

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

BOARD OF RETIREMENT
2223 WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701

AUDIT COMMITTEE MEETING

July 6, 2017
11:00 a.m.

AGENDA

This agenda contains a brief general description of each item to be considered. Except as otherwise provided by law, no action shall be taken on any item not appearing in the following agenda.

A. HOTLINE UPDATE

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file.

B. AUDIT COMMITTEE INQUIRY ON ADMINISTRATIVE TIME IN INTERNAL AUDIT

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file.

C. STATUS OF INTERNAL AUDITS AND AUDIT PROJECTS

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file.

***** END OF INDIVIDUAL ITEMS AGENDA *****

CLOSED SESSION ITEM

D. **THREAT TO PUBLIC SERVICES OR FACILITIES
(GOVERNMENT CODE SECTION 54957)**

*Consultation with Brenda Shott, Asst. CEO; Jenny Sadoski, Director of Information Technology;
Jon Gossard, Security Operations Manager; and Gina M. Ratto, Chief Legal Officer*

Recommendation: Receive and file.

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

PUBLIC COMMENTS: The public, plan members, beneficiaries, and/or representatives may speak to any subject matter contained in the agenda *either* at the time the item is addressed *or* at this time, provided that no action may be taken on any item not appearing on this agenda unless authorized by law. Persons who want to address items on the agenda should provide written notice to the Secretary of the Committee prior to the Committee's discussion on the item by filling out the Public Comment Form located in the back of the room. When addressing the Committee, please state your name for the record prior to providing your comments. Speakers will be limited to three minutes.

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

REGULAR BOARD MEETING

July 17, 2017

9:00 a.m.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

2223 E. WELLINGTON AVENUE, SUITE 100

SANTA ANA, CA 92701

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

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

A

Memorandum

DATE: June 29, 2017
TO: Members of the Audit Committee
FROM: David James, CPA, Director of Internal Audit
SUBJECT: **HOTLINE UPDATE**

Recommendation

Receive and file.

Background/Discussion

As required by OCERS' hotline policy, the Audit Committee should be regularly updated when new reports are made to the hotline. Internal Audit has received three reports from the hotline in 2017: one involves incorrect benefit payments, one is a complaint about the OCERS' smoking bench, and one is an allegation of disability fraud.

On April 11, 2017, the hotline received a report regarding an incorrect benefit payment made to a beneficiary. As communicated previously to the Board in January and February 2017, numerous customer service issue phone calls were fielded by OCERS' Member Services when the County of Orange switched healthcare plan administrators to Secova beginning in 2017. This hotline call reflects one type of customer service issue in which incorrect retiree medical premiums were deducted from the member's benefit checks in February and March 2017.

The County had previously received feedback from OCERS in order for the County to strategize on solutions and needs to address these customer service issues with Secova. As reported to the Board in May 2017, Member Services has noticed a decrease in call volume from members in regards to Secova related customer service issues.

Internal Audit contacted the beneficiary at his request and Secova. Internal Audit determined that Secova had made corrections to the County's transmittal file, and the beneficiary's bank account was credited for the proper amount in the OCERS' June payroll.

A hotline call regarding OCERS' recently installed smoking bench/area was referred to OCERS' management for resolution. A hotline call regarding disability fraud was received on June 29, 2017, and is being investigated.

Submitted by:

ORANGE COUNTY
OCERS D.J. - Approved
EMPLOYEES RETIREMENT SYSTEM

David James, CPA
Director of Internal Audit

B

Memorandum

DATE: June 29, 2017
TO: Members of the Audit Committee
FROM: David James, CPA, Director of Internal Audit
SUBJECT: **AUDIT COMMITTEE INQUIRY ON ADMINISTRATIVE TIME IN INTERNAL AUDIT**

Recommendation

Receive and file.

Background/Discussion

At the March 29, 2017 Audit Committee meeting, the Committee enquired regarding the amount of time Internal Audit spent on administration versus internal audit functions. We inquired of several systems and received the following responses. Most of these were based on estimates of time by the chief audit executives.

System	Time on Administration
OCERS	29%
ACERA	17%
SDCERS	30%
NDERS	30%
LAFPP	20%
LACERA	20%
LACERS	20%

OCERS' Internal Audit tracks time spent on audit projects, which is entered into TeamMate audit software. In the past we have included miscellaneous projects with a relatively small projected number of hours as administration time, which has skewed the hours recorded to administration higher. Going forward, if these hours cannot be assigned to a specific project, we will assign them to a category of miscellaneous projects.

Submitted by:

ORANGE COUNTY
OCERS D.J. - Approved
EMPLOYEES RETIREMENT SYSTEM

David James, CPA
Director of Internal Audit

C

Memorandum

DATE: June 29, 2017
TO: Members of the Audit Committee
FROM: David James, CPA, Director of Internal Audit
SUBJECT: STATUS OF INTERNAL AUDIT AND AUDIT PROJECTS

Recommendation

Receive and file.

Background/Discussion

Following is a brief description of current internal audits and audit projects:

- Due to actions by OCERS' Board and staff regarding Orange County Sherriff's Department POST mandatory training benefits, we are delaying the planned payroll transmittal audit of this department until 2018. We added an audit of OCERS' expense reports in its place. These actions were approved by the Chair of the Audit Committee.
- The V3 data conversion audit report has been finalized. At the request of management, and with the approval of the Audit Committee Chair, the report will be presented at the Audit Committee meeting in August 2017.
- A draft report of the reciprocity claims audit will be given to OCERS' management for their responses to the findings. We plan to present this report at the next Audit Committee meeting in August 2017.
- The annual Risk and Controls Matrices review of OCERS' key internal controls with management is in progress. This will be presented at the Audit Committee meeting in August 2017.
- The Investments rebalancing review is in the planning stage.

A new category for small miscellaneous projects was added to the Audit Plan. This category will primarily be for newly assigned projects that are anticipated to use few hours. We moved 50 hours budgeted for General Administration to this new category.

Submitted by:

ORANGE COUNTY
OCERS D.J. - Approved
EMPLOYEES RETIREMENT SYSTEM

David James, CPA
Director of Internal Audit

**Orange County Employees Retirement System
Internal Audit Division
2017 Internal Audit Plan**

Audit Activity	Description	Priority (A, B, or C)	Planned Hours - Original Budget	Actual Hours as of 6/30/17	Hours Estimated to Complete	Comments
Internal Audits						
Plan Sponsor Review	Report and presentation of plan sponsors' financial status.	A	50	45	0	Completed in February.
CIO Position Review	Review responsibilities of CIO Position.	A	200	189	0	Completed in February.
San Juan Capistrano Payroll Transmittal	Review payroll transmittals and employee data.	B	50	48	0	Completed in March.
Finance Investments Transfers Review	Role of Investments' staff in assessing and approving investments fundings, balancings, transactions, valuations.	A	300	301	0	Completed in May.
NYSCRF Fraud Review	Review NYSCRF fraud and OCERS related policies	A	50	54	0	Completed in May.
V3 Data Conversion Audit	Review data used in system conversion from PensionGold to V3.	A	50	56	0	Completed in June.
Reciprocity Claims Audit	Review reciprocity claims for accuracy and completeness, and adequate supporting documentation.	A	250	290	-40	Draft report completed.
Expense Report Audit	Audit of selected OCERS' expense reports.	B	250	46	204	In fieldwork stage.
Investments Rebalancing Review	Review rebalancing processes.	A	300	0	300	In planning stage.
OCFA Payroll Transmittal	Review payroll transmittals and employee data.	B	300	0	300	Scheduled to begin in October.
	Internal Audits Subtotal		1,800	1,029		

**Orange County Employees Retirement System
Internal Audit Division
2017 Internal Audit Plan**

Audit Activity	Description	Priority (A, B, or C)	Planned Hours - Original Budget	Actual Hours as of 6/30/17	Hours Estimated to Complete	Comments
Non-Audit Projects						
Actuarial Audit	RFP - Audit of Segal's 2015 valuation.	A	60	43	17	In progress.
Miscellaneous Investigations	Use of hotline reporting system.	B	50	12	38	Three investigations for 2017.
Risk and Control Matrix	Review and update Risk and Control Matrix.	A	50	17	33	In progress.
Risk Assessment and Audit Plan	Annual preparation of the Audit Plan, updates to the current Audit Plan.	A	50	37	13	Completed in January.
Miscellaneous Projects	For small hours unplanned projects or assignments by the Audit Committee.	C	50	15	35	Category added in May. Moved hours from General Admin.
	Non-Audit Projects Subtotal		260	124		
Administration						
Board and Committee Meetings	Board meetings, Audit Committee, Investment Committee, Governance Committee.	A	300	147	153	Includes preparation time for meetings.
General Administration	Attending staff and other meetings, administrative duties.	B	1,200	483	717	Includes various ad hoc projects.
	Administration Subtotal		1,500	630		
	Total Hours		3,560	1,783		

Orange County Employees Retirement System
Internal Audit Division
2017 Internal Audit Plan

Audit Activity	Description	Priority (A, B, or C)	Planned Hours - Original Budget	Actual Hours as of 6/30/17	Hours Estimated to Complete	Comments
Other						
Miscellaneous Leave	Holidays, Sick Leave, Time off, etc.		432	86	346	
Training / Conferences	Required to maintain CPA certification. SACRS, APPFA.		168	205	-37	
Total Hours off			600	291		
	Total Hours Available for Two Auditors		4,160	2,074		