside of Microsoft Great Plains, LACERA's accounts payables system. Using Microsoft Access creates additional work, because Administrative Services staff must re-enter information from the invoices into an Access database after the information was already entered by Financial and Accounting Services Division ("FASD") staff. FASD staff enters invoice information into Microsoft Great Plains in order to pay invoices.<br><br>**Recommendation:**<br>Systems Division to work with Administrative Services to integrate Microsoft Great Plains with CMS where practical to minimize redundant work. | **Original Management Response:**<br>Systems Division agrees with the recommendation and will work with Admin Services to integrate Microsoft Great Plains with CMS where practical to minimize redundant work. The estimated date for implementing this recommendation is October 31, 2018.<br><br>**Current Status:**<br>In order for the data correlation to occur, additional data fields must be added into Great Plains. Administrative Services, FASD, and Systems will work together to implement such data points going forward. Administrative Services will also explore alternatives that can mitigate the identified risk. In the meantime Administrative Services will continue to track payments related to contracts to prevent over payments or payments to expired contracts. | Administrative Services Division<br><br>Systems Division | 10/31/2018 | Pending<br><br>12/31/2019 |
| Office Renovation Projects | Administrative Services Division<br><br>4/24/2016 | **Description of Finding:**<br>We noted that inconsistent levels of participation in the planning phase of different projects by Systems and the Executive Office. The inconsistent levels of participation could potentially contribute to project planning inefficiencies, cost overruns, and/or scheduling delays.<br><br>**Recommendation:**<br>Admin Services Management should work with the Systems Division and Executive Management to define and coordinate participation expectations and logistics for the planning phase to ensure each project receives a consistent level of discussion, review, and approval. | **Original Management Response:**<br>Administrative Services will facilitate project entrance meetings with all stakeholders including the Steering Committee, Systems, and the division requesting renovation. The process will be documented in the detailed renovation procedures. Implementation Date: December 31, 2016.<br><br>**Current Status:**<br>Completed as of 11/8/2018. | Administrative Services Division | 12/31/2016 | Implemented<br><br>11/8/2018 |
| Office Renovation Projects | Administrative Services Division<br><br>4/24/2016 | **Description of Finding:**<br>We found that Office Renovation written procedures do not address how Admin Services should manage change requests. Currently, Admin Services verbally approves change requests in the renovation meetings and the changes are reflected in the purchase order amounts but staff does not document the reasons for the change or the approval in the master project file. As a result, Admin Services may not readily have support for the approved changes. In addition, the Office Renovation written procedures do not address the use of change requests.<br><br>**Recommendation:**<br>Management should update the Office Renovation written procedures to include the use and approval of change requests. | **Original Management Response:**<br>Comprehensive written procedures are currently under development. Implementation Date: December 31, 2016.<br><br>**Current Status:**<br>Completed as of 11/8/2018. | Administrative Services Division | 12/31/2016 | Implemented<br><br>11/8/2018 |
| Office Renovation Projects | Administrative Services Division<br><br>4/24/2016 | **Description of Finding:**<br>Although Admin Services and Systems Division verbally provided valid business reasons for its vendor selections, we found that the business justification for the selection was not documented in the master project folders, nor addressed in the written Office Renovation procedures. If the business reason is not included in the master project folder, an objective reviewer will not be able to determine why or how the vendor was selected. Additionally, documenting the vendor justification provides accountability and visibility to ensure prudent project management.<br><br>**Recommendation:**<br>Management should update the Office Renovation process and procedures to include documenting the vendor selection (in accordance with LACERA's Procurement Policy) in the master project file. | **Original Management Response:**<br>Vendor selection process in compliance with the Procurement Policy will be documented in the renovation procedures. Implementation Date: December 31, 2016.<br><br>**Current Status:**<br>Completed as of 11/8/2018. | Administrative Services Division | 12/31/2016 | Implemented<br><br>11/8/2018 |

**Benefits Division**

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| Claims - Process Objectives, Risks, Controls, Process Flows, and Procedural Gaps | Benefits Division<br><br>4/12/2012 | **Description of Finding:**<br>Benefit changes to member accounts made by staff (e.g., service credits, OASDI, PIA, member contributions, etc.) during First Payment do not require a secondary review or approval. These changes can significantly impact member benefits. As a best business practice, the duties of authorizing (initiating actions), approving, and processing member benefit transactions into Workspace and IRIS should be assigned in a manner that ensures adequate separation of duties exist. All Benefits staff have access to make these changes in Workspace and IRIS without a secondary electronic approver. First Payment procedures do not require a secondary review. In addition, QA audits only 25% of First Payments. There is a risk that staff may make erroneous or potentially fraudulent changes to member benefits that go undetected, resulting in on-going over or underpayments to the member.<br><br>**Recommendation:**<br>Benefits Management should work with Systems to restrict staff access to change member service credits, OASDI, PIA, contributions, etc. unless they have a specific business need. For staff that need access, Benefits Management should (or request Systems to) implement a secondary review or approval procedure when changes are made. If the above recommendations cannot be immediately implemented, Benefits Management should work with Systems to develop a report that identifies these changes and review the report to ensure each change is legitimate. | **Original Management Response:**<br>Benefits management will review the access list and work with Systems to limit access to those staff with a specific business need. However, implementing a secondary electronic approval for changes made to member service credits, OASDI, PIA, contributions, etc. may cause additional bottlenecks during the Agenda and First Payment process. Therefore, Benefits Management will work with Systems to develop reports that identify changes made between the Agenda and First Payment process. Supervisors will be instructed to review these reports before first payments are issued to ensure that all staff changes are legitimate.<br><br>**Current Status:**<br>Planned for completion by 12/31/2019 | Benefits Division | 12/31/2012 | Pending<br><br>12/31/2019 |
| Previous service to contracts (QC/QA/CP) | Benefits Division<br><br>7/2/2013 | **Description of Finding:**<br>In instances where OPA cases are passed along to other Benefits Division staff (for various reasons), we noted that the Benefits staff person is required to re-create the member's timeline in Workspace even though a timeline was already created by the staff who initially reviewed the member's account, and the member's work history did not change.<br><br>**Recommendation:**<br>When a members account needs to be re-reviewed by staff who did not perform the initial review, Management should evaluate the feasibility of requiring the secondary staff to rely on the initial timeline created. Additionally, Management may want to consider re-designing the process to have designated staff document timelines on the front end of the process before the cases are assigned to staff. Since timelines eventually get reviewed by QC Checkers, there are safeguards in place to help ensure inaccuracies are identified before the cost letters are sent. | **Original Management Response:**<br>Benefits will work with Quality Assurance to identify ways to 'certify' membership timelines and other work product so that they can be relied upon in completing future transactions for the same members.<br><br>**Current Status:**<br>Planned for completion by 06/30/2019. | Benefits Division | 6/30/2014 | Pending<br><br>6/30/2019 |
| Member Minor Survivor Compliance | Benefits Division<br><br>6/29/2016 | **Description of Finding:**<br>We identified three instances where LACERA staff did not obtain one of the required documents prior to paying the minor survivor. Specifically, we noted: Two instances where the minor's account did not have a birth certificate on file. One instance where the minor's account did not have a claim form on file. We also noted that staff did not have desk procedures to determine which documents were required to determine the minor's eligibility.<br><br>**Recommendation:**<br>We recommend that the Benefits Division develop a procedural manual, provide staff additional training, and improve the review and approval process to ensure all required documents for minor survivor payees are valid and on file prior to payments being initiated. | **Original Management Response:**<br>The Benefits Division Process Management Group and the Special Benefits Services Section is currently developing the documented procedures and training material to address the recommendation to provide staff additional training, and improve the review and approval process to ensure all required documents for minor survivor payees are valid and on file. Procedures and training materials will be created and implemented by June 30, 2017, approximately.<br><br>**Current Status:**<br>Planned for completion by 06/30/2019. | Benefits Division | 6/30/2017 | Pending<br><br>6/30/2019 |

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| Duplicate Member Payments | Benefits Division<br><br>1/19/2017 | **Description of Finding:**<br>To enhance the efficiency and effectiveness of the special payment approval process, we recommend that the Benefits Division work with the Systems Division to automate the remaining special payments processes that are currently approved manually. We also recommend that the Benefits and Systems Divisions work with Internal Audit during its development to help ensure that proper internal controls are designed into the automation process and that necessary data points are captured that will assist with post-transaction analytics and reporting.<br><br>**Recommendation:**<br>1. Benefits Division work with the Systems Division to automate the approval of those special payments processes where approvals are currently performed manually. 2. Benefits and Systems Divisions work with Internal Audit during its development to help ensure proper controls are designed into the automation process and that proper data points are captured that will assist with post-transaction analytics and reporting. | **Original Management Response:**<br>Automating the approval process for special payments is feasible; however, special payments are initiated from multiple sources in Workspace. Each source will need to be analyzed and then specifications developed and tailored to each individual source. As such, the approval process would need to be implemented in a phased approach. Internal Audit will be included in the implementation process to ensure proper controls and reporting. There are some significant organizational goals that need to be completed before this modification can be addressed. It is estimated that determining the requirements and the level of effort can begin in the next fiscal year, July, 2017. The results of the requirement gathering will be reported to management by December 31, 2017, so that the project can be prioritized.<br><br>**Current Status:**<br>Planned for completion by 06/30/2020. | Benefits Division | 12/31/2017 | Pending<br><br>6/30/2020 |
| Certificate Processing | Benefits Division<br><br>6/28/2017 | **Description of Finding:**<br>Multiple divisions handle and process certificates such as birth, marriage, or death certificates provided by members. However, we noted that many division practices regarding certificates have been developed locally within each division which has caused some inconsistencies.<br><br>**Recommendation:**<br>LACERA should establish an organization-wide policy over the request, receipt, validation, and use of certificates along with other sources of information to validate member or beneficiary information. | **Original Management Response:**<br>The Benefits Division concurs with the recommendation and has an ongoing project to standardize procedures governing the validation and use of various government-issued documents. This project was initiated by the Process Management Group in collaboration with partners in Member Services, Administrative Services, the Legal Office and Internal Audit. The new Benefits Protection Unit has joined in this effort as well. It is anticipated that this project will be completed by June 30, 2018.<br><br>**Current Status:**<br>Planned for completion by 06/30/2019. | Benefits Division | 6/29/2018 | Pending<br><br>6/30/2019 |
| Certificate Processing | Benefits Division<br><br>6/28/2017 | **Description of Finding:**<br>We tested twelve (12) first retirement payments. Since the member’s retirement benefit and the survivor’s continuance in these Option Retirements uses the named beneficiary’s age as a component of the calculation, LACERA procedures require that staff validate the named beneficiary’s birth certificate. We noted here that, although staff requested birth certificates in each of the twelve cases, they did not obtain the birth certificates in three (3) instances. However, in all three instances, staff processed the retirements anyway and used the beneficiaries’ ages provided by the members over the phone. Based on discussions with staff, these exceptions were a result of a misunderstanding of current procedures and whether or not staff could hold-up the retirement process based on a missing birth certificate as an actual business practice.<br><br>**Recommendation:**<br>Management should review and update the procedures regarding “Retirement Options” and related certificate requirements prior to retirement and ensure that staff are provided with any necessary clarification and/or training. | **Original Management Response:**<br>The Benefits Division concurs with the recommendation and has an ongoing project to standardize procedures governing the validation and use of various government-issued documents. This project was initiated by the Process Management Group in collaboration with partners in Member Services, Administrative Services, the Legal Office and Internal Audit. The new Benefits Protection Unit has joined in this effort as well. Within the scope of this project, existing procedures regarding the use of government-issued documents in the processing of retirement options will be reviewed, updated and disseminated among all appropriate staff. It is anticipated that this project will be completed by June 30, 2018.<br><br>**Current Status:**<br>It is anticipated that this project will be completed by June 30, 2019. | Benefits Division | 6/29/2018 | Pending<br><br>6/30/2019 |

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| Member Death Record Process | Benefits Division<br><br>10/31/2017 | **Description of Finding:**<br>We noted that management did not have a process for ensuring that the Death Verification Contractor (DVC) has strong controls for securing and safeguarding LACERA's member data. Specifically: Management did not request a SOC2 report from the DVC. Internal Audit subsequently reached out to the DVC and found that they had a SOC2 audit performed in April, 2016. In reviewing the SOC2 report, we found that the DVC had recently changed the facility for where their servers are maintained and located, which houses LACERA's member data. However, LACERA management was unaware of the change and had not performed due diligence to ensure that the new facility was secure. Management does not have a process for performing on-going due diligence of the DVC information technology (IT) infrastructure to determine its adequacy.<br><br>**Recommendation:**<br>The Benefits Division should consult the LACERA Compliance Program Team related to the enhanced requirements for managing and monitoring vendors that have custody of LACERA member data. This may include the need to revise contract language, enhance oversight and due diligence procedures, and coordinate a visit to the vendor(s). | **Original Management Response:**<br>The Benefits Division concurs with the recommendation. LACERA's Compliance Program Team and Privacy Officer will develop a system for regularly verifying that LACERA's external partners who take custody of LACERA's confidential information maintain adequate protections over that information. It is anticipated that the control system will be in place by December 31, 2018.<br><br>Additionally, the Benefits Division will work with LACERA's Compliance Team and Privacy Officer to develop a system for monitoring the DVC and other external vendors with whom the Benefits Division contracts with to ensure LACERA's member data is secure. We anticipate completing this by March 31, 2018.<br><br>**Current Status:**<br>The Administrative Services Division will submit a revised Procurement Policy at the April 2019 Operations and Oversight Committee that requires Division Managers or their designee to regularly verify that LACERA's external partners who take custody of LACERA's confidential information maintain adequate protections over that information.<br><br>Administrative Services Division in conjunction with the System Division developed a Contract Management System (CMS) that actively notifies the responsible contracting manager to perform yearly due diligence regarding the collection and review of SOC-2 or equivalent documents as required. Administrate Services has trained all contracting authorities in the use of the new system.<br><br>The Legal Division has requested a new compliance position in the FY 2019-2020 budget. This position will be responsible for updating privacy and data policies as well and implementing new procedures, if any.<br><br>Planned for completion by 12/31/2019. | Benefits Division<br><br>Administrative Services Division<br><br>Systems Division | 12/31/2018 | Pending<br><br>12/31/2019 |

| Financial Accounting Services Division (FASD) | | | | | | |
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| Corporate Credit Card | Financial Accounting Services Division<br><br>2/22/2019 | **Description of Finding:**<br>During our audit, we identified several areas of noncompliance with the LACERA policy. Based on the findings, cardholders should be held accountable and adequately trained to ensure their understanding of acceptable charges. Furthermore, the Disbursements Unit should follow established procedures when reconciling credit card purchases to supporting documentation and elevate noncompliant transactions to management when necessary.<br><br>**Recommendation 1:**<br>FASD management should ensure that cardholders are adequately trained on the policy, and hold cardholders accountable for noncompliance. FASD management should assess the need and frequency of training provided to cardholders, and implement a timeline for training. | **Original Management Response:**<br>Management agrees with the recommendation. The Corporate Credit Card Policy is under review and revision. The policy will require reviews and approvals for all cardholders including Division Managers to enhance cardholder accountability. FASD is working with the LACERA management team to schedule the corporate credit card policy training event. This recommendation is expected to be completed by March 31, 2019. | Financial Accounting Services Division | 3/31/2019 | New |
| Corporate Credit Card | Financial Accounting Services Division<br><br>2/22/2019 | **Description of Finding:**<br>During our audit, we identified several areas of noncompliance with the LACERA policy. Based on the findings, cardholders should be held accountable and adequately trained to ensure their understanding of acceptable charges. Furthermore, the Disbursements Unit should follow established procedures when reconciling credit card purchases to supporting documentation and elevate noncompliant transactions to management when necessary.<br><br>**Recommendation 2:**<br>FASD management should assess the need to obtain missing documentation and/or recover amounts from cardholders for noncompliant transactions that were identified during the audit. | **Original Management Response:**<br>Management agrees with this recommendation and will complete the assessment. This recommendation is expected to be implemented by June 30, 2019. | Financial Accounting Services Division | 6/30/2019 | New |
| Corporate Credit Card | Financial Accounting Services Division<br><br>2/22/2019 | **Description of Finding:**<br>It is a good business practice to routinely review and revise the policy. Process issues are often associated with policies and procedures, accountability, and outdated systems. Consequently, as these areas are enhanced, processes will also change. We identified purchases that the Disbursements Unit should have raised with FASD management during the review process. Specifically, we identified transactions that were not covered in the policy, missing detailed receipts, or missing approvals. To prevent these types of transactions from occurring in the future, it is important that the Disbursements Unit escalate issues to management so that appropriate action can be taken for noncompliance. Ongoing training and communication can minimize the number of issues, enhance the effectiveness of existing processes, and ensure that key information is reinforced.<br><br>**Recommendation 1:**<br>FASD Disbursements Unit escalate issues to management, and management revise policies and procedures as needed for clarification. | **Original Management Response:**<br>Management agrees with the recommendation. Management has instructed staff to elevate exceptions on policy non-compliance. In addition, the cardholder training will reinforce compliance with the policy at the cardholder level and the importance of the supervisory review for identifying and addressing instances of non-compliance. This recommendation is expected to be completed by March 31, 2019. | Financial Accounting Services Division | 3/31/2019 | New |

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| Corporate Credit Card | Financial Accounting Services Division<br><br>2/22/2019 | **Description of Finding:**<br>It is a good business practice to routinely review and revise the policy. Process issues are often associated with policies and procedures, accountability, and outdated systems. Consequently, as these areas are enhanced, processes will also change. We identified purchases that the Disbursements Unit should have raised with FASD management during the review process. Specifically, we identified transactions that were not covered in the policy, missing detailed receipts, or missing approvals. To prevent these types of transactions from occurring in the future, it is important that the Disbursements Unit escalate issues to management so that appropriate action can be taken for noncompliance. Ongoing training and communication can minimize the number of issues, enhance the effectiveness of existing processes, and ensure that key information is reinforced.<br><br>**Recommendation 2:**<br>FASD management train and educate cardholders on new policies and procedural changes with divisions involved. | **Original Management Response:**<br>Management agrees with the recommendation. The Corporate Credit Card Policy will be scheduled for review and update at least every 3 years. Management is in the process of updating the April 2016 version. This recommendation is expected to be completed by March 31, 2019. | Financial Accounting Services Division | 3/31/2019 | New |
| Corporate Credit Card | Financial Accounting Services Division<br><br>2/22/2019 | **Description of Finding:**<br>A good business practice is to make the expense reporting process as straightforward as possible . The easier the process, the less the likelihood that cardholders will make mistakes. During our audit, we noted 281 instances (or 8%) when expense reports were missing receipts or had receipts submitted late. FASD is responsible for reviewing the expense reports, so improvements should be made within Bank of America WORKS to minimize the number of late/ lost receipts and incomplete reports. One suggestion is to add a feature within WORKS to allow receipts to be scanned and uploaded. Since our audit, FASD has contacted Bank of America to implement this recommendation, and the WORKS system now allows for the uploading of receipts. However, this latest feature needs to be documented in the current policy and procedures established.<br><br>**Recommendation:**<br>FASD to assess options to streamline expense reporting in Bank of America WORKS so that cardholders are less likely to lose receipts and submit incomplete reports. Additional features should allow for receipts to be scanned and uploaded, and fields to describe the nature of the charges. | **Original Management Response:**<br>Management agrees with the recommendation. Management will work with Bank of America and LACERA Systems Division to study and evaluate the feasibility of implementing a receipt capture tool. This recommendation is expected to be implemented by June 30, 2019. | Financial Accounting Services Division | 6/30/2019 | New |

| Investments Division | | | | | | |
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| Investment Private Equity Operations | Investments Division<br><br>6/25/2015 | **Description of Finding:**<br>While staff use shared network folders to maintain the information, during our test work we found that, at times, information was maintained in various locations (e.g., hardcopy notes, documents in network files, and spreadsheets). Having a robust centralized database such as a Customer Relationship Management (CRM) system may help facilitate the maintenance and management of private equity information especially as the number of general partner relationships and/or funds grow. Additionally, a CRM system can reduce the risk that institutional knowledge gathered by staff is lost in the case of staff turnover.<br><br>**Recommendation:**<br>Investments Office Management consider implementing a Customer Relationship Management (CRM) System to manage and maintain information related to LACERA's private equity partnerships. This system can potentially be used to manage information for other asset class managers. | **Original Management Response:**<br>Investments Office Management agrees with the recommendation and will work with Systems, other asset classes within the Investments Office, and other divisions within LACERA that need a CRM System tool to be more efficient and productive to identify options. Estimated completion date is Q2 calendar year 2016. In the interim, the private equity team will better organize the shared hard drive files to manage fund data.<br><br>**Current Status:**<br>The team evaluated approximately seventy-five potential KMS solutions, received live demonstrations on over twenty, and accessed a simulated environment as a user of five applications. The team rated the applications on three broad categories: i) features and functions (weighted 60%), ii) training and support (15%), and iii) cost (25%). Based on the team's assessments of the vendors, the Wolter Kluwers T360 rated the highest and would best meet LACERA's needs. CEO and staff will seek approval at the March OOC meeting to advance the vendor selection recommendation for approval at the April BOR meeting. Subsequent to final contract negotiations, staff anticipates a 4-6 month development and onboarding process leading to a late Q3/19 roll out. | Investments Division | 6/30/2016 | Pending<br><br>9/30/2019 |
| Securities Lending | Investments Division<br><br>5/30/2018 | **Description of Finding:**<br>In an April 2017 memorandum to the Board of Investments, management expressed the need to periodically rebid the securities lending program as a good measure. It is good a practice to understand the fee implications of using third-party lending agents and the impact on program cost and performance. During our review, we observed two cases when LACERA incurred additional costs for using GSAL as a third-party lending agent. Even though LACERA incurred additional costs for using GSAL as a third-party lending agent, it would be difficult to quantify or contend that LACERA is better off using a single lender over multiple third-party lenders. LACERA may benefit from un-bundling each SSB service offering and pricing it individually. In doing so, management can understand the costs-benefits its of using third-party agents, and determine the best course of action for LACERA and the program going forward.<br><br>**Recommendation:**<br>Investments Office to assess the fee implications of working with third-party agents for securities lending. | **Original Management Response:**<br>Subject to BOI approval, Staff anticipates issuing an RFP for securities lending services in fiscal year 2018/2019, and that search will include an assessment of all related fees, including for third-party agents.<br><br>**Current Status:**<br>In the annual work plan submitted to the BOI in January, the first item scheduled for June is a launch of a securities lending RFP. As part of that search, we will assess the fee implications of working with third-party agents. Although the RFP will start by 6/30/19, implementation will be completed about 6 months later, when the search concludes. | Investments Division | 6/30/2019 | Pending<br><br>12/31/2019 |

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| Securities Lending | Investments Division<br><br>5/30/2018 | **Description of Finding:**<br>A good practice is to periodically review and amend the SLAA guidelines to reflect the current market environment. Because of recent regulations around Dodd Frank and Basel III, we have seen a steady rise in the amount of non-cash collateral pledged. For fiscal year 2017, we have seen SSB accept 45% cash and 55% non-cash collateral from borrowers. Historically, the ratios have been skewed towards cash collateral. It would be prudent for management to revisit the LACERA-SSB SLAA and evaluate the impact of accepting cash and non-cash securities, because the non-cash collateral can alter the risk-return profile of the program. For example, we noted that 45% of cash collateral generated 60% of LACERA's earnings, and 55% of non-cash collateral generated 40% of LACERA's earnings. Management should be aware of the collateral risks, and ensure that there are adequate protections in the SLAA.<br><br>**Recommendation:**<br>Investments Office to review the SLAA provisions and make necessary adjustments to non-cash collateral. | **Original Management Response:**<br>Investment office agrees that it is good practice to periodically review the SLAA—and amend it when appropriate—to ensure that the SLAA provisions remain consistent with market conditions. We are finalizing our annual report on the securities lending program, and that report will be an "information only" item on the June BOI calendar. As part of that report, we will review the SLAA. If any adjustments are needed for non-cash collateral, we will implement them during the first quarter of fiscal year 2018/2019.<br><br>**Current Status:**<br>The Investments Office has reviewed the non-cash collateral portion of the SLAA, and feels comfortable with the current provisions as of 12/31/2018. | Investments Division | 9/30/2018 | Implemented<br><br>12/31/2018 |
| Wire Transfers Audit | Investments Division<br><br>10/2/2018 | **Description of Finding:**<br>It is good business practice to have proper supporting documentation. Documentation should clearly describe how funds are utilized and authorized. During our audit, we noticed that wire requests were submitted by advisors timely and appropriately. However, the level of detail captured on each request varied from advisor to advisor. In performing our audit work, at times it became difficult to discern when an advisor was making a first time request or a repeat request because of a last minute change to the fund date or fund amount. We also found it difficult to tell if the amount funded falls within the annual operating budget. To ensure that wire requests are adequately documented, LACERA should dictate specific terms, or provided a template for advisors to use when initiating a wire request. In doing so, LACERA can control the type and amount of information shared.<br><br>**Recommendation:**<br>The Investments Office should convey specific instructions or develop a standard template for advisors to use when initiating wire requests. The template should capture the components and level of detail that LACERA needs to make informed decisions on whether to approve or reject incoming requests. | **Original Management Response:**<br>Management agrees with the recommendation. A wire request template will be developed by December 31, 2018.<br><br>**Current Status:**<br>The template for contributions was sent to the managers on December 11, 2018. The managers are now using the new template. | Investments Division | 12/31/2018 | Implemented<br><br>12/11/2018 |
| Wire Transfers Audit | Investments Division<br><br>10/2/2018 | **Description of Finding:**<br>A good business practice includes consistent and reliable procedures to ensure that wire requests are coming from legitimate sources and properly authorized. Although the Investments Office has desk procedures for wire requests, the current procedures could be enhanced with more details. For example, the Investments Office independently verifies new bank accounts to ensure that funds are wired to the correct recipient, but this is not explicitly documented in the operating procedures. In addition, the Investments Office stores original copies of wire files in an offsite location. It may be more practical and cost effective for LACERA to scan and maintain electronic copies of the wire files in-house.<br><br>**Recommendation:**<br>The Investments Office should update operating procedures for documenting, reviewing, and storing payment requests. Investments Office staff have due diligence responsibilities, and should have procedures consistently implemented without exception. | **Original Management Response:**<br>Management will comply with the recommendation. Operating procedures for wire instructions will be updated for documenting, reviewing and storing payment requests. The update will be completed by December 31, 2018.<br><br>**Current Status:**<br>The process for scanning all documentation for wires started December 31, 2018. | Investments Division | 12/31/2018 | Implemented<br><br>12/31/2018 |

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| **Systems Division** | | | | | | |
| Data Backup/ Retention Testing | Systems Division<br><br>2/14/2018 | **Description of Finding:**<br>Recent technology upgrades of desktops computers and server systems rely upon live interface to Cloud Services, operating and email systems. Recovery of these services at a remote processing facility has not been tested in conjunction with recovery of LACERA's core membership system.<br><br>**Recommendation:**<br>Perform a recovery exercise of mission critical operations at a remote location as soon as practical to validate recovery procedures and capture learnings for potential disruptions. | **Original Management Response:**<br>Mission critical membership payroll, accounting and investment data processing functions will be replicated offsite in a disaster recovery scenario during the fourth calendar quarter of 2018.<br><br>**Current Status:**<br>Target date set for 3rd Quarter, 2019. | Systems Division | 12/31/2018 | Pending<br><br>9/30/2019 |
| Member Applications Change Control | Systems Division<br><br>10/30/2018 | **Description of Finding:**<br>We noted one staff person who has programming responsibilities also has administrator rights to the Change Management Control application. This was brought to the attention of management during the audit, and as a result, administrator access rights were removed for this person.<br><br>**Recommendation:**<br>The Systems Division management should develop a system generated Deployment Monitoring Report and use it to monitor all deployments to production. This will ensure that all code deployed into production are approved and appropriate. | **Original Management Response:**<br>We plan to develop a system generated Deployment Monitoring Report that will identify any instances when code is deployed into production. Management plans to complete an analysis and evaluation to determine if feasible based on current project priorities and resources. This evaluation is planned for completion by the end of June 2019, and if feasible will be planned for implementation by the end of December 2019.<br><br>**Current Status:**<br>The recommended action is in progress and on target for a completion date of 12/31/19. We plan to transition to a different deployment tool that includes this reporting feature. | Systems Division | 12/31/2019 | Pending<br><br>12/31/2019 |
| Member Applications Change Control | Systems Division<br><br>10/30/2018 | **Description of Finding:**<br>We identified several non-administrative staff user accounts within the administrator group that is used to access the membership document management application.<br><br>**Recommendation:**<br>Systems Division management should evaluate the administrator group membership and configuration and appropriately eliminate users that do not require administrator privileges to perform their job duties. | **Original Management Response:**<br>We will complete a review of all users and system accounts that are members of the administrator group to ensure access is valid and that the administrator group is appropriate. We will also evaluate the possibility of introducing two levels of system administration, one group for system administrators and applications that interact with the application, and a second group for workflow administrators. This is planned for completion by December 31, 2018.<br><br>**Current Status:**<br>The recommended action is in progress and on target for a completion date of 6/30/19. We have evaluated the administrator group membership and configuration and have recommended changes. The recommended changes will be implemented with the membership document management application upgrade. If the upgrade is not completed by June, 2019, the completion of this recommendation will be delayed. | Systems Division | 12/31/2018 | Pending<br><br>6/30/2019 |
| Member Applications Change Control | Systems Division | **Description of Finding:**<br>A formal policy does not exist to provide guidelines for granting staff administrator access and system management privileges.<br><br>**Recommendation:**<br>The Systems Division management should develop a formal Administrator Access Policy that applies to staff who are granted "Administrator" access on LACERA's systems, and management of privileged group membership. | **Original Management Response:**<br>Systems Division management should develop a formal Administrator Access Policy that applies to staff who are granted "Administrator" access on LACERA's systems, and management of privileged group membership.<br><br>**Current Status:**<br>Planned for completion by 06/30/2019. | Systems Division | 6/30/2019 | Pending<br><br>6/30/2019 |

**Documents not attached are exempt from disclosure under the California Public Records Act and other legal authority.**

**For further information, contact:**
**LACERA**
**Attention: Public Records Act Requests**
**300 N. Lake Ave., Suite 620**
**Pasadena, CA 91101**

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