

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

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

Members of the Committee

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

Pursuant to Assembly Bill 361, signed into law on September 16, 2021 as urgency legislation; Governor Newsom’s Proclamation of a State of Emergency on March 4, 2020, which Proclamation is still in effect; and Board of Retirement Resolution 2022-03, this meeting will be conducted by video/teleconference only, in compliance with Government Code section 54953 as amended by Assembly Bill 361. None of the locations from which the Committee members will participate will be open to the public.

Members of the public who wish to observe and/or participate in the meeting may do so via the Zoom app or via telephone. Members of the public who wish to provide comment during the meeting may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing * 9 on your telephone keypad.

OCERS Zoom Video/Teleconference information	
<p>Join Using Zoom App (Video & Audio)</p> <p>https://ocers.zoom.us/j/83058987877</p> <p>Meeting ID: 830 5898 7877 Password: 782096</p> <p>Go to https://www.zoom.us/download to download Zoom app before meeting Go to https://zoom.us to connect online using any browser.</p>	<p>Join by Telephone (Audio Only)</p> <p>Dial by your location</p> <ul style="list-style-type: none"> +1 669 900 6833 US (San Jose) +1 253 215 8782 US (Tacoma) +1 346 248 7799 US (Houston) +1 929 436 2866 US (New York) +1 301 715 8592 US (Germantown) +1 312 626 6799 US (Chicago) <p>Meeting ID: 830 5898 7877 Password: 782096</p>
<p>A Zoom Meeting Participant Guide is available on OCERS website Board & Committee meetings page</p>	

AGENDA

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

CALL MEETING TO ORDER AND ROLL CALL

PUBLIC COMMENT

At this time, members of the public may comment on (1) matters not included on the agenda, provided that the matter is within the subject matter jurisdiction of the Committee; and (2) any matter appearing on the Consent Agenda. Members of the public who wish to provide comment at this time may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing * 9 on your telephone keypad. When addressing the Committee, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

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

CONSENT AGENDA

C-1 APPROVE AUDIT COMMITTEE MEETING MINUTES

Audit Committee Meeting Minutes

January 27, 2022

C-2 REQUEST FOR PROPOSAL – ACTUARIAL AUDITOR

Recommendation: Staff requests the Audit Committee approve the distribution of a Request for Proposal to initiate a search for the actuarial auditor.

ACTION ITEMS

NOTE: Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Committee’s discussion of the item. **Members of the public who wish to provide comment in connection with any matter listed in this agenda may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing *9, at the time the item is called.**

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

A-2 2020 FEE REPORT AUDIT

Presentation by Mark Adviento, Internal Auditor

Recommendation: Receive and file

A-3 THE COUNTY OF ORANGE SOCIAL SERVICES AGENCY EMPLOYER AUDIT

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file

A-4 CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q1 2022)

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file

A-5 ETHICS COMPLIANCE AND FRAUD HOTLINE UPDATE

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file

INFORMATION ITEM

I-1 2021 FINANCIAL STATEMENT AUDIT – ENTRANCE CONFERENCE

Presentation by Kory Hoggan and Aaron Hamilton, Moss Adams

WRITTEN REPORTS

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

R-1 OPERATIONAL RISK MANAGEMENT ANNUAL REPORT

Written Report

R-2 MANAGEMENT ACTION PLAN VERIFICATION REPORT

Written Report

R-3 STATUS UPDATE OF 2022 AUDIT PLAN

Written Report

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS

COUNSEL COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

DISABILITY COMMITTEE MEETING

April 18, 2022

8:30 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

2223 E. WELLINGTON AVENUE, SUITE 100

SANTA ANA, CA 92701

REGULAR BOARD MEETING

April 18, 2022

9:30 A.M.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

**2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701**

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

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

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

**AUDIT COMMITTEE MEETING
January 27, 2022
9:30 a.m.**

MINUTES

OPEN SESSION

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

Recording Secretary administered the Roll Call attendance.

Attendance was as follows:

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

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

Also Present via Zoom:

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

PUBLIC COMMENT

None.

C-1 APPROVE AUDIT COMMITTEE MEETING MINUTES

Audit Committee Meeting Minutes

December 15, 2021

MOTION by Mr. Packard, **seconded** by Mr. Oates, to approve the Minutes.

The motion passed **unanimously** with Ms. Freidenrich being absent.

A-2 AUDIT OF AUTOMATED CLEARING HOUSE (ACH) PAYMENT AND WIRE TRANSACTION PROCESS

Presentation by Mark Adviento, Internal Auditor

Recommendation: Receive and file.

Audit Committee Meeting
January 27, 2022

After Committee discussion, **MOTION** by Mr. Packard, **SECONDED** by Mr. Oates to adopt staff's recommendation.

The motion passed **unanimously** with Ms. Freidenrich being absent.

Ms. Freidenrich joined the meeting at 9:42 a.m.

A-3 CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q4 2021)

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file.

After Committee discussion, **MOTION** by Mr. Oates, **SECONDED** by Mr. Packard to adopt staff's recommendation.

The motion passed **unanimously**.

A-4 CONSIDERATION OF 2022 RISK ASSESSMENT AND 2022 AUDIT PLAN

Presentation by David Kim, Director of Internal Audit

Recommendation: Receive and file

After Committee discussion, **MOTION** by Mr. Packard, **SECONDED** by Mr. Oates to adopt staff's recommendation.

The motion passed **unanimously**.

The committee recessed to Closed Session at

E-1 THREAT TO PUBLIC SERVICES OR FACILITIES (GOVERNMENT CODE SECTION 54957)

Adjourn into Closed Session pursuant to Government Code section 54957 to consult with Steve Delaney, CEO, Brenda Shott, Asst. CEO; Suzanne Jenike, Assistant CEO, External Operations; Matthew Eakin, Director of Information Security; Jenny Sadoski, Director of Information Technology; Jon Gossard, Information Security Manager; and Gina M. Ratto, General Counsel.

Recommendation: Take appropriate action.

The Audit Committee took no reportable action.

COMMITTEE MEMBER COMMENTS

None

STAFF COMMENTS

Mr. Kim shared an article from NASRA Newsclips.

Audit Committee Meeting
January 27, 2022

CHIEF EXECUTIVE OFFICER

Mr. Delaney commented on Chair Eley's assistance to OCERS staff.

COUNSEL COMMENTS

None

ADJOURNMENT

The Chair adjourned the meeting at 11:41 a.m.

Submitted by:

Approved by:

Steve Delaney
Secretary to the Board

Frank Eley
Chair



Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: D. Kim, Director of Internal Audit
SUBJECT: REQUEST FOR PROPOSAL – ACTUARIAL AUDITOR

Recommendation

Staff requests the Audit Committee approve the distribution of a Request for Proposal (RFP) to initiate a search for the actuarial auditor.

Background/Discussion

The Audit Committee Charter states that the Audit Committee’s key areas of responsibility includes the oversight of the External Auditors, including conducting the solicitation for the actuarial auditor, approving the RFPs or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment. In addition, the Board of Retirement Charter and the Procurement and Contracting Policy (Policy) calls for the Board to approve, upon the recommendation of the Audit Committee, the appointment of Named Service Providers. Actuarial auditor is designated as a “Named Service Provider” in the Policy. The Actuarial Valuation Policy calls for an audit of the annual valuation by an external third-party actuary to be conducted every three to five years.

Attached is an RFP inviting proposals from actuarial firms familiar with public employee retirement systems to perform an audit of OCERS’ current consulting actuary, The Segal Company (Segal). Segal has acted as OCERS consulting actuary since 2004. The most recent actuarial audit was completed in 2018 by Cheiron.

The audit will determine the accuracy of the December 31, 2021 valuation performed by Segal. The audit will also assess the actuarial assumptions and funding methodologies used, including a comparison to industry standards. The purpose of the audit is to provide an opinion regarding the reasonableness and accuracy of the actuarial assumptions, actuarial cost methods, valuation results, and contribution rates.

The audit will be a full replication parallel valuation audit, including a full re-run of the December 31, 2021 actuarial valuation and a review of detailed output on certain select test lives from the valuation group. The audit will also compare OCERS’ assumptions to industry norms as well as review the structure and application of the assumptions based upon the test lives in place of a parallel experience analysis.

The full replication parallel valuation should allow the auditing firm to determine whether:

1. The current valuation system used by Segal is accurately applying the assumptions as stated and is accurately valuing the appropriate benefits;
2. The current valuation system used by Segal is properly allocating the present value of benefits between normal cost and actuarial accrued liability; and
3. The current valuation system used by Segal is adding together liabilities appropriately for each decrement, for each member, and over the entire population so that there is reasonable assurance that no segment of the population is being ignored and no particular liabilities are being omitted.

The proposed Schedule of Events is:

Deliverable	Date	Time
Release of RFP	April 4, 2022	
<i>Intent to Respond Deadline</i> RFP Questions Deadline	April 18, 2022	5:00 P.M. PDT
RFP Answers Posted	April 25, 2022	5:00 P.M. PDT
RFP Submission Deadline	May 9, 2022	5:00 P.M. PDT
OCERS Review of RFP Submissions	May 10 to May 18, 2022	
Selection of Finalists	May 19, 2022	
Interviews of Finalists with Audit Committee	June 2, 2022	
Finalist Presentation to Board for Selection	June 20, 2022	
Estimated Contract Start Date	July 1, 2022	

In accordance with the Policy, Staff proposes to review and evaluate all timely proposals that meet the minimum qualifications set forth in the RFP based on the following evaluation criteria:

1. Experience and reputation of the respondent.
2. Quality of the team proposed to provide services to OCERS, including staffing depth, experience, turnover, and compensation.
3. Pricing and value.
4. The organization, completeness, and quality of the proposal.
5. Information provided by references.
6. Other factors OCERS determines to be relevant.

Based on staff's evaluation of the proposals, staff will recommend at least two finalists to the Audit Committee. The finalists will make presentations to the Audit Committee. We then ask the Audit Committee to recommend to the Board the finalist to be awarded the contract.

Submitted by:

DK - Approved

David Kim
Director of Internal Audit

Actuarial Auditor Services

Request for Proposal

April 2022

Orange County Employees Retirement System (OCERS)

2223 E Wellington Avenue Suite 100

Santa Ana, CA 92701 USA

1-(714)-558-6200

<http://www.ocers.org>

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Section 1: Introduction

The Orange County Employees Retirement System ("OCERS") is requesting proposals from qualified firms interested in providing Actuarial Auditing services.

Those who wish to be considered must submit their completed proposal by **5:00 p.m., PDT, May 9, 2000**. Specific instructions for proposal submissions are contained in Section 7 of this RFP.

Questions about this RFP must be submitted in writing by **5:00 p.m., PDT, April 18, 2022** to Jim Doezie, Contracts, Risk & Performance Administrator, by email at jdoezie@ocers.org.

Intent to Respond

If your firm chooses to respond to this RFP, please submit the "Intent to Respond," attached as Exhibit "A", via email to Jim Doezie, by 5:00 p.m., PDT, April 18, 2022. Failure to submit your Intent to Respond may disqualify your firm from submitting a response to this RFP.

Section 2: Background

OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, disability, death, and cost-of-living benefits. There are approximately 47,000 members served by OCERS, of which over 19,000 are retirees. OCERS is governed by a nine-member Board of Retirement ("Board") which has plenary authority and fiduciary responsibility for investment of moneys and administration of the retirement system. OCERS has over ninety employees and the Board appoints a Chief Executive Officer who is responsible for the management of the agency. For additional information about OCERS, please refer to the OCERS website at ocers.org.

Section 3: Scope of Services

The detailed scope of services for this engagement is outlined in the attached Exhibit "B" ("Scope of Services"). The primary objectives are to provide OCERS with: Actuarial Auditing services

The firm selected for this engagement will be expected to meet requirements that include, but are not limited to, the following:

1. The firm must have all necessary permits and licenses to perform the requested services and must be bonded where applicable.
2. Minimum insurance coverage must include the following items, and proof of such insurance must be provided to OCERS prior to the commencement of work, on an annual basis, and upon request:
 - Commercial General Liability: \$2M per occurrence, \$2M aggregate
 - Automobile Liability: \$1M per occurrence, \$2M aggregate
 - Workers Compensation: \$1M per occurrence, \$1M aggregate
 - Umbrella Liability: \$5M per occurrence, \$5M aggregate
 - *Professional Liability*: \$2M per occurrence, \$3M aggregate
 - *Cyber Security Insurance*: \$2M per occurrence, \$5M aggregate
 - *Fidelity Insurance*: \$5M per occurrence

OCERS must be listed as an additional insured on the above policies.

3. The firm shall provide all personnel, equipment, tools, materials, vehicles, supervision, and other items and services necessary to perform all services, tasks, and functions as requested in this RFP.
4. The initial term of the contract awarded pursuant to this RFP will be for a one-time period, with OCERS retaining the option to renew the contract.
5. All work under the contract awarded shall be performed and all equipment furnished or installed in accordance with applicable safety codes, ordinances, and other regulations, including the regulations of the State of California, Division of Industrial Safety and the provisions of the California Labor Code, the Occupational Safety and Health Act of 1970, the California Occupational Health and Safety Act.
6. Minimum Qualifications
All respondents are required to sign and return the "Minimum Qualifications Certification," attached as Exhibit "C."

Section 4: General Conditions

All terms, conditions, requirements, and procedures included in this RFP must be met for a proposal to be qualified. A proposal that fails to meet any material term, condition, requirement, or procedure of this RFP may be disqualified. OCERS reserves the right to waive or permit cure of non-material errors or omissions. OCERS reserves the right to modify, amend, or cancel the terms of this RFP at any time.

OCERS may modify this RFP prior to the date fixed for submission of a proposal by posting, mailing, emailing or faxing an addendum to the respondents known to be interested in submitting a proposal. Failure of a respondent to receive or acknowledge receipt of any addendum shall not relieve the respondent of the responsibility for complying with the terms thereof.

A respondent's proposal shall constitute an irrevocable offer for the 120 days following the deadline for submission of proposals. Reference to a certain number of days in this RFP shall mean business days unless otherwise specified.

All proposals submitted in response to this RFP will become the exclusive property of OCERS. Proposals will not be returned to respondents.

By submitting a proposal, the respondent acknowledges that it has read this RFP, understands it, and agrees to be bound by its requirements unless clearly and specifically noted in the proposal submitted.

Section 5: Point of Contact

A quiet period will be in effect from the date of issuance of this RFP until announcement of the selection of a firm or firms under this RFP. During the quiet period, respondents are not permitted to communicate with any OCERS staff member or Board Member regarding this RFP except through the Point of Contact named herein. Respondents violating this quiet period may be disqualified at OCERS' discretion. Respondents having current business with OCERS must limit their communications to the subject of such business.

OCERS' normal business hours of operations are from 08:00 to 17:00 Monday through Friday, except for federal and state holidays.

The Point of Contact for all matters relating to this RFP is:

Name:	Jim Doezie
Title:	Contracts, Risk & Performance Administrator
Address:	OCERS 2223 E Wellington Ave., Suite 100 Santa Ana, CA 92701
Telephone:	(714) 569-4884
Email:	jdoezie@ocers.org
OCERS Website:	www.OCERS.org
Status:	See the OCERS website for status of the RFP and announcements. These items can also be found here: http://www.ocers.org/rfp/requestforproposal.htm

Section 6: Response to Request for Proposal

Proposals must be submitted to the Point of Contact identified in Section 5 and delivered by the due date and time stated below in the RFP Schedule.

OCERS will accept electronic, paper, or both types of submissions. Proposals may be submitted electronically in Microsoft Word or Adobe Acrobat PDF format to the email address noted in Section 5. Submission may also be made by mailing a USB flash drive with the electronic files, or a paper copy to the mailing address noted in Section 5. If paper copies are submitted, two (2) copies must be submitted.

RFP Schedule

The following timetable constitutes a tentative schedule for this RFP process. OCERS reserves the right to modify this schedule at any time.

Deliverable	Date	Time
Release of RFP	April 4, 2022	
<i>Intent to Respond Deadline</i> RFP Questions Deadline	April 18, 2022	5:00 P.M. PDT
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Interviews of Finalists with Audit Committee	June 2, 2022
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Estimated Contract Start Date	July 1, 2022

Section 7: Proposal Requirements

Proposals must include the following information:

1. The "Minimum Qualifications Certification," attached as Exhibit "C."
2. The "Proposal Cover Page and Check List," attached as Exhibit "D."
3. An executive summary that provides the respondent's background, experience, and other qualifications to provide the services included in the Scope of Services.
4. A description of the respondent including:
 - a. Brief history, including year the respondent firm was formed.
 - b. Ownership structure.
 - c. Office locations.
 - d. Organization chart.
 - e. Number of employees.
 - f. Annual revenues.
 - g. Respondent's specialties, strengths, and limitations.
 - h. Describe the accounting systems used and financial reporting methodologies.
5. The names and qualifications of fully trained and qualified staff that will be assigned to OCERS work, including a detailed profile of each person's background and relevant individual experience.
6. At least three (3) references for which the respondent has provided services similar to those included in the Scope of Services. Please include for each reference the individual point of contact, a summary of the work performed, and the length of time the respondent provided each service.
7. Copies of any pertinent licenses required to deliver respondent's product or service (e.g., business license).
8. An explanation of the pricing proposal for the scope of work including pricing of fees and costs, billing practices, and payment terms that would apply. OCERS does not place any limits on the approach to pricing and is open to presentation of more than one pricing alternative for the scope of work, or portions of it. This section of the response should include an explanation as to how the pricing approach(es) will be managed to provide the best value to OCERS. The respondent should represent that the pricing offered to OCERS is, and will remain, equivalent to or better than that provided to other public pension fund or institutional investor clients, or should provide an explanation as to why this representation cannot be provided. All pricing proposals should be "best and final," although OCERS reserves the right to negotiate on pricing.

9. An explanation of all actual or potential conflicts of interest that the respondent may have in contracting with OCERS.
10. A description of all past, pending, or threatened litigation, including malpractice claims, administrative, state ethics, disciplinary proceedings, and other claims against respondent and/or any of the individuals proposed to provide services to OCERS.
11. Any other information that the respondent deems relevant to OCERS' selection process.

Section 8: Evaluation Criteria

Responses will be evaluated based upon the following:

1. Experience and reputation of the respondent.
2. Quality of the team proposed to provide services to OCERS, including staffing depth, experience, turnover, and compensation.
3. Pricing and value.
4. The organization, completeness, and quality of the proposal.
5. Information provided by references.
6. Other factors OCERS determines to be relevant.

The factors will be considered as a whole, without a specific weighting.

OCERS may require one or more interviews with or personal presentations by finalists to be conducted with staff, Board Members, and/or the entire Board of Retirement.

If the information in the proposal is deemed to be insufficient for evaluation, OCERS may request additional information or reject the proposal outright at OCERS' sole discretion. False, incomplete, or unresponsive statements in connection with a proposal may result in rejection of the proposal.

Section 9: Non-Discrimination Requirement

By submitting a proposal, the respondent represents that it and its subsidiaries do not and will not discriminate against any employee or applicant for employment on the basis of race, religion, color, national origin, ethnic group identification, mental disability, physical disability, medical condition, genetic information, marital status, ancestry, sex, gender, sexual orientation, gender identity, gender expression, age, or military and veteran status.

Section 10: Notice Regarding the California Public Records Act and the Brown Act

The information submitted in response to this RFP will be subject to public disclosure pursuant to the California Public Records Act (California Government Code Section 6250, et. seq., the "Act"). The Act provides generally that all records relating to a public agency's business are open to public inspection and copying unless specifically exempted under one of several exemptions set forth in the Act. If a respondent believes any portion of its proposal is exempt from public disclosure or discussion under the Act, the respondent must provide a full explanation and mark such portion "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY," and make it readily separable from the balance of the response. Proposals marked "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY" in their entirety will not be honored, and OCERS will not deny public disclosure of all or any portion of proposals so marked.

By submitting a proposal with material marked "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY," a respondent represents it has a good faith belief that the material is exempt from disclosure under the Act; however, such designations will not necessarily be conclusive, and a respondent may be required to justify in writing why such material should not be disclosed by OCERS under the Act. Fee and pricing proposals are not considered "TRADE SECRET," "CONFIDENTIAL," or "PROPRIETARY".

If OCERS receives a request pursuant to the Act for materials that a respondent has marked "TRADE SECRET," "CONFIDENTIAL," or "PROPRIETARY," and if OCERS agrees that the material requested is not subject to disclosure under the Act, OCERS will either notify the respondent so that it can seek a protective order at its own cost and expense, or OCERS will deny disclosure of those materials. OCERS will not be held liable, however, for inadvertent disclosure of such materials, data, and information or for disclosure of such materials if deemed appropriate in OCERS' sole discretion. OCERS retains the right to disclose all information provided by a respondent.

If OCERS denies public disclosure of any materials designated as "TRADE SECRETS," "CONFIDENTIAL," or "PROPRIETARY", the respondent agrees to reimburse OCERS for, and to indemnify, defend and hold harmless OCERS, its Boards, officers, fiduciaries, employees, and agents from and against:

1. Any and all claims, damages, losses, liabilities, suits, judgments, fines, penalties, costs, and expenses, including, without limitation, attorneys' fees, expenses, and court costs of any nature whatsoever (collectively, "Claims") arising from or relating to OCERS' non-disclosure of any such designated portions of a proposal; and
2. Any and all Claims arising from or relating to OCERS' public disclosure of any such designated portions of a proposal if OCERS determines disclosure is required by law, or if disclosure is ordered by a court of competent jurisdiction.

Section 11: Contract Negotiations

OCERS will propose a contract to the successful respondent, which will contain such terms as OCERS, in its sole discretion, may require. In addition, the selected firm will agree that this RFP and the firm's proposal will be incorporated by reference into any resulting contract.

This RFP is not an offer to contract. Acceptance of a proposal neither commits OCERS to award a contract to any respondent, nor does it limit OCERS' right to negotiate the terms of a contract in OCERS' best interest,

including the addition of terms not mentioned in this RFP. The final contract must, among other terms and conditions required by OCERS, allow OCERS to terminate the contract a) for OCERS' convenience, b) if funds are not appropriated for the services to be provided, or c) for default.

By submitting a proposal without comment on the OCERS Services Agreement, respondent will be deemed to have agreed to each term in the OCERS Services Agreement, and to not seek any modifications to it. If respondent objects to any term in the OCERS Services Agreement or wishes to modify or add terms to the OCERS Services Agreement, the proposal must identify each objection and propose language for each modification and additional term sought. A rationale should be included for each objection, modification, or addition.

Section 12: Reservations by OCERS

In addition to the other provisions of this RFP, OCERS reserves the right to:

1. Cancel or modify this RFP, in whole or in part, at any time.
2. Make such investigation as it deems necessary to determine the respondent's ability to furnish the required services, and the respondent agrees to furnish all such information for this purpose as OCERS may request.
3. Reject the proposal of any respondent who is not currently in a position to perform the contract, or who has previously failed to perform similar contracts properly, or in a timely manner, or for any other reason in OCERS' sole discretion.
4. Waive irregularities, to negotiate in any manner necessary to best serve the public interest, and to make a whole award, multiple awards, a partial award, or no award.
5. Award a contract, if at all, to the firm which will provide the best match to the requirements of the RFP and the service needs of OCERS in OCERS' sole discretion, which may not be the proposal offering the lowest fees.
6. Request additional documentation or information from respondents, which may vary by respondent. OCERS may ask questions of any respondent to seek clarification of a proposal or to ensure the respondent understands the scope of the work or other terms of the RFP.
7. Reject any or all proposals submitted in response to this RFP.
8. Choose to not enter into an agreement with any of the respondents to this RFP or negotiate for the services described in this RFP with a party that did not submit a proposal.
9. Determine the extent, without limitation, to which the services of a successful respondent are or are not actually utilized.
10. Defer selection of a bidder to a time of OCERS' choosing.
11. Consider information about a respondent other than, and in addition to, that submitted by the respondent.

Exhibit A
Intent to Respond

If you choose to submit a proposal in response to this RFP please submit this Intent to Respond to Jim Doezie via email no later than 5:00 p.m., PDT, April 18, 2022. Failure to submit your Intent to Respond may disqualify your firm from submitting a proposal.

OCERS' responses to written requests for clarification or additional information will be provided to all firms that have submitted an Intent to Respond.

Intent to Respond

To: Jim Doezie	From:
Co.: OCERS	Title:
	Co.:
Phone: (714) 569-4884	Phone:
Email: jdoezie@ocers.org	Email:
Re: Intent to Respond	Date:

Our firm intends to submit a response for OCERS' RFP for Actuarial Auditing services.

Please forward inquiries to the following contact:

Name:

Title:

Company:

Mailing Address:

Telephone:

Facsimile:

Email Address:

Exhibit B
Scope of Services

OCERS seeks one qualified actuarial firm to perform the following actuarial services:

- The audit will determine the accuracy of the December 31, 2021 valuation performed by Segal.
- The audit will assess the actuarial assumptions and funding methodologies used, including a comparison to industry standards. The purpose of the audit is to provide an opinion regarding the reasonableness and accuracy of the actuarial assumptions, actuarial cost methods, valuation results, and contribution rates.
- The audit will be a full replication parallel valuation audit, including a full re-run of the December 31, 2021 actuarial valuation and a review of detailed output on certain select test lives from the valuation group.
- The audit will not include a parallel experience analysis. Rather, the audit will focus on comparing OCERS' assumptions to industry norms as well as reviewing the structure and application of the assumptions based upon the test lives.
- The review of actuarial methods should be based on industry standards as well as the auditing firm's experience with similar retirement systems.
- The full replication parallel valuation, complimented by review of test lives, should allow the auditing firm to determine whether:
 1. The current valuation system used by Segal is accurately applying the assumptions as stated and is accurately valuing the appropriate benefits;
 2. The current valuation system used by Segal is properly allocating the present value of benefits between normal cost and actuarial accrued liability; and
 3. The current valuation system used by Segal is adding together liabilities appropriately for each decrement, for each member, and over the entire population so that there is reasonable assurance that no segment of the population is being ignored and no particular liabilities are being omitted.

Exhibit C
MINIMUM QUALIFICATIONS CERTIFICATION

All firms submitting a proposal in response to this RFP are required to sign and return this attachment, along with written evidence of how the respondent meets each qualification. The undersigned hereby certifies that it fulfills the minimum qualifications outlined below, as well as the requirements contained in the RFP.

Minimum Qualifications include:

1. The firm must be a professional actuarial services firm whose primary line of business includes providing actuarial valuation, experience investigations and analysis, actuarial audits, and pension consulting services to public pension plans or similar entities of substantial size;
2. The Primary Actuary performing the work must be a Fellow of the Society of Actuaries and an Enrolled Actuary. Any Supporting Actuary must be either a Fellow of the Society of Actuaries, an Enrolled Actuary or have five years of actuarial pension consulting experience;
3. The Primary Actuary performing the services under the Contract must have a minimum of ten years of experience as an actuary providing pension consulting services experience analysis, valuation assignments and actuarial audit assignments for multi-employer retirement plans. Experience with county retirement systems under the County Employees Retirement Law of 1937 is highly desirable.
4. The firm must have all necessary permits and licenses. Liability as well as errors and omissions insurance must be in full force at the time the proposal is submitted and must be maintained throughout the term of the contract.
5. The firm must provide its own work facilities, equipment, supplies and support staff to perform the required services;
6. All actuaries performing the work must meet the professional qualification standards of the American Academy of Actuaries

The undersigned hereby certifies that they are an individual authorized to bind the Firm contractually, and said signature authorizes verification of this information.

Authorized Signature

Date

Name and Title (please print)

Name of Firm

Exhibit D

PROPOSAL COVER PAGE AND CHECK LIST (TO BE SUBMITTED IN FIRM'S LETTERHEAD)

Respondent Name:

Respondent Address:

By submitting this response, the undersigned hereby affirms and represents that they have reviewed the proposal requirements and have submitted a complete and accurate response to the best of their knowledge. By signing below, I hereby affirm that the respondent has reviewed the entire RFP and intends to comply with all requirements.

Respondent specifically acknowledges the following:

1. Respondent possesses the required technical expertise and has sufficient capacity to provide the services outlined in the RFP.
2. Respondent has no unresolved questions regarding the RFP and believes that there are no ambiguities in the scope of services.
3. The fee schedule submitted in response to the RFP is for the entire scope of services and no extra charges or expenses will be paid by OCERS.
4. Respondent has completely disclosed to OCERS all facts bearing upon any possible interests, direct or indirect, that Respondent believes any member of OCERS, or other officer, agent, or employee of OCERS presently has, or will have, in this contract, or in the performance thereof, or in any portion of the profits thereunder.
5. Materials contained in the proposal and all correspondence and written questions submitted during the RFP process are subject to disclosure pursuant to the California Public Records Act.
6. Respondent is not currently under investigation by any state or federal regulatory agency for any reason.
7. Except as specifically noted in the proposal, respondent agrees to all of the terms and conditions included in OCERS Services Agreement.
8. The signatory is authorized to bind the respondent contractually.



Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: D. Kim, Director of Internal Audit
SUBJECT: **AUDIT REPORT – 2020 FEE REPORT AUDIT**

Recommendation

Receive and file.

Background/Discussion

As per the 2022 Audit Plan, OCERS Internal Audit performed an audit of the 2020 Investment Manager Fee Report (Fee Report) and Investment Division's controls that verify the compilation and review of the Fee Report.

There was one observation identified in the audit regarding the Investment Division's review process over the Fee Report.

The full audit report is attached.

Submitted by:

DK - Approved

David Kim
Director of Internal Audit



2020 Fee Report Audit

Report Date: March 30, 2022

Internal Audit Department

David Kim, Director of Internal Audit

Mark Adviento, Internal Auditor

**OCERS Internal Audit
2020 Fee Report Audit
March 30, 2022**

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Audit Objective and Scope

The objective of this audit was to provide an independent review of the Investment Division's controls that verify the compilation and review of the 2020 Investment Manager Fee Report (Fee Report).

The scope of the audit included the 2020 Fee Report presented at the August 2021 Investment Committee meeting.

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

Conclusion / Executive Summary

Opinion: <i>Satisfactory</i>

Overall, controls are in place to ensure the 2020 Fee Report is complete and properly supported. There was one Important Observation identified during the audit regarding the Investment Division's review process over the Fee Report.

Internal Audit sampled 54 of OCERS 135 investment managers as of year-end 2020. Our sample accounted for 63% of the \$245.7 million in total investment management fees, incentive/performance fees, and other expenses as disclosed in the Fee Report. Internal Audit performed the following testwork:

- Traced investment manager fees and investment market values used to help compile the Fee Report back to supporting source documentation provided by external parties such as OCERS' investment managers, consultants, and custodian bank.
- Traced data found on the Fee Report to the main underlying Excel spreadsheet maintained by the Investment staff to help compile the Fee Report.
- Reviewed the underlying Excel spreadsheet for spreadsheet controls and for clerical errors.
- Reviewed for evidence of the Investment Division's management review over the compilation of the Fee Report and the underlying Excel spreadsheet.

Background

Since 2013, the Investment Division has provided an annual Fee Report to the Investment Committee. The annual report is comprised of two main components. One component summarizes and analyzes fees paid directly and indirectly to OCERS investment managers. The appendix of the report also includes fee data reporting specifically for OCERS alternative investment managers, as required by California Government Code

section 7514.7. Section 7514.7 requires California public pension plans to obtain and annually disclose certain fee and expense data of alternative investment vehicles entered into contract or, if an existing contract, made a new capital commitment to, on or after January 1, 2017. The 2020 Fee Report shows that a total of \$245.7 million in management fees, incentive/performance fees, and other expenses were paid to all OCERS investment managers.

Important Observation

1. **Evidence of management review over the preparation of the Fee Report and the underlying Excel schedule used to help compile the report is not formalized and retained.** Through interviews and testing, Internal Audit was able to confirm a review was performed by senior level staff. The report is prepared by staff and reviewed by senior level staff, before being reviewed by the CIO. However, a documented review process would evidence staff's proper preparation of both the report and of the underlying Excel file, as well evidence the multiple levels of review performed by management. Investment Division has agreed to documenting the review process.

Copies to OCERS:

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

S. Chary
Audit Committee Members

Observation	Action Plan / Responsible Party / Completion Date
<p>Important Observation</p>	
<p>1. Evidence of management review over the preparation of the Fee Report and the underlying Excel schedule used to help compile the report is not formalized and retained.</p> <p>Through interviews and testing, Internal Audit was able to confirm a review was performed by senior level staff. And Management did provide Internal Audit with email chains indicating such a review, but these emails were not archived in the Investment Division's network folder as part of a proper audit trail.</p> <p>The Fee Report requires substantial staff time to prepare. The report is comprised of numerous supporting graphs and tables and is sourced by data provided by several external parties such as investment managers, alternative investment consultants, and OCERS custodian bank. Preparing the report also requires the professional judgement of staff to determine the reasonableness of expense data provided by external parties.</p> <p>The report is prepared by staff and reviewed by senior level staff, before being reviewed by the CIO.</p> <p>A documented review process would evidence staff's proper preparation of both the report and of the underlying Excel file, as well evidence the multiple levels of review performed by management.</p> <p>Risk: A lack of a proper documented audit trail supported by review signoffs could lead to unexplained variances.</p>	<p>Action Plan: We acknowledge and concur with the observation. We believe that documenting the process will strengthen Investment Division's procedures while also providing a strong audit trail.</p> <p>Responsible Party: Shanta Chary, Director of Investments</p> <p>Completion Date: September 30, 2022</p>

Categories of Observations (Control Exceptions):

Priority Observations:

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

Important Observations:

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

Management's Responsibility for Internal Control

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

Internal Control Limitations

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

Audit Report Opinions:

Satisfactory:

No issues or a limited number of “Important Observations” (typically no more than two Important Observations).

Opportunities for Improvement:

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

Inadequate:

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



Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: D. Kim, Director of Internal Audit
SUBJECT: **AUDIT REPORT – THE COUNTY OF ORANGE SOCIAL SERVICES AGENCY EMPLOYER AUDIT**

Recommendation

Receive and file.

Background/Discussion

As per the 2022 Audit Plan, Internal Audit performed an audit of the County of Orange Social Services Agency (SSA) payroll transmittals.

There was one observation (directed to OCERS Member Services Department) identified in this audit regarding a discrepancy in job title for one SSA retiree.

Additionally, the post-survey results were favorable, noting Internal Audit's professionalism and efficiency. The post-survey provides a feedback loop process for Internal Audit to make any necessary improvements.

The full audit report is attached.

Submitted by:

DK - Approved

David Kim
Director of Internal Audit



**The County of Orange - Social Services Agency
Employer Audit**

Report Date: March 30, 2022

Internal Audit Department

David Kim, Director of Internal Audit

Mark Adviento, Internal Auditor

OCERS Internal Audit
The County of Orange – Social Services Agency Employer Audit
March 30, 2022

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Audit Objective and Scope

The objective of this audit was to provide an independent review of the completeness and accuracy of The County of Orange – Social Services Agency (SSA) payroll transmittal data. This includes, but is not limited to the controls both SSA and OCERS management have in place over the payroll transmittals.

The scope of the audit included SSA’s payroll data submitted to OCERS between January 2020 and December 2021 on a sample basis.

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

Conclusion / Executive Summary

Opinion: <i>Satisfactory</i>

Overall, controls are in place to ensure the completeness, accuracy and proper supporting documentation over the SSA payroll transmittal data. While there were no observations noted for the controls at SSA, there was one Important Observation identified to OCERS during the audit regarding a discrepancy in job title for one SSA retiree. The discrepancy did not impact the Final Average Salary (FAS) calculation.

Internal Audit sampled 60 payroll transactions from SSA’s more than 4,300 active members and performed the following:

- Internal Audit reviewed, on a sample basis, SSA’s supporting documentation for the pensionable pay reported in its payroll transmittals to OCERS.
- Verified that base pay reported by SSA through payroll transmittals matched SSA human resource records and publicly available pay schedules for completeness and accuracy.
- For premium pay items, verified the information reported in the transmittals against SSA’s supporting documentation evidencing that the employee was entitled to that premium pay, such as certification pay.
- Recalculated contributions collected from SSA to ensure that contributions were paid according to Segal contribution rates as approved by the OCERS’ Board.
- Noted that SSA has controls in place to ensure its compliance with OCERS’ Board Membership Eligibility Policy.

Background

SSA is an agency within OCERS’ largest employer, the County of Orange. SSA has more than 4,300 employees across four divisions: Assistance Program; Children and Family

Services; Family Self-Sufficiency and Adult Services; and Administrative Services. SSA administers Federal, State, and County social services programs serving the children, adults with disabilities, seniors, and families of Orange County. For the 2019-2020 fiscal year, SSA had an annual budget of \$970M, which represented 14% of the County of Orange’s total budget. SSA’s operation’s budget included \$397M in salaries and benefits.

Important Observation (to OCERS)

1. The job title in the OCERS pension administration system (PAS) records for a Social Services Agency retiree in our sample did not reflect the retiree’s actual job title. The PAS did not apply the correct job title due to an outdated listing of job titles in the system. Member Services use the job titles to reference the appropriate section(s) within the Memorandum of Understanding (MOU) to calculate pensionable vacation and holiday pay includable in the member’s FAS. In this instance, the member’s FAS was not impacted by this error due to similar terms in the MOU sections for both the correct and incorrect job titles.

In response to our observation, OCERS Member Services Employer Payroll management team will perform a reconciliation of all County employee job titles and make the necessary corrections. Member Services will continue to validate job titles as part of the retirement application quality assurance review. Additionally, another reconciliation will be performed when OCERS migrates to a new pension administration system.

Copies to OCERS:

S. Delaney	J. Lamberson
S. Jenike	Audit Committee Members
M. Murphy	
G. Ratto	
B. Shott	

Copies to Employer:

I. Alvarado	T. Thibeault
H. Juarez	H. Thomas
E. Lin	T.White
E. Narciso	
K. Peters	

Observation	Action Plan / Responsible Party / Completion Date
Important Observation (to OCERS)	
<p>1. The job title in the OCERS pension administration system (PAS) records for a Social Services Agency retiree in our sample did not reflect the retiree’s actual job title.</p> <p>In this exception, the member’s FAS was not affected by the error. However, the job title is important for Member Services because it helps identify the appropriate section(s) within the MOU to use for calculating pensionable vacation and holiday pay includable in the member’s FAS.</p> <p>The job title information is provided to OCERS through a six-character job class code included in the electronic payroll transmittals from The County of Orange. The PAS uses the first four digits of the job class code to map to the corresponding job title from a listing of job class codes stored within the PAS. (The remaining two alpha codes represent the bargaining unit.) The mapping of the job class code to the job title in the PAS was not current.</p> <p>To help ensure a correct job title, Member Services performs certain manual controls. This includes searching the member in The County of Orange’s HR system known as CAPS+ (Countywide Accounting and Personnel System) to confirm the job title. If a discrepancy exists between the job title in CAPS+ and the job title in the PAS, Member Services will clarify the job title with The County. Additionally, Member Services will confirm the member’s job title during pre-retirement meetings with the member.</p>	<p>Action Plan: Member Services Employer Payroll (EP) Management Team will perform a one-time audit of the records between OCERS and all employers supported through the County (Not Just SSA). Once complete, updates will be sent to OCERS IT to make the necessary changes.</p> <p>After IT makes the changes to the system, a member of the EP Team will verify that the changes were successfully implemented.</p> <p>Ongoing, accuracy validation of the data at the time a member retires is currently performed and is also part of our updated Quality Assurance Process initiated in 2021.</p> <p>As a result of our updated quality assurance program and the fact that we rarely receive new or changed Bargaining Units and Job Class, Management is recommending we continue to review the quality for these records at the time of retirement. We will perform another global reconciliation at the time we perform a migration from the current pension administration system to our new pension administration system in the coming years.</p> <p>Responsible Party: Jeff Lamberson – OCERS, Director of Member Services</p> <p>Completion Date: December 1, 2022</p>

Observation	Action Plan / Responsible Party / Completion Date
<p>However, a regular reconciliation between updated job codes provided by The County to job titles maintained within the PAS would help keep members' job titles up to date, were these controls to not operate effectively. The last such reconciliation was performed in 2015 in preparation for the PAS go-live date.</p> <p>Updated job codes in the PAS would help streamline processing by reducing the need for Member Services to call The County to clarify discrepancies.</p> <p>Risk: If an incorrect job title is not identified, the member's benefit may not be processed accurately.</p>	

Categories of Observations (Control Exceptions):

Priority Observations:

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

Important Observations:

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

Management's Responsibility for Internal Control

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

Internal Control Limitations

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

Audit Report Opinions:

Satisfactory:

No issues or a limited number of “Important Observations” (typically no more than two Important Observations).

Opportunities for Improvement:

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

Inadequate:

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



Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: D. Kim, Director of Internal Audit
SUBJECT: CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q1 2022)

Recommendation

Receive and file.

Background/Discussion

Internal Audit's 2022 audit plan included a process of auditing Final Average Salary (FAS) calculations. Internal Audit completed a review of FAS calculations for new benefit payments setup during the 1st quarter of 2022. There was one observation directed towards OCERS Member Services management.

Of the 50 FAS calculations reviewed from the 1st quarter, Internal Audit noted two exceptions (4%) that required members' monthly FAS to be revised, leading to a correction of benefit payments.

The full audit report is attached.

Submitted by:

DK – Approved

David Kim
Director of Internal Audit



**Continuous Audit of Final Average Salary
Calculations (Q1 2022)**

Report Date: March 30, 2022

Internal Audit Department

David Kim, Director of Internal Audit

Mark Adviento, Internal Auditor

OCERS Internal Audit
Continuous Audit of Final Average Salary Calculations (Q1 2022)
March 30, 2022

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Audit Objective and Scope

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

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

In this current audit's scope of Q1 2022, Member Services processed a total of 196 new service and disability retirement benefits. Internal Audit reviewed the FAS calculations for 50 of these benefits.

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

Conclusion / Executive Summary

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

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

We noted a 4.0% error rate (two errors) out of the 50 FAS calculations sampled from Q2 2022. The errors resulted in a change of \$35 in the monthly benefit payment for one member and a change of \$2.56 for the other member.

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

Background

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

Internal Audit independently tested 50 (January and February) of the 196 FAS benefit calculations completed in the Q1 January through March 2022 benefit payroll period, and performed the following:

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

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

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

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

Monthly Breakdown of Q1 2022 Quarter Testing				
Month	Benefit Applications	Tested by Internal Audit (IA)	IA Error Count	IA Error Rate
January	59	33	2	6%
February	57	17	0	0%
March	80	0	n/a	n/a

Important Observation

1. **Internal Audit noted a 4.0% error rate (two errors) with the 50 FAS calculations sampled from the 1st quarter of 2022.** The first error occurred due to the erroneous manner in which the reciprocal salary data provided by another pension agency was formatted in Excel. This is a new type of error not found in prior FAS Calculation audits. This error resulted in a change of \$35 in the monthly benefit payment. The second error was due to a previously unknown

PAS software anomaly in which a pay item was incorrectly prorated. This error resulted in a change of \$2.56 in the monthly benefit payment.

In response to the observation, Member Services (M.S.) Management team investigated the first error and engaged CalPERS leadership on the formatting error. Additionally, M.S. Management confirmed other accounts with salary information from CalPERS were formatted and reported correctly. M.S. Management is also training the team to be aware of possible formatting errors from outside agencies using Excel to report data to OCERS.

Regarding the second error, M.S. Management team is working with the PAS software vendor to determine the reason for the error and fix the PAS software to ensure it is following the configuration settings properly. M.S. Management is querying the PAS software to see if this issue has impacted other accounts.

Copies to:

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

J. Lamberson
J. Tallase
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
Important Observation	
<p>1. Internal Audit noted a 4% error rate (two errors) with the 50 FAS calculations sampled from the 1st quarter of 2022.</p> <p>In the first item, a reciprocal agency (CalPERS) provided salary data to OCERS in an Excel format that merged cells erroneously. Because of the merged cells, when Member Services summed this salary data, the summation formula used did not pick up 84 rows of premium pay item data out of a total of 129 rows of data. This resulted in \$17k out of \$24k of premium pay being excluded in the FAS calculation. Member Services was not previously aware of this CalPERS formatting error. This is a new type of error not found in prior FAS Calculation audits. This error resulted in an increase of \$35.43 to a reciprocal monthly benefit payment.</p> <p>For the second item, the error occurred when the PAS software automatically pro-rated a pensionable pay item that was not configured to be prorated by the PAS software. This is a PAS software error. This error resulted in an increase of less than \$3 to the monthly benefit payment.</p> <p>The details of the two errors are noted in the FAS Calculation Summary table below.</p>	<p>Management Action Plan: Member Services (M.S.) Management team investigated the first error reported by Internal Audit for this quarter, and we determined that the original data came to OCERS from CalPERS in an Excel spreadsheet that contained improper formatting for the salary records. M.S. management has engaged the leadership team at CalPERS for the department that prepares this information to inform them of the formatting error. We have also reviewed additional member accounts for which we had received salary information from CalPERS to determine if any other accounts had a similar issue. All of the other accounts we reviewed contained spreadsheets that contained merged fields similar to this account, but they were formatted properly and correctly reported final average salary. We are also training our staff to be aware of the possibility of formatting errors from any outside agency using Excel to report data to OCERS.</p> <p>Regarding the second account with an error, M.S. Management team is working with ViTech to determine the reason for the error and fix the PAS software to ensure it is following the configuration settings properly. We are also working to query the PAS software to see if there are any other accounts that may have been affected in a similar way to this account.</p> <p>Management Action Plan Responsible Party: Jeff Lamberson, Director of Member Services</p> <p>Completion Date: December 31, 2022</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>Risk: Improperly formatted Excel data from external sources can lead to errors in the monthly benefit paid to OCERS members. A PAS software anomaly can also lead to errors in the monthly benefit paid to OCERS members.</p>	

Internal Audit - FAS Calculation Summary (Q1 2022)

Sample	Nature of FAS Error	Monthly FAS Error	Monthly Benefit Payment Error	Months With Error
1	<p><u>CalPERS spreadsheet error</u></p> <p>A reciprocal agency (CalPERS) provided salary data to OCERS in an Excel format that merged cells erroneously. Because of the merged cells, when Member Services summed this salary data, the Excel summation formula used did not pick up 84 rows of premium pay item data out of a total of 129 rows of data. This resulted in \$17k out of \$24k of premium pay being excluded from the FAS calculation. Member Services was not aware of this CalPERS formatting error.</p> <p>Cells merged erroneously within a spreadsheet can give the false impression to a user that rows or columns of data are captured by a formula inserted by the user. However, identifying and re-formatting merged cells can help avoid this error.</p>	Original monthly FAS of \$6,218.83 understated by \$479.50.	Original monthly benefit of \$459.57 underpaid by \$35.43.	1 month
2	<p><u>Pension Administration System (PAS) software error</u></p> <p>The error occurred when the PAS software automatically pro-rated a pensionable pay item that was not configured to be prorated by the PAS software. This particular premium pay item is paid as a lump sum amount per pay period and should not get prorated when the FAS is calculated, as compared to premium pay items paid hourly and which should be prorated.</p>	Original monthly FAS of \$14,280.06 understated by \$4.15.	Original monthly benefit of \$8,825.93 underpaid by \$2.56.	1 month

Categories of Observations (Control Exceptions):

Priority Observations:

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

Important Observations:

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

Management's Responsibility for Internal Control

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

Internal Control Limitations

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

Audit Report Opinions:

Satisfactory:

No issues or a limited number of “Important Observations” (typically no more than two Important Observations).

Opportunities for Improvement:

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

Inadequate:

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



Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: ETHICS COMPLIANCE AND FRAUD HOTLINE UPDATE

Recommendation

Receive and file.

Background/Discussion

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

Internal Audit received one report from the hotline:

- January 18, 2022 – Member entered a complaint regarding the timeliness of reciprocal information provided to the Los Angeles City Employees’ Retirement System (LACERS). The member claims the retirement processing was not handled in a timely manner. The Director of Member Services spoke with the member to explain the processing timeframes at OCERS which differ from LACERS. While internal OCERS’ deadlines were not missed, the Director of Member Services is using this opportunity and suggestions made by the member to enhance the retirement benefit process.

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

Submitted by:

DK – Approved

David Kim
Director of Internal Audit



Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: Brenda Shott, Assistant CEO, Finance and Internal Operations
SUBJECT: 2021 FINANCIAL STATEMENT AUDIT – ENTRANCE CONFERENCE

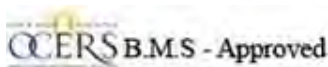
Presentation

Background/Discussion

Moss Adams LLP (Moss Adams) is OCERS independent financial auditors. Moss Adams prepares an audit plan for OCERS Audit Committee as part of the entrance conference for the annual financial statement audit. Attached is Moss Adam’s 2021 Audit Services Plan, prepared by Kory Hoggan, Engagement Partner. The plan includes an overview of the Moss Adam’s engagement service team for the financial statement audit; scope of services; overall summary of audit responsibilities; timeline for deliverables; and highlights of Moss Adam’s audit approach. Mr. Hoggan and Mr. Aaron Hamilton, Audit Senior Manager, will be attending the Audit Committee meeting on March 30, 2022 to present their report.

Attachment

Submitted by:



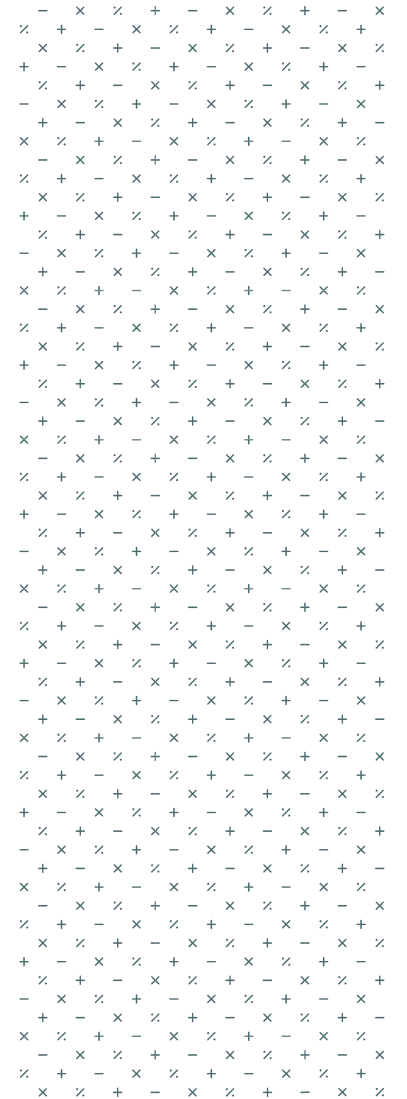
Brenda Shott
Assistant CEO, Finance and Internal Operations



Orange County Employees Retirement System

Audit Entrance Presentation to Audit Committee

March 30, 2022



Your Audit Team



Kory Hoggan, CPA
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Concurring Reviewer



Jason Lu, CPA
Audit Senior Manager



Audit Communications

Entrance Conference – Today

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

Exit Conference – June 2022

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



Audit Reports

We will provide the following audit reports for the year ended December 31, 2021

Report of independent auditors on financial statements

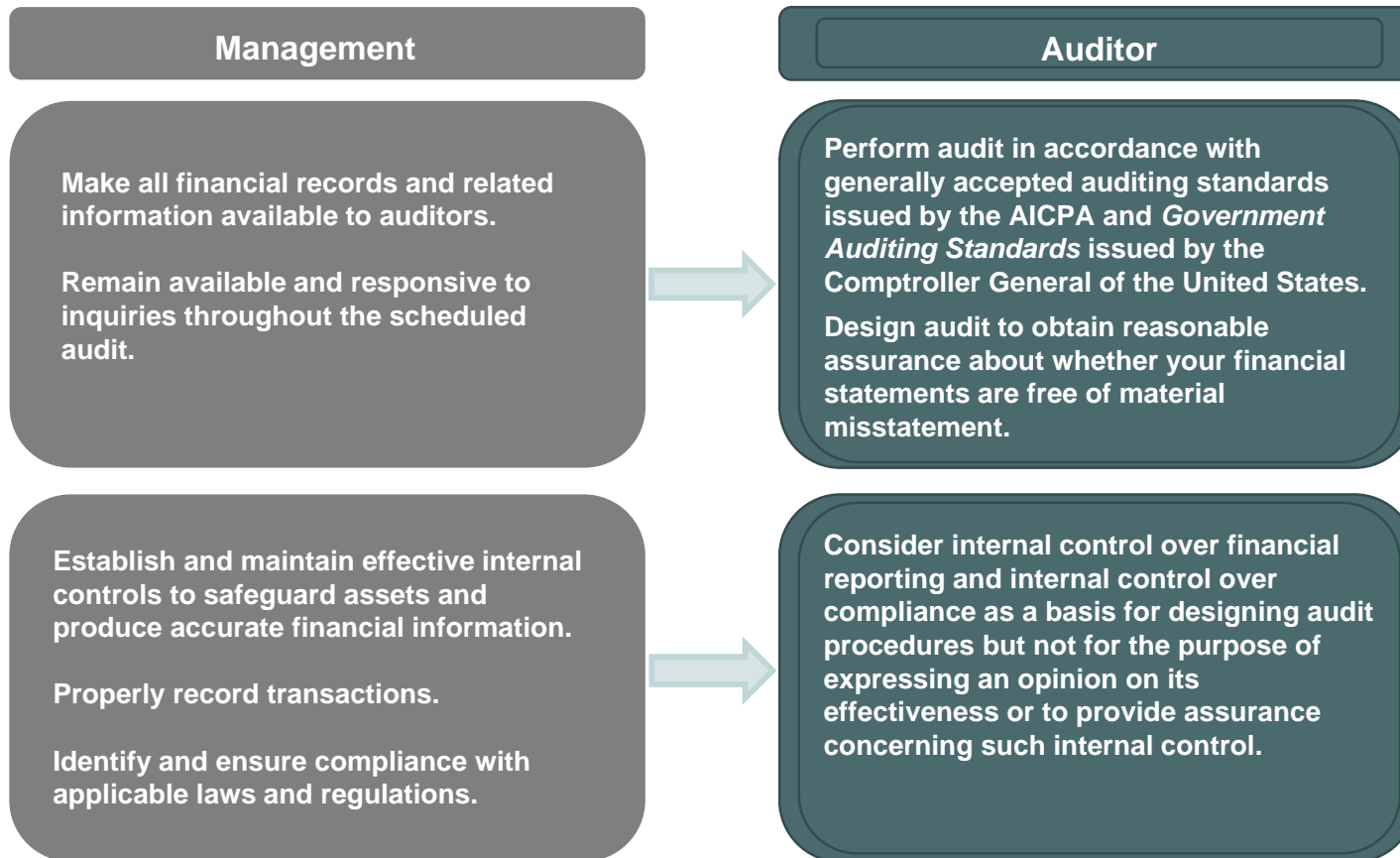
Report of independent auditors on employer allocations and pension amounts by employer

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

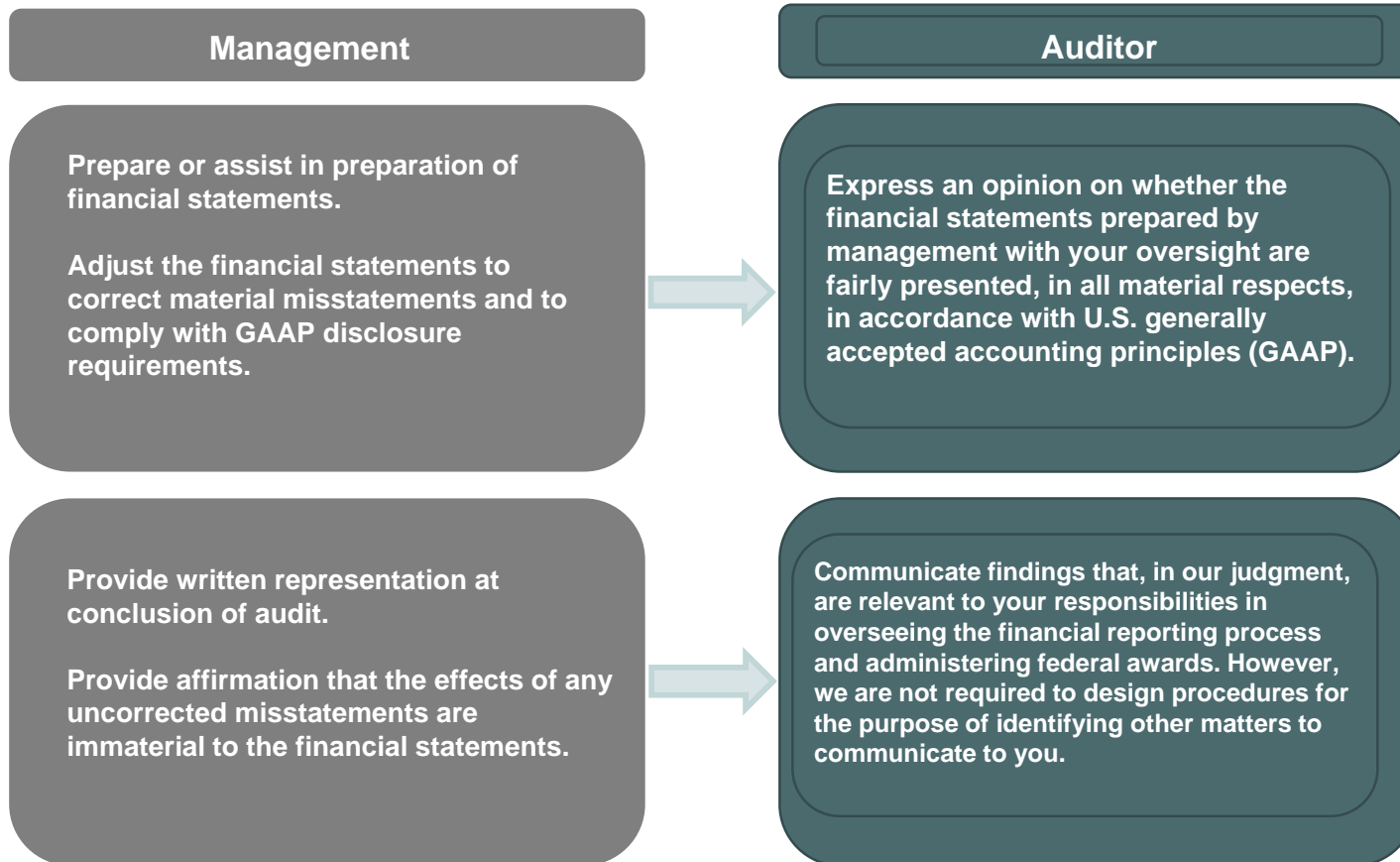
Government Auditing Standards report on internal controls (communicating internal control matters)



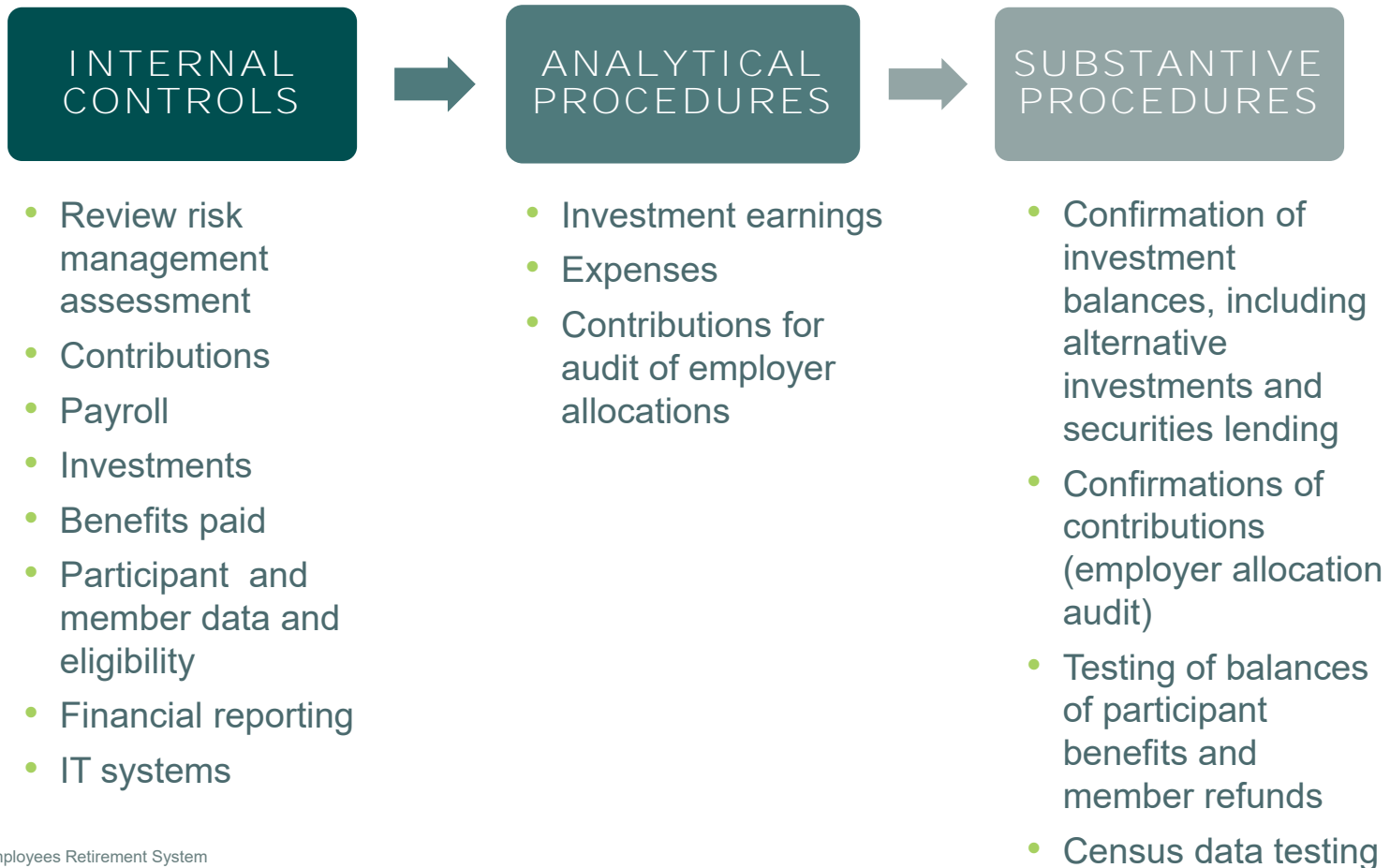
Management & Auditor Responsibilities



Management & Auditor Responsibilities (continued)



Areas of Audit Emphasis



Testing of Investments

Use guidance in AICPA Practice Aid for Alternative Investments Risk Assessment

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

Internal Controls

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

Test of Details

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



Materiality

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



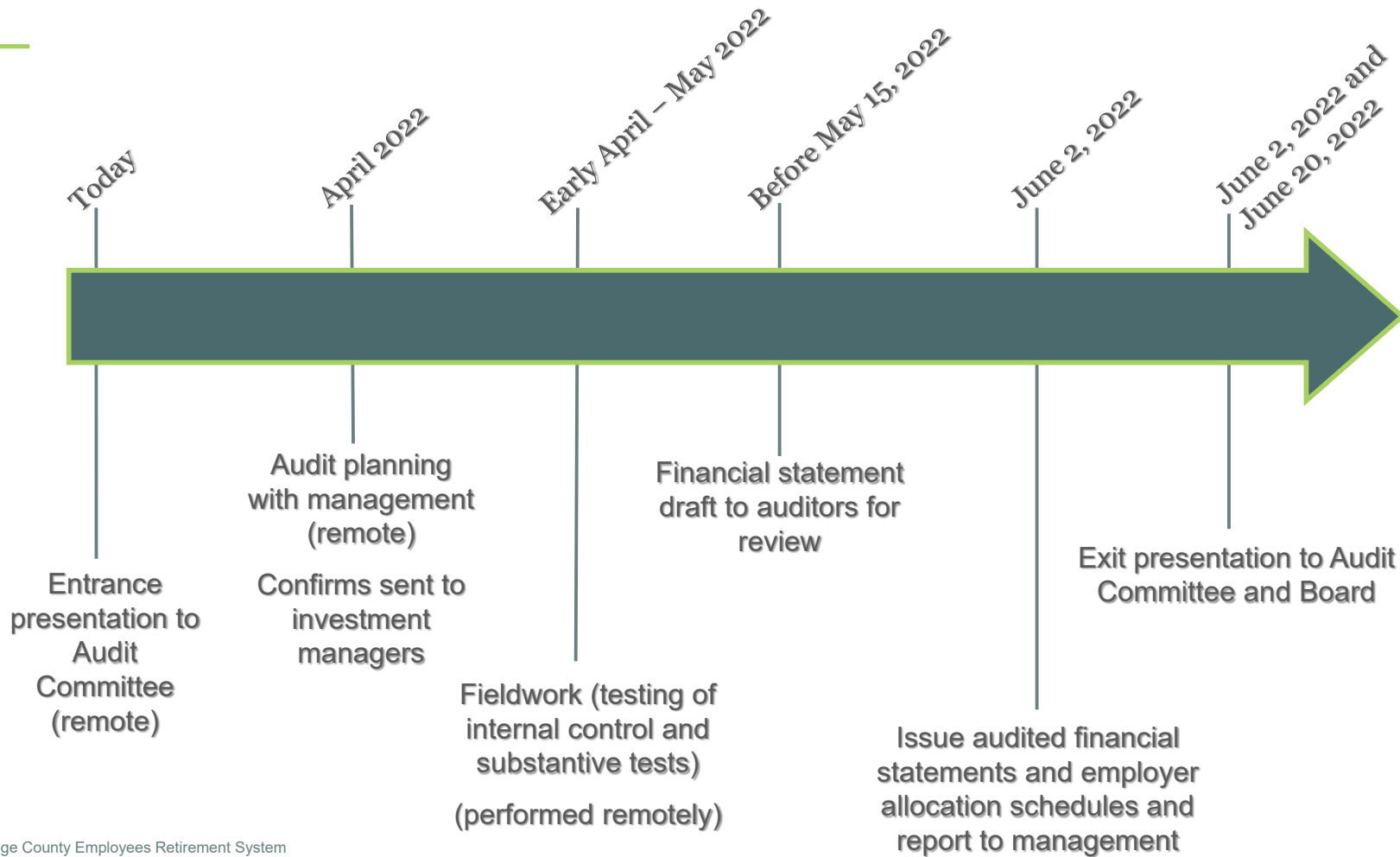
Materiality used to identify :

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

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



Proposed 2021 Audit Timeline





THANK
YOU





Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: Brenda Shott, Assistant CEO, Internal Operations
SUBJECT: **Operational Risk Management Annual Report**

Written Report

Background/Discussion

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

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

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

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

B. **Annual Reporting**

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

C. **Report Summary**

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

1. The Operational Risk Committee Charter was adopted September, 2018
2. An in-house tool was developed to record, track and report the OCERS' Operational Risks



Memorandum

3. All departments have been evaluated for Operational Risks. There is a total of 64 current risks that have been identified and recorded
4. Additional risks were recorded in 2021 related to the remote work status of the OCERS Team Members
5. Department Directors and their teams give each risk identified in their area of responsibility a total of three scores: Initial Score (based on conditions at the time the risk is identified), Current Score (based on current situation after considering existing mitigating factors and operational conditions) and Target Score (based on mitigating factors planned for the future and expected operational conditions). Each score is comprised of two components: Likelihood of risk occurring and the impact the risk would have should it occur. Both the likelihood and impact are given a numeric value between 1 and 5. The two scores are multiplied together to get the risk score for each of three scenarios.
6. The Contracts, Risk and Performance Administrator met with each Department to review the risks identified. During the review meetings, each risk was reviewed to determine if any changes to mitigating factors had occurred, new risks identified were evaluated (if any) and each risk score was reassessed and updated if appropriate.
7. The Operational Risk Committee met quarterly to review the results of the department meetings. The Committee has evaluated all of the risks identified in the program and deemed the scores assigned appropriate.
8. The initial risk score of the entire organization was 9.18 on a scale of 1 to 25
9. After current mitigating factors were considered, the overall Current Risk Score is 5.75 (Low).
10. The overall Target Risk Score is 3.78 (Low)
11. Page three (3) of this report includes a visual representation of the current and prior year scores.

Submitted by:

The logo for OCERS B.M.S. - Approved. It features a sunburst icon above the text "OCERS B.M.S. - Approved" in a blue font.

Brenda Shott
Assistant CEO, Internal Operations



Memorandum

All Departments – Risk Management Scorecard

2021 Scores



2020 Scores



2019 Scores





Staff Committee Charter

Operational Risk Committee Charter

Introduction

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

Definition

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

Duties and Responsibilities

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

Meetings

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



Staff Committee Charter

Operational Risk Committee Charter

Review and Amendment of Charter

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

Charter History

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



OCERS Board Policy Operational Risk Policy

Background

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

Policy Objectives

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

Policy Guidelines

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

Policy Review

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

Policy History

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

Secretary's Certificate

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

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

Steve Delaney
Secretary of the Board

2/19/19

Date



Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: **MANAGEMENT ACTION PLAN VERIFICATION REPORT**

Written Report

Background/Discussion

Under the International Standards for the Professional Practice of Internal Auditing (“Standards”), Internal Audit must establish and maintain a system to monitor the disposition of prior results communicated to management. This includes a follow-up process to monitor and ensure that management action plans have been implemented or that management and the Audit Committee has accepted the risk of not taking action.

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

- Confirming management has implemented an action plan and no further action is required.
- Internal Audit has tested the operational effectiveness MAP.

The following report contains the status of the MAPs that have been reported to the Audit Committee:

- For the MAPs noted as Open, Internal Audit will continue to work with the respective parties until the MAP is closed and verified.
- For the MAPs noted as Closed – No Further Action Required (YTD), Internal Audit has confirmed the MAPs have been implemented and operating effectively during the current year.
- For the MAPs noted as Closed – No Further Action Required (Prior Years), MAPs that have been implemented and confirmed as operating effectively prior to the current year.

Submitted by:

DK - Approved

David Kim
Director of Internal Auditor



Management Action Plan Status Re

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

Process Owner(s): ALL
Total # of Records: 102

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REPORTING FOR: 2018, 2019, 2020, 2021, ARCHIVED	OPEN	Closed - No Further Action Required (YTD)	Closed - No Further Action Required (Prior Years)	Total
Process Owner				
EMPLOYER	0	1	12	13
EXECUTIVE	1	0	5	6
FINANCE	0	1	19	20
INFORMATION TECHNOLOGY	7	1	7	15
INVESTMENTS	0	0	9	9
MEMBER SERVICES	6	3	30	39
Total Count:	14	6	82	102



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Project: 2090 - Vulnerability and Patch Management
Process Owner: Executive
Report Date: 03/22/2021
Total Observations: 1

Observation #1 - Details Removed - Discussed in Closed Session

OPEN

Due Date:
Action Plan: Details Removed - Discussed in Closed Session
IA Follow-Up:

Project: Audit of Orange County Fire Authority (2018)
Process Owner: Information Technology
Report Date: 10/23/2018
Total Observations: 1

Observation #6 - V3 contribution rate configurations SOD

OPEN

Due Date: 06/30/2022
Action Plan: Management agreed to the following recommendation: OCERS' management should re-assign the duties of configuring updated rates in V3 from OCERS' Director of IT to the appropriate personnel for cross-training, process documentation, and backup purposes. The revised process will encompass multiple departments, and will segregate duties related to preparing the rate schedules, data input into V3 and verification/audit of contribution rates.
IA Follow-Up: Internal Audit has spoken with management about this action plan and will verify when duties are transitioned in time for the 2021 annual rate change in V3. ETA end of 2021.

Project: 1901 - Finance Contributions audit
Process Owner: Information Technology
Report Date: 05/16/2019
Total Observations: 1

Observation #1 - A formal periodic review of proper user access to OCERS applications and network is not documented by the appropriate members of the business.

OPEN

Due Date: 03/31/2022



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Action Plan: Per IT Governance and Information Security action items to address Center for Internet Security (CIS) Control 16: Account Monitoring and Control, OCERS IT and the Executive management team are establishing the following:
 1. Develop Account Management and Access Control Policies.
 2. Create an annual User Account review process and supporting documentation.
 3. Setup means for staff to review and enter data in SharePoint with associated workflow to complete and track reviews initiated with IT managed systems.

IA Follow-Up: Access review is underway. Formal policies are currently in working draft as of February 2021.

Project: 1943 2019 BCDR Audit
Process Owner: Information Technology
Report Date: 10/17/2019
Total Observations: 2

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

OPEN

Due Date: 06/30/2022
Action Plan: OCERS IT will formalize and adopt a new Business Continuity and Disaster Recovery test plan that will include test activities, confirmation, and sign-off by the various business units within OCERS.
IA Follow-Up: IT will develop testing templates and scenarios and will coordinate with management to perform testing.

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

OPEN

Due Date: 06/30/2022
Action Plan: End User documents are being developed for the purpose of providing recovery instructions to the crisis management team, in the event IT staff are not available in the event of an emergency. The documents will provide simple easy to follow instructions on how to failover and/or recover sites or systems in the event of a technology failure. These documents will be included in OCERS IT Backup and Recovery test plan stored in Catalyst to ensure procedures are complete and can be followed by non- IT staff
IA Follow-Up: Procedures the steps involved in the recovery process have been drafted, however, an overall backup policy needs to be formally developed.

Project: 1971-IT General Controls
Process Owner: Information Technology
Report Date: 06/04/2020
Total Observations: 2

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

OPEN

Due Date: 06/30/2022



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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

IA Follow-Up: Enhancements have been made to the vendor management system. Processes and Procurement policy needs to be formally updated.

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

OPEN

Due Date: 12/30/2022

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

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

IA Follow-Up: IT to discuss solutions with other vendors.

Project: 2032 - Actuarial Extract Audit

Process Owner: Information Technology

Report Date: 10/13/2020

Total Observations: 1

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

OPEN

Due Date: 06/30/2022

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

IA Follow-Up: IT has developed threshold recommendations and will coordinate with business owners for final approval.

Project: Audit of the Benefit Setup Process (2012)

Process Owner: Member Services

Report Date: 12/04/2012

Total Observations: 1

Observation #1 - Manual FAS override

OPEN

Due Date: 08/31/2022



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Action Plan: Management agreed to the following recommendation: Subsequent changes made to FAS after the initial benefit setup process should require a supervisory approval prior to making an override in the system. Additionally, management should use a system-generated report from V3 that lists all manual overrides to identify all such changes made in the system. Management should review and sign off on each manual override on that report for propriety and accuracy to mitigate the risk of unauthorized or incorrect amounts being entered in the system.

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

Project: **Audit of OCERS' Death Match Process (2016)**
Process Owner: Member Services
Report Date: 06/24/2016
Total Observations: 1

Observation #4 - Death data vendors OPEN

Due Date: 12/30/2022

Action Plan: Management agreed to the following recommendation: OCERS management should consider using only death audit vendors that hire external auditors to review its client data security controls. OCERS should require that death audit vendors provide copies of the audit report and the audit results to OCERS on an annual basis for review. OCERS management should consider using the RFP process to compare the services of death audit vendors and obituary review service vendors. Quality of services, price, and data security controls of vendors should be compared.

IA Follow-Up: Management to discuss the approach for obtaining and reviewing vendor security report on an entity wide approach, with a completion date of 12/31/2021.

Project: **1945- FAS Pay Items Audit**
Process Owner: Member Services
Report Date: 06/04/2020
Total Observations: 1

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

Due Date: 12/30/2022

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

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

IA Follow-Up:



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Project: 2032 - Actuarial Extract Audit
Process Owner: Member Services
Report Date: 10/13/2020
Total Observations: 1

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

OPEN

Due Date: 09/30/2022

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

IA Follow-Up:

Project: 2133 - Dependent Survivor Eligibility Audit
Process Owner: Member Services
Report Date: 10/04/2021
Total Observations: 2

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

OPEN

Due Date: 08/31/2022

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

IA Follow-Up:

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

OPEN

Due Date: 08/31/2022

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

IA Follow-Up:



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Project: Audit of City of San Juan Capistrano Payroll Transmittals (2017)
Process Owner: Employer
Report Date: 03/22/2017
Total Observations: 3

Observation #1 - Manual transmittal file adjustments

CLOSED

Completion Date: 08/11/2020
Action Plan: Management agreed to the following recommendation: San Juan Capistrano will submit manual payroll adjustments into V3 that contain the payroll records required by OCERS for every subsequent pay period until year-end.
IA Follow-Up: IA noted that SJC has submitted manual payroll adjustments into V3 required by OCERS.

Observation #2 - Contribution basis dates

CLOSED

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

Observation #3 - Earnable salary records

CLOSED

Completion Date: 08/11/2020
Action Plan: San Juan Capistrano will submit manual payroll adjustments into V3 that contain earnable salary payroll records required by OCERS during each pay period that the employee is out on leave of absence.
IA Follow-Up: IA noted that SJC has submitted manual payroll adjustments for employees Away On Leave into V3, as required by OCERS.

Project: Audit of Orange County Fire Authority (2018)
Process Owner: Employer
Report Date: 10/23/2018
Total Observations: 4

Observation #1 - Contributions - Vacation Excess Pay

CLOSED



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Completion Date: 04/02/2019

Action Plan: Management agreed to the following recommendation: On a go-forward basis, OCERS should now require that OCFA and its Legacy employees pay employer and employee contributions on the "Vacation Excess" pensionable pay item on a bi-weekly basis. This would also require OCERS to reconfigure the "Vacation Excess" pay item in V3 to expect bi-weekly contributions from OCFA via the bi-weekly payroll transmittal process.
 OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include "Vacation Excess" for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS' management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.

IA Follow-Up: Internal Audit confirmed OCERS management sent a memo to OCFA on the Vacation Excess contributions and that V3 was configured to address the bi-weekly contributions.
 IA confirmed that OCFA and Legacy OCFA employees are paying contributions directly on VE (Vacation Excess) Pay.

Observation #2 - Contributions - On Call Pay

CLOSED

Completion Date: 04/02/2019

Action Plan: Management agreed to the following recommendation: On a go-forward basis, OCERS should now require that OCFA report "On Call" pay to Legacy members as a pensionable pay item in its automated bi-weekly payroll transmittals and that OCFA and its employees pay both employer and Legacy employee contributions on a bi-weekly basis.
 OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include "On Call" pay for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS' management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.

IA Follow-Up: Internal Audit confirmed OCERS management sent a memo to OCFA on the On Call contributions.
 IA confirmed that both OCFA and Legacy OCFA employees are paying contributions directly on (On Call) Pay.

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

CLOSED

Completion Date: 04/02/2019

Action Plan: OCFA agrees that this needs to be corrected, but not by a side letter. Effective pay period 21 (pay date 10/19/18) OCFA management corrected the OCFA payroll interface to the OCERS' V3 system to be consistent with the Firefighter MOU. Per CERL 31581.2 the employer paid pickup of employee contributions are to be considered vested with the employee.

IA Follow-Up: Internal audit verified that OCFA employer paid pickups of employee contributions are properly classified as § 31581.2 pickups on the transmittal files.

Observation #5 - Transition to OCFA Payroll Manager

CLOSED

Completion Date: 04/02/2019

Action Plan: As discussed and agreed to by OCERS Internal Auditor, this is not reflective of an internal control weakness for OCFA. The original intent of having both OCFA and OCERS staff maintain the spreadsheets was to prevent the errors that would occur due to either rounding differences or applying actuarial discounts differently. OCFA staff will take over the maintenance of the spreadsheets from OCERS Director of Technology. OCERS would need to ensure that the OCFA rates reflected in the rate spreadsheets provided by OCFA staff to OCERS are the same rates as those entered into the V3 system. The above transition from OCERS to OCFA took place beginning with Pay Period #14 in 2018.

IA Follow-Up: Internal audit confirmed that maintenance of the spreadsheets has transitioned to OCFA's payroll manager.



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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

Process Owner: Employer
 Report Date: 11/08/2018
 Total Observations: 5

CLOSED

Observation #1 - CRR Pay Certification

Completion Date: 04/03/2019
 Action Plan: Superior Court will implement a process in October 2018 by which Court Reporters receiving CRR pay must provide proof of active certification (such as proof of training transcripts over a three year period) within 90 days or have the CRR pay removed. Record of this will be placed in the employee's electronic personnel file. Additionally, a reminder in the Court's training system will be flagged on these employees to check for certification every 3 years.
 IA Follow-Up: IA confirmed a notification had been distributed noting the requirements for CRR pay and CRR documentation for court reporters has been recorded.

CLOSED

Observation #2 - QRR Pay Certification

Completion Date: 04/03/2019
 Action Plan: Superior Court will implement annually signed attestations beginning October 2018. Employees currently receiving QRR pay will need to complete the annual 45 day attestation within 90 days of the announcement to maintain the QRR pay. If no attestation is received, QRR pay will be removed for that employee. The Court will verify that at least 45 days of realtime court reporting services have been worked by the employee over the course of the last year.
 IA Follow-Up: IA confirmed a notification had been distributed noting the requirements for QRR pay and QRR documentation for court reporters has been recorded

CLOSED

Observation #3 - Superior Court does not monitor independent contractor court reporters who are OCERS' retirees for compliance with CERL and PEPRA 960 hour rule limit.

Completion Date: 04/10/2019
 Action Plan: Superior Court will monitor hours worked for all retired independent contractor court reporters to ensure they do not work more than 960 hours in a fiscal year. A new report has been established through Superior Court's RITS tracking system and will be monitored monthly. Current retired independent contractors who have already worked more than 960 hours in the current fiscal year will not work hours until the next fiscal year.
 IA Follow-Up: IA confirmed Superior Court is monitoring the hourly limit for retired members and the retired members have not exceeded 960 hours.

CLOSED

Observation #4 - Superior Court's HR Department does not have policies and procedures in place to determine if the independent contractor status for its independent contractors complies with IRS rules

Completion Date: 01/05/2022
 Action Plan: Superior Court to review independent contractors working for court reporting services, court language services and court technology to determine if their independent contractor status complies with IRS rules defined for independent contractors.



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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

Observation #5 - Employees On-Leave Status

CLOSED

Completion Date: 04/23/2019

Action Plan: Orange County Superior Court currently uses the CAPS+ system that is administered by Orange County Auditor Controller. The current CAPS+ system has known limitations for employees in an "O" (unpaid leave) status. These employees are not included on the regular transmittal file to OCERS and thus no earnable record is generated. They do appear on the missing member report from OCERS
 Auditor Controller is working on a long-term solution for "O" status employees to still appear on the OCERS transmittal file. There is no current timeline for implementation. However, in the meantime, Superior Court's human resources staff will create updated employment records indicating a "Leave of Absence" in V3 for the above employees. Also, on a go-forward basis Superior Court's human resources staff will perform the same step in V3 for each employee who becomes classified with the above "O" status in CAPS+. This will allow OCERS personnel to more easily identify the reason for gaps in earnable salary records until the point in time when Auditor-Controller can correct the above CAPS+ limitations.

IA Follow-Up: Internal Audit and management agreed that currently existing controls are sufficient to address the risk of missing pay periods. Internal Audit verified in V3 the automated messages that help the retirement specialist identify potential missing pay periods when retiring a member.

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

Process Owner: Employer
Report Date: 06/04/2020
Total Observations: 1

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

CLOSED

Completion Date: 05/21/2020

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

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

Project: 1943 2019 BCDR Audit

Process Owner: Executive
Report Date: 10/17/2019

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Total Observations: 4

Observation #4 - The tabletop exercise did not fully validate the organization's preparedness at an entity or department level in the event of a disaster.

CLOSED

Completion Date: 12/06/2019

Action Plan: We believe the program is ready to enhance future exercises by including more functional testing. As an example, during our July 2019 tabletop, a component of the Finance team was asked to work from home in order to test their connectivity and functionality. In future exercises, we will expand the scenarios to encompass various departments within the organization such that over time, all departments with a recovery plan will have participated in a functional exercise. For upcoming exercises, we will create scenarios which allow us to include departments which have not yet participated in an exercise. We have added an item to the October 2019 Crisis Management Team meeting to discuss timing of the expansion of functional testing efforts as well as the importance of referring to the Crisis Management Plan and Department Recovery Plans during exercises. Our recommendation will be to conduct IT testing as part of our January exercises and deeper functional testing as part of our July exercises.

IA Follow-Up: IA confirmed the Q4 CMT meeting discussed expanding the functional testing with plans to start with IT testing in January.

Observation #5 - Management personnel are not consistently updating the relevant information in the Business Impact Analysis and Department Recovery Plan documents in a timely manner.

CLOSED

Completion Date: 12/13/2019

Action Plan: The CMT Leader, OCERS CEO, will remind the CMT at least two weeks prior to the quarterly Business Continuity meetings to update the appropriate Business Continuity documents to reflect any changes in personnel, technology or vendors since the last meeting. Additionally, the CMT Leader will add as a standing agenda item for the quarterly meetings a reminder that the CMT should update the appropriate Business Continuity documents. The plan owners will update the necessary documents based on the reminder at least on a quarterly basis.

The CMT Leader will also work with Administrative Services to add a workstep in the off-boarding and on-boarding processes for the plan owners to assess the organizational impact of the terminated or new employee to the Business Continuity documentation. Based on the assessment, the plan owner will update the documentation accordingly.

IA Follow-Up: IA was able to confirm:
 - the BCDR CMT Meeting email contained a reminder for the CMT to review/update their documents
 - the agenda did contain an item notifying CMT members to update their documents
 - a workstep was added to the on-boarding and off-boarding checklist

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

CLOSED

Completion Date: 12/13/2019

Action Plan: The Business Continuity Coordinator team is currently working with the County of Orange to formalize an agreement to use County facilities as an alternate workspace location in the event of a localized disaster at OCERS headquarters. The County requested OCERS to complete a questionnaire, which was completed and sent back to the County on August 8, 2019. The most recent conversations with the County occurred on August 21, 2019; we will schedule a follow-up call with County representatives in the very near future. Once the agreement is formalized, all program documentation will be updated to include the alternate workspace site information and an action item to review the alternate workspace location on an annual basis will be created. This action item will serve to ensure that the alternate workspace location is still viable. The BC Coordinator team will continue to refine the alternate workspace options for additional scenarios. In addition, the BC Coordinators will create a schedule detailing space needs over time.

IA Follow-Up: IA confirmed the Alternate Facility plan has been formally approved. Additionally, the BC Coordinator follow-ed up with the County contact. Progress is being made to secure a location for OCERS.



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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CLOSED

Observation #8 - 8. Key members of the Crisis Management Team (CMT) are not consistently taking the assigned electronic resources when traveling from the office.

Completion Date: 12/06/2019

Action Plan: The CMT Leader, OCERS CEO, will remind the CMT at the quarterly Business Continuity meetings of the importance of taking the necessary resources (laptops) when traveling away from the office.

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

Project: 2090 - Vulnerability and Patch Management

Process Owner: Executive

Report Date: 03/22/2021

Total Observations: 1

CLOSED

Observation #2 - Details Removed - Discussed in Closed Session

Completion Date: 05/27/2021

Action Plan: Details Removed - Discussed in Closed Session

IA Follow-Up: Closed

Project: Audit of OCERS' Practices and Procedures for the Recording and Reconciliation the Investments (2013)

Process Owner: Finance

Report Date: 02/18/2013

Total Observations: 6

CLOSED

Observation #1 - Automated journal voucher entries

Completion Date: 05/03/2019

Action Plan: Management agreed to the following recommendation: Finance should consider use of State Street's General Ledger Feed software or consider building a Microsoft Access database. We are in the process of working with State Street to implement an automated process for downloading the trial balances with a goal of completing this by year end. Manual JV preparation will continue until detailed research/analysis is successfully completed with regards to automation of the GL feed with State Street in 2013. Target Completion Date: December 31, 2013.

IA Follow-Up: IA verified that Finance is no longer manually entering State Street trial balance information, but uploading a State Street spreadsheet file into the monthly Investment Journal Entry worksheet.

CLOSED

Observation #2 - Update policy over manager statement reconciliations

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Completion Date: 05/07/2019

Action Plan: Management agreed to the following recommendation: Finance should enforce timely due dates for when quarterly investment manager reconciliations are to be completed; the policy should be updated accordingly. Due date for the quarterly investment reconciliation between investment managers and State Street will be established to reflect 45-60 days after quarter-end. Policy will be updated to include the changes effective January 2013. Finance has prepared both the 1st quarter 2012 and 2nd quarter 2012 reconciliations and are pending review and approval by management. Target Completion Date: March 31, 2013.

IA Follow-Up: IA verified that policy requires a reconciliation after Investment Managers Reports are collected from emailed statements and working trial balances are received from the State Street website. Private investment statements are often not available after the 45-60 day period.

Observation #3 - Update Finance manual for manager statement reconciliations

CLOSED

Completion Date: 05/07/2019

Action Plan: Management agreed to the following recommendation: Management should revise appropriate sections of the policy to reflect the current practice of performing quarterly, not monthly, reconciliations of investment manager statements and State Street trial balances.

IA Follow-Up: IA verified that policy requires a reconciliation after Investment Managers Reports are collected from emailed statements and working trial balances are received from the State Street website. Private investment statements are often not available after the 45-60 day period.

Observation #4 - Finance manager signoff for reconciliations

CLOSED

Completion Date: 05/03/2019

Action Plan: Management agreed to the following recommendation: Finance should revise its policy to require management signoff of the reconciliation of the general ledger to evidence review and approval. Furthermore, Finance should perform these reconciliations on a monthly basis to help ensure that reconciling items are resolved in a timely manner. The Trial Balance Reconciliation process and policy will be revised to include Management signoff requirement. The revised policy will also show that the reconciliation process will be performed on a monthly basis in 2013 and the worksheet will reflect the names of preparer, approver, and approval date. Target Completion Date: March 31, 2013.

IA Follow-Up: IA verified that internal policy now requires a management signoff review of the monthly trial balance reconciliation for investment accounts.

Observation #5 - Manager review of CIO Investment report reconciliation

CLOSED

Completion Date: 05/07/2019

Action Plan: Management agreed to the following recommendation: A supervisor should review and approve reconciliations of the CIO Investment Report. As evidence of review, the supervisor should sign and date the reconciliations, and note any discrepancies found. Finance policies and procedures should be updated accordingly. Current policy will be updated to include management signoff of the reconciliation. The reconciliation worksheet will reflect the names of preparer, approver, and approval date. Target Completion Date: December 31, 2012.

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

Observation #6 - State Street bank - customer services issues

CLOSED

Completion Date: 05/03/2019

Action Plan: We believe management has addressed customer service issues with State Street custodian bank. We recommend that OCERS staff continue to monitor State Street's compliance with the action plan.



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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IA Follow-Up: OCERS staff continues to monitor and address any issues/discrepancies in State Street reporting. This occurs through emails and periodic meetings between OCERS investments and finance staff and State Street staff. Annually, the review of the custodial relationship with State Street is presented to the Investment Committee.

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

Process Owner: Finance
Report Date: 03/21/2016
Total Observations: 3

Observation #1 - Estimated management fees

CLOSED

Completion Date: 04/29/2019
Action Plan: The Investments Division staff will coordinate with Finance to review the management fees for the 40 funds with OCERS' four private equity managers on a sampling or rotation basis. Finance concurs with this recommendation and will compare expected management fees provided by Investments to actual fees disclosed in the private equity managers' quarterly financial statements.
IA Follow-Up: Management modified the approach with approval from the Board to use the annual Investment Fee Report prepared in accordance with the Board's Investment Fee Policy as the method by which OCERS' investment management costs are and will be tracked, reported and managed.

Observation #2 - State Street reporting of manager fees

CLOSED

Completion Date: 05/03/2019
Action Plan: Management agreed to the following recommendation: OCERS' Finance should consult with State Street to ensure that State Street includes the management fees for Abbott Capital and Pantheon in the information for monthly journal entries provided to OCERS, since these fees are disclosed on the managers' quarterly investment statements. OCERS is currently working with State Street on the consistency of their reporting and directing them to capture all non-cash investment management fees in their custodial reports.
IA Follow-Up: IA verified that Finance is reconciling fees noted on the manager statements are being captured in State Street journal entries.

Observation #3 - CAFR fee disclosures

CLOSED

Completion Date: 04/29/2019
Action Plan: Management agreed to the following recommendation: OCERS' financial management should consider stating that the "Schedule of Investment Expenses" disclosure does not include underlying fund management fees and performance fees which are netted with investment returns. Finance will consider adding this disclosure in OCERS' 2015 CAFR as part of an overall review of all investment-related disclosures with its external auditors, Macias Gini & O'Connell LLP, and ensure that any changes in the disclosures are in compliance with GASB.
IA Follow-Up: Disclosure has been added to the CAFR and confirmed by IA.

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

Process Owner: Finance

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Report Date: 11/30/2016
Total Observations: 5

Observation #1 - Finance review of new manager fundings

CLOSED

Completion Date: 04/23/2019

Action Plan: Management agreed to the following recommendation: Before sending a written wire request to State Street to fund a new manager or rebalance the investment portfolio, the Investments Divisions should also obtain approval from authorized initiators within the Finance Division. The Finance Division should review the wire transfer request letter prepared by the Investments Division against the money manager's wire instructions or funding agreement. Management concurs that the Finance Department should review wire transfer request letters prepared by the Investment Department and compare against the investment manager's wire instructions or funding agreement for transactions related to initial funding of investments and portfolio rebalancing transfers.

IA Follow-Up: Internal Audit confirmed Finance is following proposed audit report resolution response as noted via email with appropriate attachments and inclusion of both Finance and Investments in confirmation email.

Observation #2 - Verification call backs on all wire transfer amounts

CLOSED

Completion Date: 05/03/2019

Action Plan: Management agreed to the following recommendation: Finance Division should instruct State Street to telephone OCERS' authorized verifiers to verify wire transfer request letters for amounts under \$100,000. Management concurs that all wires should be verified regardless of amount. State Street has a standard limit where call backs are not completed on wires under \$100,000. OCERS' Client Service Representative at State Street is looking into whether the limit can be removed and call backs placed on all wires.

IA Follow-Up: IA verified that under the new eCFM (State Street's web-based wire transfer system) that transfer amounts under \$100,000 require dual approval.

Observation #3 - Timely review of bank account reconciliations

CLOSED

Completion Date: 05/03/2019

Action Plan: Management agreed to the following recommendation: In addition to the daily reconciliations of online bank activity, the Finance Division should perform monthly bank reconciliations ideally within 30 days after month-end. Management concurs that bank reconciliations should be performed and reviewed on a timely basis.

IA Follow-Up: IA verified that the monthly Wells Fargo bank reconciliation is being performed in a timely manner.

Observation #4 - System limits for wire transfer amount authorizations

CLOSED

Completion Date: 04/23/2019

Action Plan: Management agreed to the following recommendation: Management should consider decreasing the cumulative dollar limit for daily wire transfers within CEO Portal® to appropriate business levels. Current monthly wire transfer activity is approximately \$5.2 million. Management concurs that the cumulative dollar limit for daily wire transfers can be reduced from its current limit of \$20 million to \$6 million.

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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IA Follow-Up: Cumulative daily dollar limit for wire transfers has been reduced from \$20 million to \$6 million, and has been adjusted to \$8 million based on current activity.

Observation #5 - Encryption of payroll file

CLOSED

Completion Date: 05/03/2019

Action Plan: Management agreed to the following recommendation: Management should consider encrypting the ACH file before uploading to Wells Fargo's CEO Portal® in order to add another layer of protection over payees' confidential banking information. Encrypted files intercepted by fraudsters are unreadable.

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

Project: 1943 2019 BCDR Audit

Process Owner: Finance
Report Date: 10/17/2019
Total Observations: 2

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

CLOSED

Completion Date: 12/13/2019

Action Plan: We believe that the current document titled "OCERS Business Continuity Policy" would be more accurately described as a program document. As such, our plan is to retitle the document to be OCERS Business Continuity Program and review it with the CMT making updates as deemed appropriate. The Chief Executive Office will then formally approve the updated document. The updated document will be reviewed every three years for necessary changes. As an extension to this observation, staff will also recommend to the Board of Retirement a change to the CEO Charter the next time the Charter is due for a review. The change will be to specifically delegate to the CEO the duty of implementing, testing and maintaining a Business Continuity Program.

IA Follow-Up: IA confirmed the Business Continuity Program documents has been formally approved by the CMT.

Observation #2 - The Business Continuity Program Standard Operating Procedures document has existed since 2015 but the documentation of the approvals by the Crisis Management Team were not formalized.

CLOSED

Completion Date: 02/26/2020

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

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

Project: 1944 - Finance Benefits Audit

Process Owner: Finance
Report Date: 01/13/2020



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Total Observations: 4

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

CLOSED

Completion Date: 12/09/2019

Action Plan: Build 8.14 will include the replacement of full Social Security Numbers with OCERS ID# (OID) and/or OIP# on the Pre-Disbursement Register Report and Disbursement Schedule.

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

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

CLOSED

Completion Date: 03/14/2022

Action Plan: Management will establish procedures to delete copies of the ACH text files from local hard drives after a copy of the file has been uploaded to Wells Fargo.

Finance will work with IT and Vitech to consider the cost/benefit of changing the ACH file process to directly upload an ACH file once it has been created in V3 and directly downloading the file to a secured network folder in the Finance directory.

IA Follow-Up: IA confirmed with the Finance team the deletion of the ACH file from the local hard drive is now being performed by management. IA reviewed the procedures updated to reflect this practice. Due to COVID, the cost/benefit analysis has been moved to 2021.
 2/3/22 - OCERS IT was able to modify the PM Export file process. The PM Export is now going to be run as a batch export file and will automatically save into a new secured folder location in the Finance folder on the F drive. In addition, access to run the PM Export is restricted to the Finance Accountant Auditor, Senior Accountant Auditor and Supervisor roles
 3/14/22 - IA was able to confirm the PM Export file automatically uploads to a secured folder with limited access. IA also confirmed a documented procedure exists.

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

CLOSED

Completion Date: 10/05/2020

Action Plan: Finance will be creating and updating stand-alone procedures for all of its processes as part of an organization-wide 2020 Business Plan Initiative.

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

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

CLOSED

Completion Date: 12/20/2019

Action Plan: In the instance noted here, processes with material impact to operations and financials were performed during the unforeseen long-term leave of absence of one of the Finance Managers, but in the future, Management will document approval of decisions to postpone processes due to extenuating circumstances noting impact and materiality of postponement.

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

Project: Audit of Orange County Fire Authority (2018)

Process Owner: Information Technology

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Report Date: 10/23/2018
Total Observations: 1

Observation #3 - Contribution Discrepancy Tracking Report

CLOSED

Completion Date: 04/02/2019

Action Plan: In June 2018, OCERS incorporated the necessary changes to the V3 "Contribution Discrepancy Tracking Report" within a system enhancement to V3. The cost to incorporate these changes was approximately \$7,800.

IA Follow-Up:
 1. IA confirmed that modifications to the report were made, tested, and put into production.
 2. IA obtained user testing documentation indicating that the modifications were made, tested, approved and put into production. IT also pulled a recent report with these modifications incorporated.

Project: 1971-IT General Controls

Process Owner: Information Technology

Report Date: 06/04/2020

Total Observations: 2

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

CLOSED

Completion Date: 01/13/2022

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

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

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

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

IA Follow-Up: New financial accounting system implementation was moved to 2021 with move to production in Jan 2022.
 IA confirmed that the Intranet Portal has restricted administrative access.
 IA also confirmed the new financial accounting system has restricted administrative access

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

CLOSED

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Completion Date: 06/12/2020

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

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

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

Project: 2032 - Actuarial Extract Audit

Process Owner: Information Technology

Report Date: 10/13/2020

Total Observations: 5

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

Completion Date: 09/22/2021

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

IA Follow-Up: Member status logic recoding is complete and deployment launched.

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

Completion Date: 03/11/2021

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

IA Follow-Up: Formalized testing process has been documented and reviewed by IA

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

Completion Date: 03/11/2021

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

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



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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

CLOSED

Completion Date: 03/11/2021

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

IA Follow-Up: Data cleanup process has been updated and data validation has occurred.

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

CLOSED

Completion Date: 03/11/2021

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

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

Project: Review of OCERS' Derivatives Investments (2014)

Process Owner: Investments

Report Date: 07/10/2014

Total Observations: 3

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

CLOSED

Completion Date: 09/25/2019

Action Plan: OCERS should either follow the current investment policy and discontinue the practice of using derivatives for speculative purposes, or amend the Investment Policy Statement to follow the current practice.
 Staff has clarified the language on the derivatives within the Investment Policy Statement and the Investment Committee approved the changes at the 6/25/14 meeting.

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

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

CLOSED

Completion Date: 08/10/2020



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Action Plan: Currently, the quarterly Derivatives Report provides information relating to the separately managed accounts. The commingled fund investments do not provide similar level of transparency, therefore the quarterly report does not include commingled funds data. The Investments staff has created a template (undergoing internal review) which could be used as a tool to receive information relating to derivatives directly from the investment managers. Such a disclosure and declaration is outside the norm, so it is difficult to predict how many or if the investment managers will comply. As soon as the template is finalized, staff will send it out to gather responses from the various investment managers. Our current expectation is that OCERS will not be able to impose periodic reporting requirements of our own on certain managers, and that in some if not most cases, we will be compelled to accept data as it can be provided by them on their annual cycles. Efforts will be made to achieve more-frequent reporting, but at this time there can be no assurance that such efforts will be successful.

The Investment Policy Statement, approved at the 6/25/14 Investment Committee meeting, was amended in part to include the following: "The compliance report for separate account managers will be reviewed with the Investment Committee on a quarterly basis. The CIO shall report to the Committee annually on the staff and consultants' surveillance of diversification and risk controls associated with [derivatives]."

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

Observation #3 - Counterparty risk reporting

CLOSED

Completion Date: 05/21/2020

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

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

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

Process Owner: Investments
Report Date: 08/06/2015
Total Observations: 5

Observation #1 - No Due Diligence Policy

CLOSED

Completion Date: 01/07/2021



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Action Plan: Management has agreed to the recommendation: The CIO and his staff should create written procedures that specifically document the steps necessary to conduct adequate due diligence. We concur with the recommendation that written procedures are desirable, and staff is working on the development of a document that would fulfill this objective.
IA Follow-Up: The CIO and Investment Team developed Investment due diligence procedural documents including the Contract Due Diligence Checklist Procedure document and the Contract Due Diligence Checklist document.

Observation #2 - Operational Due Diligence

CLOSED

Completion Date: 02/13/2020
Action Plan: Management has agreed to the recommendation: For non-traditional pension fund managers that have not undergone an operational due diligence review from the OCERS' investment consultants, OCERS should consider the following on a case-by-case basis or at the CIO's discretion. A criteria or threshold (e.g., a dollar amount of an investment) should be set by the CIO to trigger when such a review will occur. Management agrees that a "deeper dive" could be appropriate for certain non-traditional managers, but only if a majority of the Board considers such measures to be necessary, cost-beneficial or justifiable on a risk-vs-cost basis. Cost-sharing strategies and outsourcing-versus-internal capacity should be explored and considered, along with a prioritization protocol.
IA Follow-Up: In discussions with CIO, and review of the September Investment Committee meeting minutes, confirmed OCERS no longer requires the use of a special operational due diligence consultant. The consultant was not used or required when initially contracts.

Observation #3 - Due diligence for RFP managers

CLOSED

Completion Date: 02/13/2020
Action Plan: Management has agreed to the recommendation: For RFP-sourced managers, there should be consistent narrative due diligence reporting provided to the Investment Committee. Investments should consider using a checklist to make sure all documents are included for the Investment Committee to consider. We agree that our written procedures and future practices should include routine reporting of internal due diligence when the RFP channel is deployed for manager selection. The Director of Investment Operations has already included this step in the working draft of written procedures we are formulating and refining.
IA Follow-Up: Due Diligence would apply to all managers, not just under an RFP process. Internal Audit observed due diligence process during Investment Consulting engagement.

Observation #4 - Manager RFP standardized questioning

CLOSED

Completion Date: 01/07/2021
Action Plan: Management has agreed to the recommendation: Future RFP questionnaires should include interrogatories regarding a manager's operational infrastructure and negative findings disclosed from their annual external audit. We agree that future RFPs should include standard (first-stage or second stage) provisions and questions that are relatively uniform regarding due diligence, operations, and related legal, regulatory and compliance risks. The cited incident was an oversight that need not recur. Written procedures and a process to review those routinely will be helpful to assure consistency.
IA Follow-Up: Investments included in the Contract Due Diligence Checklist document and the Compliance Report document steps to validate operational infrastructure of money managers.

Observation #5 - Consultant due diligence documentation

CLOSED

Completion Date: 02/13/2020



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Action Plan: Management has agreed to the recommendation: As part of its due diligence process, OCERS' Investments staff should obtain and review NEPC's Investment Due Diligence Research Report for all managers NEPC recommends to OCERS. We agree that consultant documentation or pertinent summaries of their due diligence should routinely and consistently be included in Committee materials when managers are presented, or subsequently as a validating consent agenda item if their work follows a provisional approval.

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

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

Process Owner: Investments
Report Date: 03/21/2016
Total Observations: 1

Observation #4 - Consideration of ILPA best practices

CLOSED

Completion Date: 01/25/2021

Action Plan: OCERS should implement Institute of Limited Partners Association (ILPA) best practices in LPAs with direct investment private equity funds if OCERS goes into direct private equity program. In considering whether OCERS should adopt a direct private equity program, OCERS' Investments management should consider the cost of implementing the ILPA best practices. OCERS investment staff will first work with our private equity fund of funds managers to monitor their use of ILPA guidelines and best practices, as we further our own internal education about these evolving standards.

IA Follow-Up: Investment Team developed a guide to track and assess the key legal and ILPA-related terms OCERS negotiates through the private markets investment manager contracting processes.

Project: Audit of the Benefit Setup Process (2012)

Process Owner: Member Services
Report Date: 12/04/2012
Total Observations: 5

Observation #3 - Benefit setup checklist

CLOSED

Completion Date: 05/21/2019

Action Plan: A check list that contains all of the required forms and documents necessary for each type of benefit setup will be created and scanned into LibertyNET until we have fully implemented V3. We have configured several workflows in V3 which will act as an electronic check list to ensure that all required documents are not only received but verified and audited by supervisors.

IA Follow-Up: IA has verified the use of a workflow process in V3 in V3 benefit setup audits performed after V3 go-live in December 2014.

Observation #5 - Automation with V3 system

CLOSED

Completion Date: 06/05/2019



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Action Plan: Every attempt is being done to incorporate as many of the manual processes into V3 as possible so the application is automated.

IA Follow-Up: IA has verified the implementation of automated process in V3 that were previously manual within PensionGold. Processes related to reciprocity, service credit purchases, interest postings, domestic relations orders, and initial FAS calculations were tested.

Observation #7 - Update written procedures

CLOSED

Completion Date: 05/21/2019

Action Plan: Member Services has agreed to revise its written procedures to explicitly state the reviewer's practice of signing and dating the spreadsheet template to indicate approval of the FAS calculation. Management recently updated to include this recommendation. However, at the time of the audit it was pending final manager sign off.

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

Observation #8 - Manual FAS supporting documentation

CLOSED

Completion Date: 09/16/2021

Action Plan: Management agreed to the following recommendation: All manual overrides to data should be fully documented with the staff that made the change, date the change was made, prior amount, revised amount, and reason for the change with supervisory approval documented in V3 in accordance with the current method of maintaining supporting documentation for benefits calculation. Member Services personnel are required to document V3 via note for any member file that requires a manual override.

IA Follow-Up: IA to confirmed the FAS Review process contains steps to review the supporting documentation.

Observation #9 - FAS audit trail

CLOSED

Completion Date: 04/27/2020

Action Plan: Management agreed to the following recommendation: We recommend that the new pension administration system (V3) include an audit trail within the system for manual override and other changes made to records. There should be a better audit trail in the new pension administration system to account for changes made in the system instead of relying only on records scanned into LibertyNET or similar imaging software for an explanation.

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

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

Process Owner: Member Services

Report Date: 06/24/2016

Total Observations: 6

Observation #1 - Overpayment to deceased members

CLOSED

Completion Date: 12/21/2021

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Action Plan: The deceased members identified by Internal Audit will be processed immediately according to the specific circumstances of the accounts. Overpayments will be processed according to policy and beneficiaries will be contacted regarding lump sum payment options for refunds. Management will investigate possible options for instituting a multi-step review process to ensure entries are made into V3 or a quarterly/annually comparison of the database with the information from a death match service provider.

IA Follow-Up: Member Services has repaid or wrote off \$421,402 of the \$990,694 of the 24 deferred members. Additionally, Member Services has recovered \$16,008 of the \$20,620 from the four deceased payees.
 Process is in place to review updates from death data vendor.
 Member Services will provide updates to the remaining overpayments bi-annually to Internal Audit, starting June 2022

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

CLOSED

Completion Date: 12/21/2021

Action Plan: The overpayment to the specific member and DRO payee identified by Internal Audit will be dealt with immediately according to current policy. As V3 is currently configured the system will prevent future overpayments from occurring by suspending the benefit once a death date is entered. The items on the overpayment log need to be reconciled with V3 as a post-go live project but it was envisioned that V3 will replace the need for a manual spreadsheet outside of the system. A query or report may be needed during the transition period.

IA Follow-Up: Query has been implemented. Recoupment of overpayment to be reviewed biannually with Internal Audit. The Benefit Recoupment Report has been created, refer to Benefit Recoupment Report 2021.pdf

Observation #3 - Certification letters

CLOSED

Completion Date: 04/07/2021

Action Plan: Management agreed to the following recommendation: OCERS' management should consider sending a certification letter to payees over a selected age to confirm the status of the payee. Management should consider stopping benefit payments if OCERS does not receive a response after a reasonable number of attempts in order to incentivize the payee to return the letter. OCERS' management should also consider the costs/benefits of hiring a third party to perform random physical alive and well checks with payees that meet a given profile. However clear communication will need to be developed as the payees within this demographic may be the hardest to reach. In addition, the implications to payee's medical insurance needs to be considered any time a benefit is suspended.

IA Follow-Up: After Member Services management discussed formulating a formal policy addressing when such certification letters should be sent and to whom after the result of a cost benefit analysis to be performed. Certification letters are sent to all international payees. Member Services relies on the death match file for updates to domestic members.

Observation #5 - Member banking information within V3

CLOSED

Completion Date: 09/23/2021

Action Plan: Management agreed to the following recommendation: To reduce the possibility of fraudulently diverting benefit payments for deceased members, OCERS should implement automated checks and balances within the V3 system to ensure that no one employee can unilaterally change a payee's banking information without supervisory approval. The resulting change to V3 may require an additional change order to reconfigure the V3 system. However, the headline risk to OCERS outweighs the financial cost of making such a change.

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

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

CLOSED

Completion Date: 02/25/2021



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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

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

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

Observation #7 - Debt collection versus debt forgiveness

CLOSED

Completion Date: 04/17/2020

Action Plan: Management agreed to the following recommendation: For overpayments in which Member Services has exhausted internal collection efforts, Member Services should inquire of the CEO and/or Board to forgive or partially forgive overpayments to these deceased payees or possibly make use of a collections agency for additional collection efforts.

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

Project: Audit of V3 Benefit Setup Process (2016)
Process Owner: Member Services
Report Date: 07/21/2016
Total Observations: 2

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

CLOSED

Completion Date: 04/01/2020

Action Plan: Management will follow up with staff regarding the applicability of 2,088 to all retiring members and will review all benefits established in V3 to ensure the appropriate salary was used regardless of status. The part-time member's benefit identified by Internal Audit as being incorrect will be recalculated to reflect the salary associated to 2,088 hours.

IA Follow-Up: IA reviewed the FAS recalculations performed by Member Services.

Observation #2 - V3 workflow process

CLOSED



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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

Project: **Audit of OCERS' Service Credit Purchase Process (2016)**
Process Owner: Member Services
Report Date: 11/26/2016
Total Observations: 2

Observation #1 - Work in Process reporting CLOSED
Completion Date: 04/07/2021
Action Plan: OCERS' management agrees to initiate discussions with Vitech for best cost-benefit solutions to building work-in-process reporting to track the status of buybacks throughout its business processes to provide additional management oversight of staffing and resources; track compliance with business goals; and improve customer service response times to members.
IA Follow-Up: IA has verified that OCERS has implemented a work-in-process tracking database within SharePoint.

Observation #2 - Reconfigure V3 data entry sheet CLOSED
Completion Date: 06/04/2019
Action Plan: Management agreed to investigate the costs versus benefits of reconfiguring V3's SCP datasheet for faster data entry.
IA Follow-Up: IA verified that OCERS has implemented an automated data entry process for SCP calculations.

Project: **Audit of City of San Juan Capistrano Payroll Transmittals (2017)**
Process Owner: Member Services
Report Date: 03/22/2017
Total Observations: 1

Observation #4 - Incorrect age of entry CLOSED
Completion Date: 05/21/2019



Management Action Plan Status Re

Project(s):	ALL	Process Owner(s):	ALL
Mgmt. Status:	ALL	Total # of Records:	102
Plan Year(s):	ALL		

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Action Plan: Member Services will notify the member that there was an error in the contribution basis date used to collect contributions since their date of entry. Member Services will update V3 accordingly and finalize the calculation of contributions due from the member plus interest. OCERS staff will offer the member a payment plan pursuant to our standard process and work with SJC to establish the collection via payroll deductions from the member's biweekly paycheck.

IA Follow-Up: IA verified that the Member Services communicated the age of entry error to the member and that the member repaid undercollected contributions via payroll adjustments.

Project: **Audit of OCERS' Reciprocity Process (2017)**

Process Owner: Member Services

Report Date: 08/02/2017

Total Observations: 3

Observation #1 - Member educational efforts

CLOSED

Completion Date: 05/21/2019

Action Plan: Consideration will be given to the following: OCERS should take additional steps to educate members of the benefits of reciprocity and the importance of timely notifying OCERS of previous public service. OCERS' welcome letters to new members could also include existing pamphlets describing the benefits of reciprocity. Furthermore, OCERS should inquire with the County if it would allow OCERS to present the benefits of reciprocity during the County's lunch time seminars available to County staff. In addition, staff should use the OCERS' At Your Service newsletter, the County Connection magazine, and other sources of communications with members to publicize the need for members to notify OCERS early about their eligibility for reciprocity. Member Services will work with Legal on the following: OCERS should consider recognizing a member's reciprocity only on a go-forward basis from the date of the member's reciprocity request, after confirming eligibility with the reciprocal system.

IA Follow-Up: IA verified that quarterly newsletters to OCERS membership discussed the benefits of establishing reciprocity with other systems as well as the steps necessary to establish reciprocity. IA verified that OCERS has put in place a self-certification process to recognize reciprocity on a go-forward basis pending verification with the reciprocal system.

Observation #2 - Calculation of OCFA reciprocity refunds

CLOSED

Completion Date: 06/05/2019

Action Plan: Management agreed to the following recommendation: Member Services staff should be trained, with the assistance of OCFA payroll personnel, in how OCFA calculates reciprocity refunds so that Member Services can add its own secondary review process over OCFA reciprocity refunds. Management has been in contact with the payroll team at OCFA and we have taken steps to reinstate the review process.

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

Observation #3 - Write off

CLOSED

Completion Date: 06/05/2019

Action Plan: Management agreed to the following recommendation: Member Services should write off the \$36 due to immateriality or attempt to recover the \$36 overpayment from the member.

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



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Project: Audit of Orange County Fire Authority (2018)

Process Owner: Member Services
Report Date: 10/23/2018
Total Observations: 2

CLOSED

Observation #1 - Contributions - Vacation Excess Pay

Completion Date: 04/02/2019

Action Plan: Management agreed to the following recommendation: On a go-forward basis, OCERS should now require that OCFA and its Legacy employees pay employer and employee contributions on the "Vacation Excess" pensionable pay item on a bi-weekly basis. This would also require OCERS to reconfigure the "Vacation Excess" pay item in V3 to expect bi-weekly contributions from OCFA via the bi-weekly payroll transmittal process.
 OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include "Vacation Excess" for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS' management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.

IA Follow-Up: Internal Audit confirmed OCERS management sent a memo to OCFA on the Vacation Excess contributions and that V3 was configured to address the bi-weekly contributions.
 IA confirmed that OCFA and Legacy OCFA employees are paying contributions directly on VE (Vacation Excess) Pay.

CLOSED

Observation #2 - Contributions - On Call Pay

Completion Date: 04/02/2019

Action Plan: Management agreed to the following recommendation: On a go-forward basis, OCERS should now require that OCFA report "On Call" pay to Legacy members as a pensionable pay item in its automated bi-weekly payroll transmittals and that OCFA and its employees pay both employer and Legacy employee contributions on a bi-weekly basis.
 OCERS management agrees that any pensionable pay item should be reported biweekly and subject to employer and employee contributions. This would include "On Call" pay for Legacy members employed at OCFA. OCERS is in the process of reviewing the pay of all Plan Sponsors so that OCERS' management can ensure accurate reporting on a biweekly basis as well as consistency across the organization.

IA Follow-Up: Internal Audit confirmed OCERS management sent a memo to OCFA on the On Call contributions.
 IA confirmed that both OCFA and Legacy OCFA employees are paying contributions directly on (On Call) Pay.

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

Process Owner: Member Services
Report Date: 11/08/2018
Total Observations: 1

CLOSED

Observation #6 - Member Affidavit



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Completion Date: 04/03/2019
Action Plan: Beginning in 4th quarter 2018, OCERS' Member Services will run a recently updated V3 report ("Missing Member Affidavit" report) that flags any member account without the Member Affidavit document type. OCERS' Member Services' Payroll Transmittal Team will monitor this quarterly report and contact plan sponsors to request a completed Member Affidavit for any members flagged in the above report.
IA Follow-Up: Confirmed missing Member Affidavit was received and Member Services has scheduled the Missing Member Affidavit to be run on a monthly basis.

Project: Audit of Orange County Transportations Authority (2018)
Process Owner: Member Services
Report Date: 11/12/2018
Total Observations: 1

Observation #1 - Contributions on PTO cashouts

CLOSED

Completion Date: 04/02/2019
Action Plan: OCERS is in the process of reviewing and evaluating all pay items in order to categorize and document in policy each item of compensation earnable for Legacy members and pensionable compensation for PEPRA members. OCERS intends to present this policy to the OCERS Board for review and approval by 1st quarter of 2019.
 The majority of OCERS' plan sponsors do not apply the contribution rates to cashouts (as does OCTA); instead, they rely on the actuarial cash out assumption (Load Factor) to pay for the actuarial cost of adding vacation pay and sick pay to a Legacy member's FAS calculation upon retirement. OCERS believes this is the better approach and will incorporate this in the new policy in order to have consistency among all plan sponsors. In addition to the new policy, by 1st quarter of 2019, OCERS intends to distribute a circular letter to all plan sponsors informing them of this approach to not collect contributions on these cashouts.
IA Follow-Up: Internal Audit confirmed the circular letters have been posted to the OCERS website.

Project: Disability Payment Audit (2018)
Process Owner: Member Services
Report Date: 01/28/2019
Total Observations: 1

Observation #1 - Disability payment calculation

CLOSED

Completion Date: 01/05/2022



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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



Action Plan: Member Services will be continuing to review with increased diligence or newly implementing to ensure accuracy of Disability benefits that are setup:
 • Ensure that all disability benefits are peer audited (FAS calc) before benefit setup, including disability recalculations (from Service Retirement to SCD, Service Retirement to NSCD, NSCD to SCD)
 • Verify selected data points on the "New Benefit Setup Validation Report" (which will contain a subset of 16 reports – expected to be ready by Q3 2019)
 • Additional training will be provided to the RPS assigned to the disability department (this was a new position in 2018). These types of benefits are more specialized that regular retirement setups, and the Disability RPS will be trained to look for specific factors that affect the benefit, such as gaps in service, measuring period compression, manual calculations of FAS, recalculation issues.

IA Follow-Up: IA confirmed action plan has been implemented. A new Disability Process has been implemented along with the appropriate training.

Project: 1945- FAS Pay Items Audit
Process Owner: Member Services
Report Date: 06/04/2020
Total Observations: 2

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

CLOSED

Completion Date: 09/16/2021

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

IA Follow-Up: Internal Audit reviewed updated procedure document and annual reconciliation file.

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

CLOSED

Completion Date: 09/16/2020

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

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

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

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

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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Process Owner: Member Services
Report Date: 03/22/2021
Total Observations: 2

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

CLOSED

Completion Date:

Action Plan: Member Services has reviewed and is in the process of addressing the recalculations for members identified by Internal Audit during their review. Member Services Management has also taken the following steps which are further detailed in our "Member Services Management Quality Assurance Review Final Average Salary Q1-Q2 2020 Report.docx" document provided to the committee (Action Item A-5).

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

IA Follow-Up: As part of the continuous audit for the FAS calculation, Internal Audit noted the MAP was completed during the July 1 payroll review.

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

CLOSED

Completion Date: 04/02/2021

Action Plan: Member Services has reviewed and updated the member files for the calculation documents for members identified by Internal Audit during their review. Member Services Management has also implemented a checklist within the new tool mentioned above.

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

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

Process Owner: Member Services
Report Date: 06/04/2021
Total Observations: 2

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

CLOSED

Completion Date: 05/20/2021



Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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

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

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

CLOSED

Completion Date: 05/20/2021

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

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

Project: 2135 - Quarterly FAS Review (Q4 2021)

Process Owner: Member Services

Report Date: 10/04/2021

Total Observations: 1

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

CLOSED

Completion Date: 10/01/2021

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

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

Executed: 3/16/2022 3:00:27 PM
 Executed By: OCERS\dkim

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Management Action Plan Status Re

Project(s): ALL
 Mgmt. Status: ALL
 Plan Year(s): ALL
 Process Owner(s): ALL
 Total # of Records: 102

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

Project: 2133 - Dependent Survivor Eligibility Audit
Process Owner: Member Services
Report Date: 10/04/2021
Total Observations: 2

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

CLOSED

Completion Date: 01/05/2022

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

2 Reports are as follows:

- Deceased Retirees with No Associated Burial Benefit nor Survivorship benefit established.
- Deceased Retirees with an Associated Burial Benefit but no Survivorship benefit established.

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

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

CLOSED

Completion Date: 03/16/2022

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

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



Memorandum

DATE: March 30, 2022
TO: Members of the Audit Committee
FROM: David Kim, Director of Internal Audit
SUBJECT: STATUS UPDATE OF 2022 AUDIT PLAN

Written Report

Background/Discussion

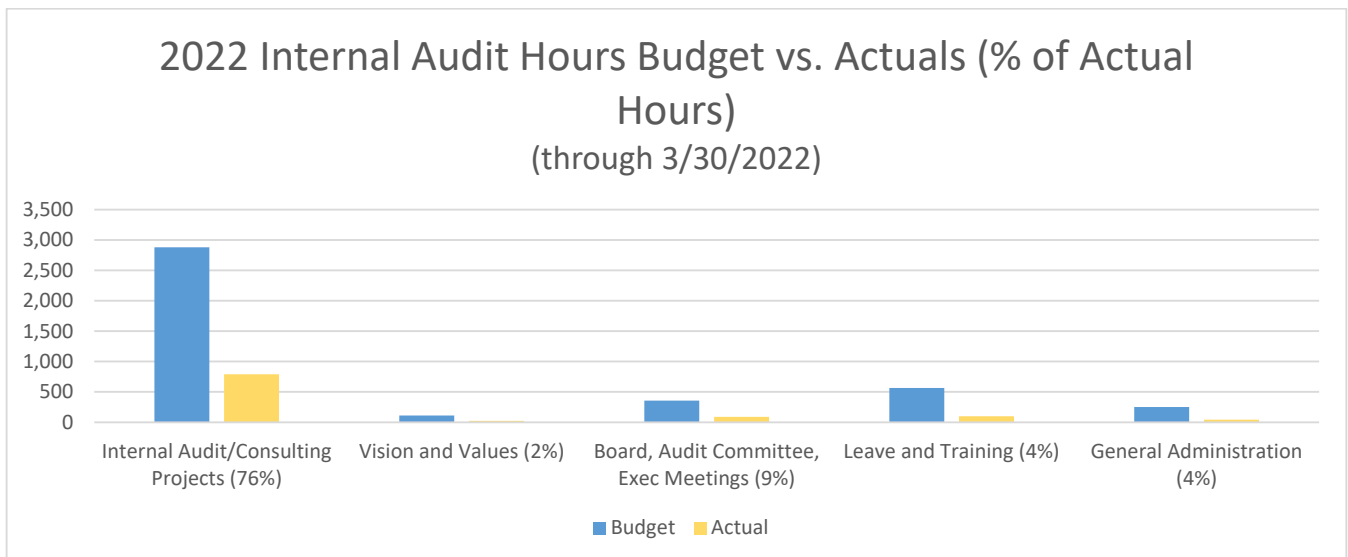
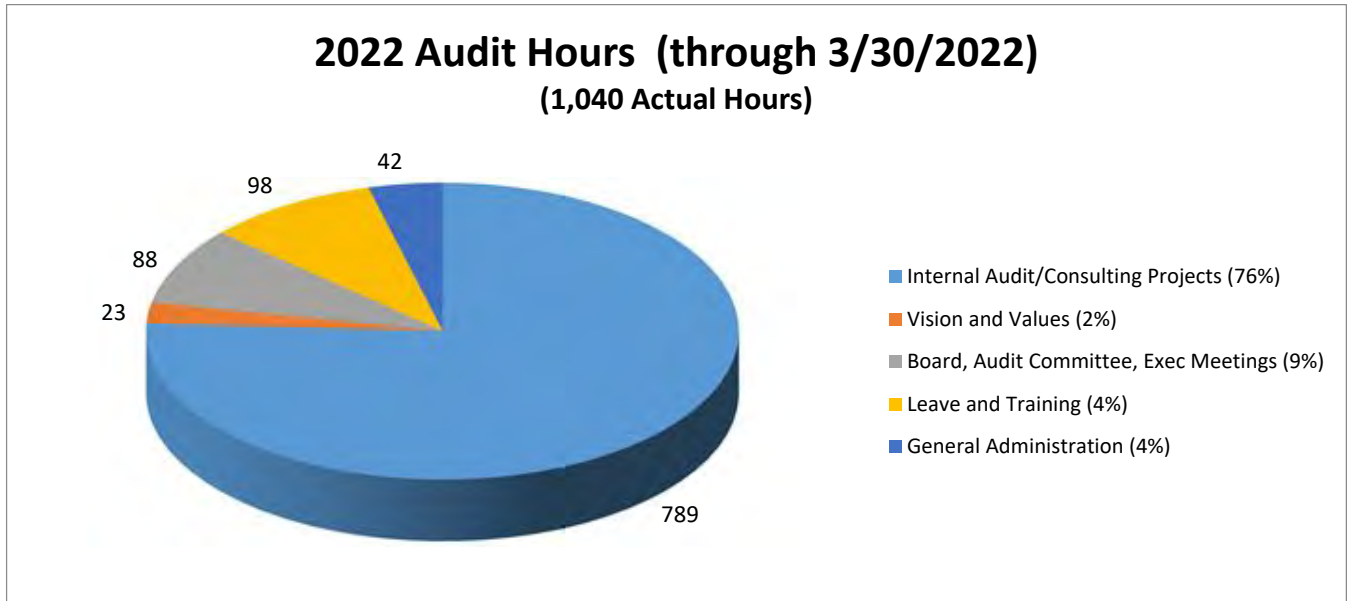
Attached is a comparison of budgeted 2022 audit plan hours versus the completed program actual hours, by project.

Submitted by:

DK - Approved

David Kim
Director of Internal Audit

2022 Internal Audit Plan



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

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
Internal Audit/Consulting/Planning/QAIP		2,880	789	2,091	
Internal Audits - Assurance		2,290	765	1,525	
IT Automated Controls (carryover from 2021 audit plan)	The objective of the audit is to validate the policies and procedures over V3 System calculations of the Percent of Final Average Salary and Base Final Average Salary prior to management's manual adjustment process, as well as the calculation of the Plan Benefit after the manual adjustment process. Performed by RSM.	30	25	5	Finalize testing.
Annual Investment Committee - 2020 Fee Report	Review Investment Division's controls that verify the compilation and review of the annual fee report provided to the Investment Committee.	300	302	0	First time audit - complete
Procurement Process	Review the controls over the procurement and contracting process at OCERS to ensure that the controls are designed and operating effectively in compliance with the Procurement and Contracting Policy.	300	0	300	First time audit.
Alameda Implementation	Perform an independent review of the controls in place to ensure the recalculation of contribution refunds and retirement benefits related to the Alameda decision are complete and accurate; member information updated in V3 are reviewed and approved; and recording to the General Ledger is supported and authorized.	420	10	410	
Employer Audit (County of Orange - Social Services Agency)	Review employer's supporting documentation to verify accuracy and completeness of payroll data transmitted to OCERS pension administration system; review employer's controls to ensure compliance with OCERS Membership Eligibility Requirements Policy.	300	298	0	Complete
Employer Audit (Transportation Corridor Agency)	Review employer's supporting documentation to verify accuracy and completeness of payroll data transmitted to OCERS pension administration system; review employer's controls to ensure compliance with OCERS Membership Eligibility Requirements Policy. Last time audited in 2013.	300	0	300	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	170	30	140	Ongoing review of implemented MAPs from completed audits.
Continuous Audit - Final Average Salary (FAS) Calculation	Continuous audit of FAS calculations with criteria for manual adjustments to the FAS. Sample on quarterly basis	470	100	370	Q1 testing complete
Internal Audits - Consulting		200	20	180	
IT Audit Program	Azure Active Directory and MS365 Security – review the state of services deployed and determine if the current configuration aligns with leading practices (200 hours from RSM).	40	0	40	
Consulting/Ad-hoc projects	Open for any ad-hoc project TBD	160	20	140	Adhoc member benefit review
Internal Audits - Planning		250	0	250	
Annual Audit Planning	Review and update Risk and Control Matrix.	100	0	100	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	150	0	150	

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

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
Internal Audits - Quality Assurance and Improvement Program		140	4	136	
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program	60	0	60	
	Use of hotline reporting system.	80	4	76	
Vision and Values		110	23	87	
	Vision and Values - Continuous Improvement Program	50	8	42	Route to appropriate parties, report to OCERS executives.
	Vision and Values Committee (Internal OCERS Committee)	60	15	45	Internal committee to promote a positive culture at OCERS - Committee Vice Chair.
Board, AC, OCERS Executive Meetings		356	88	268	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	290	72	218	
	Weekly meetings with CEO	26	6	20	
	Monthly meeting with Audit Committee Chair	40	10	30	
General admin time		250	42	208	
	General admin time	250	42	208	4% of total hours.
Leave (Holiday/Annual) and Training		564	98	466	
	Holidays (12 days), Annual Leave (15 days)	432	68	364	
	Training and Continuing Education	132	30	102	
Grand Total Hours		4,160	1,040	3,120	