

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

**AUDIT COMMITTEE MEETING  
February 14, 2023  
9:30 A.M.**

**Members of the Committee**

Richard Oates, Chair  
Charles Packard, Vice Chair  
Adele Tagaloa  
Shari Freidenrich

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 2023-01, this meeting will be conducted by video/teleconference, in compliance with Government Code section 54953 as amended by Assembly Bill 361. In addition, members of the Board and the public are welcome to participate in the meeting via Zoom from the OCERS Boardroom located at 2223 E. Wellington Ave., Santa Ana, CA. However, none of the other locations from which the Board members participate by teleconference will be open to the public.

Members of the public who wish to observe and/or participate in the meeting may do so (1) from the OCERS Boardroom or (2) via the Zoom app or telephone from any location. Members of the public who wish to provide comment during the meeting may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing \* 9 on your telephone keypad. Members of the public who participate in the meeting from the OCERS Boardroom and who wish to provide comment during the meeting may do so from the podium located in the OCERS Boardroom.

OCERS Zoom Video/Teleconference information	
<p><b>Join Using Zoom App (Video &amp; Audio)</b></p> <p><a href="https://ocers.zoom.us/j/87983817252">https://ocers.zoom.us/j/87983817252</a></p> <p><b>Meeting ID: 879 8381 7252</b> <b>Passcode: 366705</b></p> <p>Go to <a href="https://www.zoom.us/download">https://www.zoom.us/download</a> to download Zoom app before meeting Go to <a href="https://zoom.us">https://zoom.us</a> to connect online using any browser.</p>	<p><b>Join by Telephone (Audio Only)</b></p> <p>Dial by your location</p> <p>+1 669 900 6833 US (San Jose) +1 253 215 8782 US (Tacoma) +1 346 248 7799 US (Houston) +1 929 436 2866 US (New York) +1 301 715 8592 US (Germantown) +1 312 626 6799 US (Chicago)</p> <p><b>Meeting ID: 879 8381 7252</b> <b>Passcode: 366705</b></p>
<p>A <a href="#">Zoom Meeting Participant Guide</a> is available on OCERS website <a href="#">Board &amp; Committee meetings page</a></p>	

**AGENDA**

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

**CALL MEETING TO ORDER AND ROLL CALL**

**PUBLIC COMMENT**

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

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

**CONSENT AGENDA**

**C-1 AUDIT COMMITTEE MEETING MINUTES**

Audit Committee Meeting Minutes

December 15, 2022

**Recommendation:** Approve minutes.

**C-2 REQUEST FOR PROPOSAL – EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT**

**Recommendation:** Staff requests the Audit Committee approve the distribution of a Request for Proposal to initiate a search for an external quality assessment of the Internal Audit Department.

**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 ACTUARIAL AUDIT OF OCERS’S 2021 ACTUARIAL VALUATION AND 2019 ACTUARIAL EXPERIENCE STUDY**

*Presentation by Graham Schmidt and Anne Harper, Cheiron*

**Recommendation:** Receive and file.

**A-3 THE TRANSPORTATION CORRIDOR AGENCIES EMPLOYER AUDIT**

*Presentation by Mark Adviento, Senior Internal Auditor*

**Recommendation:** Receive and file

**A-4 TRIENNIAL REVIEW OF THE OPERATIONAL RISK POLICY**

*Presentation by Brenda Shott, Assistant CEO, Internal Operations*

**Recommendation:** Approve and recommend that the Board approve the Operational Risk Policy.

**A-5 TRIENNIAL REVIEW OF OCERS'S AUDIT COMMITTEE CHARTER**

*Presentation by David Kim, Director of Internal Audit*

**Recommendation:** Approve, and recommend that the Board approve, revisions to the Audit Committee Charter.

**A-6 TRIENNIAL REVIEW OF OCERS'S INTERNAL AUDIT CHARTER**

*Presentation by David Kim, Director of Internal Audit*

**Recommendation:** Approve, and recommend that the Board approve, revisions to the Internal Audit Charter.

**A-7 AUDIT OF INFORMATION TECHNOLOGY AUTOMATED CONTROLS**

*Presentation by David Kim, Director of Internal Audit*

**Recommendation:** Receive and file.

**CLOSED SESSION**

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

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

**Recommendation:** Take appropriate action.

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

**WRITTEN REPORTS**

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

**R-1 OPERATIONAL RISK MANAGEMENT ANNUAL REPORT**

*Written Report*

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**R-2    MANAGEMENT ACTION PLAN VERIFICATION REPORT**

*Written Report*

**R-3    STATUS UPDATE OF 2023 AUDIT PLAN**

*Written Report*

**COMMITTEE MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

**ADJOURNMENT**

**NOTICE OF NEXT MEETINGS**

**DISABILITY COMMITTEE MEETING**

**February 21, 2023**

**8:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**REGULAR BOARD MEETING**

**February 21, 2023**

**9:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**INVESTMENT COMMITTEE MEETING**

**February 22, 2023**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

*AVAILABILITY OF AGENDA MATERIALS - Documents and other materials that are non-exempt public records distributed to all or a majority of the members of the OCERS Board or Committee of the Board in connection*

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

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

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

**AUDIT COMMITTEE MEETING  
December 15, 2022  
9:30 A.M.**

**MINUTES**

**OPEN SESSION**

Chair Eley called the meeting to order at 9:30 a.m.

Recording Secretary administered the Roll Call attendance.

Attendance was as follows:

Present: Frank Eley, Chair; Sheri Freidenrich, Vice Chair; Richard Oats; Charles Packard

Also Present: Steve Delaney, Chief Executive Officer; Suzanne Jenike, Assistant CEO, External Operations; Brenda Shott, Assistant CEO, Internal Operations; Gina Ratto, General Counsel; Tracy Bowman, Director of Finance; David Kim, Director of Internal Audit; Jeff Lamberson, Director of Member Services; Jenny Sadoski, Director of Information Technology; Mark Adviento, Internal Auditor; Esther Hong, Internal Auditor; Jenny Davey, Internal Auditor; Carolyn Nih, Recording Secretary; Anthony Beltran, Audio Visual Technician.

**PUBLIC COMMENT**

None.

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

Audit Committee Meeting Minutes

October 3, 2022

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

The motion passed **unanimously**

**CLOSED SESSION ITEMS**

*Adjourned to closed session at 9:33 a.m.*

**E-1 PUBLIC EMPLOYEE PERFORMANCE EVALUATION (GOVERNMENT CODE §54957(b))**

**Title: Director of Internal Audit**

Adjourn pursuant to Government Code section 54957(b) to evaluate the performance of the Director of Internal Audit

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**Recommendation:** Take appropriate action.

*Returned to open session at 10:55 a.m.*

*No reportable action taken*

*The Board recessed for break at 10:55 a.m.*

*Ms. Freidenrich left the meeting at 11:05 a.m.*

*The Board reconvened from break at 11:07 a.m.*

*Recording Secretary administered the Roll Call attendance.*

**A-2 CONSIDERATION OF 2023 RISK ASSESSMENT AND 2023 AUDIT PLAN**

*Presentation by David Kim, Director of Internal Audit*

Mr. Kim noted that the number of proposed assurance audits have nearly doubled from the prior year.

**Recommendation:** Receive and file.

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

The motion passed **unanimously.**

**A-3 CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q3 2022)**

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

Internal Audit noted there were no errors in the quarter. Chair Eley acknowledged all the hard work of Member Services to achieve 100% accuracy for the quarter.

**Recommendation:** Receive and file

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

The motion passed **unanimously.**

**I-1 PROPOSED FINAL AVERAGE SALARY CALCULATIONS AUDIT REPORT EXAMPLE**

*Presentation by David Kim, Director of Internal Audit*

Mr. Kim presented an example of the *Continuous Audit of Final Average Salary Calculations Report*, in which the \$10.00 reportable threshold was implemented. Chair Eley noted the reportable errors will not include the errors that are under \$10.00. Mr. Kim confirmed errors under \$10.00 would not be discussed at the Audit Committee meetings unless they are

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systematic or there is an increase in the number of errors. However, the errors under the reportable threshold will be included in the audit report as an appendix. Ms. Jenike noted all errors are corrected, even if they are below the reportable threshold.

**A-4 REPORTABLE THRESHOLD FOR BENEFIT CALCULATIONS**

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

**Recommendation:** Staff recommends the Audit Committee approve the establishment of a Reportable Threshold of \$10.00 or more for reporting errors found during the Final Average Salary audits.

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

The motion passed **unanimously**.

**A-5 MANAGEMENT RESPONSE TO PROCUREMENT AND CONTRACTING AUDIT**

*Presentation by Steve Delaney, CEO*

CEO reviewed with the team and confirmed that an electronic checklist will be used for compliance with the Policy.

**Recommendation:** Receive and file

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

The motion passed **unanimously**.

**I-2 PROPOSED INTERNAL AUDIT KEY PERFORMANCE INDICATORS**

*Presentation by David Kim, Director of Internal Audit*

Mr. Kim presented 5 key performance indicators (KPIs) to be used to measure Internal Audit staff performance. The KPIs will be monitored by the Director of Internal Audit and presented to the Audit Committee on an annual basis.

**WRITTEN REPORTS**

**R-1 MANAGEMENT ACTION PLAN VERIFICATION**

*Written Report*

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

*Written Report*



Orange County Employees Retirement System  
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**COMMITTEE MEMBER COMMENTS**

Chair Eley thanked the Committee for a great year and is looking forward to great things from Mr. Kim and the Audit Team. Chair Eley also thanked staff for their hard work.

**STAFF COMMENTS**

None

**CHIEF EXECUTIVE OFFICER**

Mr. Delaney, on behalf of the Board and staff, thanked Chair Eley for his many years of service.

**COUNSEL COMMENTS**

None

**ADJOURNMENT**

Chair Eley adjourned the meeting at 11:34 a.m.

Submitted by:

Approved by:

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

\_\_\_\_\_  
Richard Oates  
Chair



## Memorandum

**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** REQUEST FOR PROPOSAL – EXTERNAL QUALITY ASSESSMENT OF INTERNAL AUDIT

### Recommendation

Staff requests the Audit Committee approve the distribution of a Request for Proposal (RFP) to initiate a search for an external quality assessment (EQA) of OCERS’s Internal Audit.

### Background/Discussion

The Audit Committee Charter states that the Audit Committee’s key areas of responsibility include conducting the solicitation, selection and appointment of all external auditors. Under the International Standards for the Professional Practice of Internal Auditing (Standards), an EQA must be conducted once every five years. The last EQA was performed in 2018 by the Institute of Internal Auditors (IIA) Quality Services with an overall opinion that OCERS’ Internal Audit Department “Generally Conforms” to the Standards and the IIA Code of Ethics.

Attached is an RFP inviting proposals from independent assessment firms familiar with the Standards and the external assessment process.

The purpose of the assessment is to provide an opinion on OCERS’s Internal Audit (IA) activity’s conformance to the Standards and the IIA’s Code of Ethics. The EQA will assess the efficiency and effectiveness of OCERS’s IA in light of the Internal Audit Charter; the expectations of the Audit Committee, executive management and the Director of Internal Audit.

The proposed Schedule of Events is:

Deliverable	Date	Time
Release of RFP	February 20, 2023	
RFP Questions Deadline	March 6, 2023	5:00 P.M. PST
RFP Answers Posted	March 17, 2023	5:00 P.M. PDT
RFP Submission Deadline	April 14, 2023	5:00 P.M. PDT
OCERS Review of RFP Submissions	April 17 to May 12, 2023	
Selection of Finalists	May 19, 2022	
Interviews of Finalists with Audit Committee	June 1, 2023	
Estimated Contract Start Date	July 1, 2022	

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 two finalists to the Audit Committee. The finalists will make presentations to the Audit Committee. We then ask the Audit Committee to select and approve the finalist to award the contract.

**Submitted by:**

**DK - Approved**

David Kim  
Director of Internal Audit

# External Quality Assessment Services

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## Request for Proposal

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February 2023

**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 External Quality Assessment (EQA) services.

Questions about this RFP must be submitted in writing by **5:00 pm, PT, Monday, March 6, 2023** to Jim Doezie, Contracts, Risk & Performance Administrator, by email at [jdoezie@ocers.org](mailto:jdoezie@ocers.org).

Those who wish to be considered must submit their completed proposal by **5:00 p.m., PT, Friday, April 14, 2023**. Specific instructions for proposal submissions are contained in Section 7 of this RFP.

## Section 2: Background

OCERS was established in 1945 under the County Employees Retirement Law of 1937, providing members with retirement, disability, death, and cost-of-living benefits. There are approximately 50,000 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 the investment of moneys and administration of the retirement system. OCERS has over one hundred employees, and the Board appoints a Chief Executive Officer responsible for the agency’s management. For additional information about OCERS, please refer to the OCERS website at [ocers.org](http://ocers.org).

## Section 3: Scope of Services

The detailed scope of services for this engagement is outlined in the attached Exhibit “A” (“Scope of Services”). The primary objectives are to provide OCERS with: External Quality Assessment 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

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.
6. Minimum Qualifications  
All respondents are required to sign and return the "Minimum Qualifications Certification," attached as Exhibit "B."

## **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 the 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 before 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. However, 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 calendar days unless otherwise specified.

All proposals submitted in response to this RFP will become the exclusive property of OCERS. Therefore, 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 candidate(s) selected. 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. In addition, respondents having current business with OCERS must limit their communications to the subject of such business.

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

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

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

## 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	February 20, 2023	
RFP Questions Deadline	March 6, 2023	5:00 P.M. PST
RFP Answers Posted	March 17, 2023	5:00 P.M. PDT
RFP Submission Deadline	April 14, 2023	5:00 P.M. PDT
OCERS Review of RFP Submissions	April 17, 2023 to May 12, 2023	



<b>Selection of Finalists</b>	May 19, 2023
<b>Interviews of Finalists with Audit Committee</b>	June 1, 2023
<b>Service Award</b>	To be determined

## Section 7: Proposal Requirements

Proposals must include the following information:

1. The "Minimum Qualifications Certification," attached as Exhibit "B."
2. The "Proposal Cover Page and Check List," attached as Exhibit "C."
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. Scope of services offered.
  - h. Respondent's specialties, strengths, and limitations.
  - i. Describe the accounting systems used and financial reporting methodologies.
  - j. How soon after period-end (month, quarterly, annual) are the financial results delivered?
  - k. Are the respondent's financial reports independently audited? If so, what is the name of the audit firm?
  - l. An example of the respondent's financial reports.
  - m. The average retention rate (years of service) of the firm's other clients?
5. The names and qualifications of the 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. A copy of respondent's standard professional services contract.
9. 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 limit the pricing approach to pricing and will consider alternative pricing methods 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 explain why this representation cannot be provided. All pricing proposals should be "best and final," although OCERS reserves the right to negotiate on pricing.
10. An explanation of all actual or potential conflicts of interest that the respondent may have in contracting with OCERS.
11. 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.
12. 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. Delivery and payment terms.
5. Compliance with technical standards contained in this RFP.
6. The organization, completeness, and quality of the proposal.
7. Information provided by references.
8. 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 or members of the Board of Retirement.

If the proposal's information is deemed to be insufficient for evaluation, OCERS may request additional information or reject the proposal outright at OCERS' sole discretion. In addition, 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 based on 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

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 that all records relating to a public agency's business are open to public inspection and copying unless exempted explicitly under one of several exemptions set forth in the Act. If a respondent believes any portion of its proposal is exempt from public disclosure 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 OCERS should not disclose such material 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 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 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, or c) for default.

The general form of the contract OCERS intends to use is included as Exhibit "D" ("OCERS Services Agreement"). OCERS reserves the right to make changes to the contract prior to execution, including material changes. The final Scope of Services to be included in the contract will be determined at the conclusion of the RFP process.

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 services, or who has previously failed to perform similar services 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**

### **Scope of Services**

OCERS is seeking a qualified, independent assessment team to perform a full external quality assessment. As per The Institute of Internal Auditors' (The IIA) International Professional Practices Framework (IPPF), the objectives of the services include:

- Provide an opinion on the OCERS's Internal Audit (IA) activity's conformance to the IPPF and The IIA's Code of Ethics
- Assess the efficiency and effectiveness of OCERS's IA in light of the Internal Audit Charter; the expectations of the Audit Committee, executive management, and Director of Internal Audit/Chief Audit Executive (CAE)
- Consider IA's current needs and objectives, exposures to performing at less than an effective level, and future direction and goals of the organization
- If applicable, identify opportunities and offer ideas to the Director of Internal Audit/CAE and staff for improving performance
- Review interaction with other members of the governance process
- Building of the audit universe and preparation of the audit schedule
- Interview and survey executive management and clients for their perception of OCERS's IA. Provide insight into their level of satisfaction with appropriate suggestions

#### Engagement Deliverables

- Results of satisfaction surveys and a comparison with Director of Internal Audit/CAE responses
- Personal consultation on techniques that may benefit OCERS's IA
- Detailed report covering:
  - Conformance with IPPF
  - Areas for improvement both on a governance and performance level
  - Recommendations of applications of best practices

**Exhibit B**

**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 consultant/firm has provided services consistent with the services requested in this RFP for the past 10 years.
2. The consultant/team leader assigned to this engagement has experience that is comparable to that of the Director of Internal Audit/Chief Audit Executive of OCERS.
3. The consultant/team are certified internal audit professionals possessing a professional designation (e.g., CPA, CIA, CISA, etc.)
4. The consultant/team has a thorough understanding of current internal audit practices and the International Professional Practices Framework (IPPF) and its application, sound judgment, and good communication and analytical skills as they relate to external audit assessments.
5. The consultant/team possess or has ready access to all of the necessary technical expertise (e.g., governance, IT, risk management, internal audit attributes, management consulting, and internal audit management).
6. The consultant or at least one team member has knowledge of the organization’s industry or service.

To ensure freedom from bias in the full external assessment, there should not be any relationship, either directly or indirectly, between the organization and the full external assessment team that is, or appears to be, a conflict of interest. Such relationships could significantly negate the benefits of the full external assessment.

**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 C**

**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 below is authorized to bind the respondent contractually.



**Exhibit D**

**SERVICES AGREEMENT TEMPLATE**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
AGREEMENT FOR SERVICES**

This Agreement for Services ("Agreement") is entered into this [redacted] day of [redacted], 20[redacted] (the "Effective Date") by and between the Orange County Employees Retirement System, ("OCERS") and [redacted] ("Contractor"). OCERS and Contractor are sometimes individually referred to as "Party" and collectively as "Parties." The Parties hereby agree as follows:

**1. PURPOSE.**

**1.1 Project.**

Contractor desires to perform and assume responsibility for the provision of, and OCERS desires to engage Contractor to render, services for [redacted] **[general description of work/project/services]** on the terms and conditions set forth in this Agreement and its attached exhibits.

**2. TERMS.**

**2.1 Scope of Services.** Contractor promises and agrees to furnish to OCERS all labor, materials, tools, equipment, services, and incidental and customary work necessary to fully and adequately perform all services contemplated by this Agreement ("Services"), as more particularly described in the attached **Exhibit "A"** ("Scope of Services"). All Services shall be subject to, and performed in accordance with, this Agreement, the exhibits attached hereto and incorporated herein by reference, and all applicable local, state, and federal laws, rules, and regulations. Contractor represents and warrants to OCERS that Contractor will perform the Services in a professional and workmanlike manner, in accordance with best industry standards and practices used in well-managed operations performing services similar to the Services.

**2.2 Term.** The term of this Agreement will commence upon the Effective Date and will continue for [redacted] **[...up to twelve (12)]** months from the Effective Date ("Term"), unless earlier terminated as provided herein.

**2.3 Consideration.**

**2.3.1 Compensation.** Contractor shall receive compensation, including authorized reimbursements, for all Services rendered under this Agreement as set forth in **Exhibit "B"** ("Fee Schedule").

2.3.2 Invoices and Payment. Contractor shall submit to OCERS monthly itemized invoices as required by the Fee Schedule. OCERS shall pay all approved charges within net thirty (30) days of receiving such invoice.

2.3.3 Extra Work. At any time during the term of this Agreement, OCERS may request that Contractor perform Extra Work. As used herein, "Extra Work" means any work which is determined by OCERS to be necessary for the proper completion of the Services, but which the Parties did not reasonably anticipate would be necessary as of the Effective Date. Contractor shall not perform, nor be compensated for, Extra Work without written authorization by OCERS. Extra Work, if authorized, will be compensated at the rates and manner set forth in this Agreement.

## 2.4 Responsibilities of Contractor.

2.4.1 Independent Contractor. The Services shall be performed by Contractor or by Contractor's employees under Contractor's supervision. Contractor will determine the means, methods, and details of performing the Services subject to the requirements of this Agreement. Contractor is an independent contractor and not an employee of OCERS. Except as OCERS may agree in writing, Contractor shall have no authority, expressed or implied, to act on behalf of OCERS in any capacity whatsoever as an agent of OCERS. Any additional personnel performing the Services under this Agreement on behalf of Contractor will also not be employees of OCERS and will at all times be under Contractor's exclusive direction and control.

2.4.2 Payment of Subordinates. Contractor will pay all wages, salaries, and other amounts due its personnel in connection with their performance of Services under this Agreement and as required by law. Contractor shall be responsible for all reports and obligations respecting such additional personnel, including, but not limited to: social security taxes, income tax withholding, unemployment insurance, disability insurance, and workers' compensation insurance. Contractor will bear the sole responsibility and liability for furnishing Workers' Compensation benefits to all such personnel for injuries arising from or connected with the Services.

2.4.3 Licensing. Contractor represents that it, its employees and subcontractors have all licenses, permits, qualifications, and approvals of whatever nature that are legally required to perform the Services, and that such licenses and approvals shall be maintained throughout the term of this Agreement.

2.4.4 Conformance to Applicable Requirements. All Services performed by Contractor shall be subject to the approval of OCERS.

2.4.5 Substitution of Key Personnel. Contractor has represented to OCERS that certain key personnel will perform and coordinate the Services under this Agreement ("Key Personnel"). The Key Personnel assigned to this Agreement are identified in the attached **Exhibit "C"** ("Key Personnel"). Key Personnel will be available to perform Services under the terms and conditions of this Agreement immediately upon commencement of the term of this Agreement. If one or more of such Key Personnel

becomes unavailable, Contractor may substitute other personnel of at least equal competence upon written approval of OCERS. Contractor shall provide OCERS written notification detailing the circumstances of the unavailability of the Key Personnel and designating replacement personnel prior to the effective date of the unavailability of such Key Personnel, to the maximum extent feasible, but no later than five (5) business days after the date of the Key Personnel's unavailability. OCERS will have the right to approve or disapprove the reassignment or substitution of Key Personnel for any reason at OCERS' sole discretion. In the event that OCERS and Contractor cannot agree as to the substitution of Key Personnel, OCERS will be entitled to terminate this Agreement for cause.

2.4.6 Removal of Key Personnel. Contractor agrees to remove any Key Personnel from performing Services under this Agreement within twenty-four (24) hours or as soon thereafter as is practicable if reasonably requested to do so by the OCERS.

2.4.7 Laws and Regulations. Contractor shall keep itself fully informed of and in compliance with all local, state, and federal laws, rules, and regulations in any manner affecting the performance of the Services, including all Cal/OSHA requirements, and shall give all notices required by law. Contractor shall be liable for all violations of such laws and regulations in connection with Services. If the Contractor performs any work knowing it to be contrary to such laws, rules, and regulations, Contractor shall be solely responsible for all costs arising therefrom.

2.4.8 Labor Code Provisions.

(a) Prevailing Wages. Contractor is aware of the requirements of California Labor Code Section 1720, et seq., and 1770, et seq., as well as California Code of Regulations, Title 8, Section 16000, et seq. ("Prevailing Wage Laws"), which require the payment of prevailing wage rates and the performance of other requirements on "public works" and "maintenance" projects. If the Services are being performed as part of an applicable "public works" or "maintenance" project, as defined by the Prevailing Wage Laws, and if the total compensation is \$1,000 or more, Contractor agrees to fully comply with such Prevailing Wage Laws. Contractor shall comply with all prevailing wage requirements under the California Labor Code and Contractor shall forfeit as penalty to OCERS a sum of not more than \$200 for each calendar day, or portion thereof, for each worker paid less than the prevailing rates. This penalty shall be in addition to any shortfall in wages paid. OCERS has obtained the general prevailing rate of wages, as determined by the Director of the Department of Industrial Relations ("DIR"), a copy of which is on file in OCERS's office and shall be made available for viewing to any interested party upon request. Contractor shall make copies of the prevailing rates of per diem wages for each craft, classification, or type of worker needed to execute the Services available to interested parties upon request and shall post copies at the Contractor's principal place of business and at the site where Services are performed.

(b) Registration and Labor Compliance. If the Services are being performed as part of an applicable "public works" or "maintenance" project, then, in addition to the foregoing, pursuant to Labor Code sections 1725.5 and 1771.1, Contractor

and all subcontractors must be registered with the DIR. Contractor shall maintain registration for the duration of this Agreement and require the same of any subcontractors. The Services may also be subject to compliance monitoring and enforcement by the DIR. It shall be Contractor's sole responsibility to comply with all applicable registration and labor compliance requirements, including the submission of payroll records directly to the DIR.

(c) Labor Certification. By its signature hereunder, Contractor certifies that it is aware of the provisions of Section 3700 of the California Labor Code which require every employer to be insured against liability for Workers' Compensation or to undertake self-insurance in accordance with the provisions of that Code and agrees to comply with such provisions before commencing the performance of the Services.

2.4.9 Accounting Records. Contractor shall maintain complete and accurate records with respect to all costs and expenses incurred under this Agreement. All such records shall be clearly identifiable. Contractor shall allow a representative of OCERS during normal business hours to examine, audit, and make transcripts or copies of such records and any other documents created pursuant to this Agreement. Contractor shall allow inspection of all work, data, documents, proceedings, and activities related to the Agreement for a period of four (4) years from the date of final payment under this Agreement.

## 2.5 Representatives of the Parties

2.5.1 OCERS' Representative. OCERS hereby designates David Kim, Director of Internal Audit, to act as its representative for the performance of this Agreement ("OCERS' Representative"). Contractor shall not accept direction or orders from any person other than the OCERS' Representative.

2.5.2 Contractor's Representative. Contractor hereby designates [name or title], or their designee, to act as its representative for the performance of this Agreement ("Contractor's Representative"). Contractor's Representative shall have full authority to represent and act on behalf of the Contractor for all purposes under this Agreement. The Contractor's Representative shall supervise and direct performance of the Services, using their best skill and attention, and shall be responsible for all means, methods, techniques, sequences, and procedures and for the satisfactory coordination of all portions of the Services under this Agreement.

## 2.6 Indemnification

To the fullest extent permitted by law, Contractor shall indemnify, immediately defend, and hold OCERS, the members of the OCERS Board of Retirement (each a "Board member"), and OCERS' officials, officers, employees, volunteers, and agents free and harmless from any and all third party claims, demands, causes of action, suits, expenses, liabilities, losses, damages, or injury of any kind, in law or equity, to property or persons, including wrongful death (collectively, "Indemnity Claims"), in any manner arising out of, pertaining to, or incident to any negligent act, error or omission, intentional misconduct, or breach of this Agreement by Contractor, its officials, officers, employees, subcontractors,

contractors, or agents in connection with the performance of the Services, or this Agreement, including attorneys' fees and costs, including expert witness fees. Contractor's duty to indemnify does not extend to the Indemnity Claims caused by OCERS' sole negligence or willful misconduct.

Contractor shall immediately defend, with legal counsel reasonably agreed to by OCERS and at Contractor's own cost, expense, and risk, any Indemnity Claims; excluding, however, such claims arising from OCERS' sole negligence or willful misconduct. Contractor shall control the defense or settlement of any such action, except that Contractor will not have the right to settle or compromise the claim without the consent of OCERS. Contractor shall pay and satisfy any judgment, award, or decree that may be rendered against OCERS or its Board members, officials, officers, employees, volunteers, and agents as part of any Indemnity Claim(s). Contractor shall also reimburse OCERS for the cost of any settlement paid by OCERS or its Board members, officials, officers, employees, agents, or volunteers as part of any Indemnity Claim. Such reimbursement shall include payment for OCERS' attorneys' fees and costs, including expert witness fees. Contractor's obligation to defend and indemnify shall survive expiration or termination of this Agreement, and shall not be restricted to insurance proceeds, if any, received by OCERS, its Board, officials, officers, employees, agents, or volunteers.

Notwithstanding the foregoing, to the extent the Services are subject to Civil Code Section 2782.8, the above indemnity and duty to defend shall be limited, to the extent required by Civil Code Section 2782.8, to claims that arise out of, pertain to, or relate to the negligence, recklessness, or willful misconduct of the Contractor.

## **2.7 Insurance**

**2.7.1 Time for Compliance.** Contractor shall not commence work under this Agreement until it has provided evidence satisfactory to OCERS that it has secured all insurance required under this Section 2.7. In addition, Contractor shall not allow any subcontractor to commence work on any subcontract until Contractor has provided evidence satisfactory to OCERS that the subcontractor has secured all insurance required under this section. Failure to provide and maintain all required insurance shall be grounds for the OCERS to terminate this Agreement for cause.

**2.7.2 Minimum Requirements.** Contractor shall, at its expense, procure and maintain for the duration of the Agreement insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the Agreement by the Contractor, its agents, representatives, employees, or subcontractors. Contractor shall also require all of its subcontractors to procure and maintain the same insurance for the duration of the Agreement. Such insurance shall meet at least the following minimum levels of coverage:

(a) **Commercial General Liability.** These policies shall include OCERS, and its board members, officers, agents, and employees, as an additional insured on a blanket basis and be primary and not contributory to any policy maintained by OCERS.

Contractor shall maintain limits no less than two million dollars (\$2,000,000) per occurrence, or the full per occurrence limits of the policies available, whichever is greater, for bodily injury, personal injury, and property damage.

(b) Automobile Liability. Business automobile liability insurance insuring all owned, non-owned, and hired automobiles, in the amount of one million dollars (\$1,000,000) combined single limit per accident for bodily injury and property damage.

(c) Workers' Compensation and Employer's Liability Insurance. Contractor shall maintain Workers' Compensation insurance as required by the State of California and Employer's Liability Insurance in an amount no less than one million dollars (\$1,000,000) per accident for bodily injury or disease. The insurer shall agree to waive all rights of subrogation against OCERS, its Board of Trustees, officials, officers, employees, agents, and volunteers for losses paid under the terms of the insurance policy which arise from work performed by the Contractor.

(d) Excess Liability. The limits of insurance required in this Agreement may be satisfied by a combination of primary and umbrella or excess insurance. Any umbrella or excess coverage shall contain or be endorsed to contain a provision that such coverage shall also apply on a primary and non-contributory basis for the benefit of OCERS (if agreed to in a written contract or agreement) before OCERS's own primary or self-insurance shall be called upon to protect it as a named insured. The policy shall be endorsed to state that OCERS, its Board, officials, officers, employees, agents, and volunteers shall be covered as additional insured. The coverage shall contain no special limitations on the scope of protection afforded to OCERS, its Board, officials, officers, employees, agents, and volunteers.

2.7.3 All Coverages. The general liability and automobile liability policy shall include or be endorsed to state that: (1) OCERS, its Board, officials, officers, employees, agents, and volunteers shall be covered as additional insured with respect to work by or on behalf of the Contractor, including materials, parts, or equipment furnished in connection with such work; and (2) the insurance coverage shall be primary insurance as respects the OCERS, its directors, officials, officers, employees, agents, and volunteer, or if excess, shall stand in an unbroken chain of coverage excess of the Contractor's scheduled underlying coverage. Any insurance or self-insurance maintained by OCERS, its Board members, officials, officers, employees, agents, and volunteers shall be excess of the Contractor's insurance and shall not be called upon to contribute with it in any way.

(a) The insurance policies required above shall contain or be endorsed to contain the following specific provisions:

(i) The policies shall contain a waiver of transfer rights of recovery ("waiver of subrogation") against OCERS, its Board members, officers, employees, agents, and volunteers, for any claims arising out of the work of Contractor.

(ii) Policies may provide coverage which contains deductible or self-insured retentions. Such deductible and/or self-insured retentions shall

not be applicable with respect to the coverage provided to OCERS under such policies. Contractor shall be solely responsible for deductible and/or self-insured retention and OCERS, at its option, may require Contractor to secure the payment of such deductible or self-insured retentions by a surety bond or an irrevocable and unconditional letter of credit. The insurance policies that contain deductibles or self-insured retentions in excess of \$25,000 per occurrence shall not be acceptable without the prior approval of OCERS.

(iii) Prior to start of work under this Agreement, Contractor shall file with OCERS evidence of insurance as required above from an insurer or insurers certifying to the required coverage. The coverage shall be evidenced on a certificate of insurance signed by an authorized representative of the insurer(s).

(iv) Each policy required in this section shall contain a policy cancellation clause that provides the policy shall not be cancelled or otherwise terminated by the insurer or the Contractor or reduced in coverage or in limits except after thirty (30) days' prior written notice by certified mail, return receipt requested, has been given to OCERS, Attention:                     

(v) Insurance required by this Agreement shall be placed with insurers licensed by the State of California to transact insurance business of the types required herein. Each insurer shall have a current Best Insurance Guide rating of not less than A: VII unless prior approval is secured from OCERS as to the use of such insurer.

(vi) Contractor shall include all subcontractors as insureds under its policies or shall furnish separate certificates and endorsements for each subcontractor. All coverages for subcontractors shall be subject to all of the requirements stated herein.

**2.7.4 Reporting of Claims.** Contractor shall report to OCERS, in addition to Contractor's insurer, any and all insurance claims submitted by Contractor in connection with the Services under this Agreement.

**2.8 Termination of Agreement.** OCERS may, by written notice to Contractor, terminate the whole or any part of this Agreement without liability to OCERS if Contractor fails to perform or breaches any of the terms contained herein. In addition, either Party may terminate this Agreement for any reason or for no reason on thirty (30) days' written notice to the other Party. Upon termination, Contractor shall be compensated only for those Services that have been performed and delivered to OCERS' satisfaction, and Contractor shall be entitled to no further compensation.

## **2.9 Ownership of Materials and Confidentiality.**

**2.9.1 Documents & Data; Licensing of Intellectual Property.** This Agreement creates a non-exclusive and perpetual license for OCERS to copy, use, modify, reuse, or sublicense any and all copyrights, designs, and other intellectual property embodied in plans, specifications, studies, drawings, estimates, and other documents or works of authorship fixed in any tangible medium of expression, including but not limited

to, physical drawings or data magnetically or otherwise recorded on computer diskettes, which are prepared or caused to be prepared by Contractor under this Agreement ("Documents & Data"). Contractor shall deliver to OCERS on demand or upon the termination or expiration of this Agreement, all such Documents & Data which shall be and remain the property of the OCERS. If OCERS uses any of the data, reports, and documents furnished or prepared by Contractor for use in Services other than as shown on Exhibit A, Contractor shall be released from responsibility to third parties concerning the use of the data, reports, and documents. Contractor may retain copies of the materials. OCERS may use or reuse the materials prepared by Contractor without additional compensation to Contractor.

2.9.2 Confidential Information. Any financial, statistical, personal, technical, and other data and information relating to a Party's operations which are made available to the other Party in order to carry out this Agreement shall be reasonably protected by such other Party from unauthorized use, except to the extent that disclosure thereof is required to comply with applicable law, including the California Public Records Act. The disclosing Party shall identify all confidential data and information at the time it is provided. Confidentiality does not apply to information which is known to a receiving Party from other sources, which is otherwise publicly available, or which is required to be disclosed pursuant to an order or requirements of a regulatory body or a court.

2.9.3 Customer Data. Contractor acknowledges that it may receive confidential information from OCERS or otherwise in connection with this Agreement or the performance of the Services, including personally identifiable information of OCERS' customers ("Customer Data"). Except for information in the public domain, unless such information falls into the public domain by disclosure or other acts of OCERS or through the fault of OCERS, Contractor agrees:

- (a) To maintain Customer Data in confidence;
- (b) Not to use Customer Data other than in the course of this Agreement;
- (c) Not to disclose or release Customer Data except on a need-to-know only basis;
- (d) Not to disclose or release Customer Data to any third person without the prior written consent of OCERS, except for authorized employees or agents of Contractor;
- (e) To promptly notify OCERS in writing of any unauthorized release of confidential information, including Customer Data;
- (f) To take all appropriate action, whether by instruction, agreement or otherwise, to ensure that third persons with access to the information under the direction or control or in any contractual privity with Contractor, do not disclose or use, directly or indirectly, for any purpose other than for performing the Services during or after the term of this Agreement, any confidential information, including Customer Data, without first obtaining the written consent of OCERS;



(g) Upon request by OCERS and upon the termination or expiration of this Agreement for any reason, Contractor shall promptly return to OCERS all copies, whether in written, electronic, or other form or media, of Customer Data in its possession or in the possession of its employees or agents, or securely dispose of all such copies, and certify in writing to OCERS that such Customer Data has been returned to OCERS or disposed of securely; and

(h) That the requirements in this Section 2.9.3 shall survive the expiration or termination of this Agreement.

2.9.4 Disclosure. Except as may be required by applicable law, neither Party shall make any disclosure of any designated confidential information related to this Agreement without the specific prior written approval from the other of the content to be disclosed and the form in which it is disclosed, except for such disclosures to the Parties' financing sources, other secured parties, creditors, beneficiaries, partners, members, officers, employees, agents, consultants, attorneys, accountants, and exchange facilitators as may be necessary to permit each Party to perform its obligations hereunder and as required to comply with applicable laws or rules of any exchange upon which a Party's shares may be traded. Notwithstanding the foregoing, nothing contained herein shall be deemed to restrict or prohibit OCERS from complying with applicable law regarding disclosure of information, including the California Public Records Act.

2.9.5 Publicity. Contractor shall not use OCERS' name or insignia, photographs of OCERS property, or any publicity pertaining to the Services in any advertisement, magazine, trade paper, newspaper, television, or radio production, or other similar medium without the prior written consent of OCERS.

### **2.10 Subcontracting/Subconsulting.**

2.10.1 Prior Approval Required. Contractor shall not subcontract any portion of the work required by this Agreement, except as expressly stated herein, without prior written approval of OCERS. Subcontracts, if any, shall contain a provision making them subject to all provisions stipulated in this Agreement. Contractor will be solely responsible for the payment of all subcontractors and other third parties engaged by or through Contractor to provide, perform, or assist in the provision and delivery of the Services.

### **3. General Provisions.**

3.1.1 Notices. All notices permitted or required under this Agreement shall be given to the respective Parties at the following address, or at such other address as the respective Parties may provide in writing for this purpose:

**OCERS:**

**Orange County Employees Retirement**

**Contractor:**

**System**

**2223 E. Wellington Avenue**

**Santa Ana, CA 92701**

**Attention: Jim Doezie**

**e-mail: [jdoezie@ocers.org](mailto:jdoezie@ocers.org)**

Such notice shall be deemed made when personally delivered or when mailed, upon deposit in the U.S. Mail, first class postage prepaid and registered or certified addressed to the Party at its applicable address. Actual notice shall be deemed adequate notice on the date actual notice occurred, regardless of the method of service.

3.1.2 Equal Opportunity Employment. Contractor represents that it is an equal opportunity employer and it shall not discriminate against any subcontractor, employee, or applicant for employment because 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. Such non-discrimination shall include, but not be limited to, all activities related to initial employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff, or termination.

3.1.3 Time of Essence. Time is of the essence for each and every provision of this Agreement. The acceptance of late performance shall not waive the right to claim damages for such breach nor constitute a waiver of the requirement of timely performance of any obligations remaining to be performed.

3.1.4 OCERS' Right to Employ Other Contractors. OCERS reserves the right to employ other contractors in connection with the Services.

3.1.5 Successors and Assigns. This Agreement shall be binding on the successors and assigns of the Parties.

3.1.6 Assignment or Transfer. Contractor shall not assign, hypothecate, or transfer, either directly or by operation of law, this Agreement or any interest herein without the prior written consent of OCERS.

3.1.7 Amendment. This Agreement may not be altered or amended except in a writing signed by both Parties.

3.1.8 Waiver. All waivers under this Agreement must be in writing to be effective. No waiver of any default shall constitute a waiver of any other default or breach, whether of the same or other covenant or condition.

3.1.9 No Third Party Beneficiaries. There are no intended third party beneficiaries of any right or obligation assumed by the Parties.

3.1.10 Invalidity; Severability. If any portion of this Agreement is declared invalid, illegal, or otherwise unenforceable by a court of competent jurisdiction, the remaining provisions shall continue in full force and effect.

3.1.11 Governing Law; Venue. This Agreement shall be governed by the laws of the State of California. The exclusive venue for any dispute arising out of or relating to this Agreement shall be in Orange County, California.

3.1.12 Attorneys' Fees. If either Party commences an action against the other Party, either legal, administrative, or otherwise, arising out of or in connection with this Agreement, the prevailing party in such litigation shall be entitled to have and recover from the losing party reasonable attorneys' fees and all other costs of such action.

3.1.13 Authority to Enter Agreement. Contractor has all requisite power and authority to conduct its business and to execute, deliver, and perform the Agreement. Each Party warrants that the individuals who have signed this Agreement have the legal power, right, and authority to make this Agreement and bind each respective Party.

3.1.14 Counterparts. This Agreement may be signed in counterparts, each of which shall constitute an original.

3.1.15 Integration. This Agreement represents the entire understanding of OCERS and Contractor as to those matters contained herein. No prior oral or written understanding shall be of any force or effect with respect to those matters covered hereunder. Neither Party shall be deemed to be the drafter of this Agreement and no presumption for or against the drafter shall be applicable in interpreting or enforcing this Agreement.

3.1.16 Interpretation. This Agreement has been negotiated at arm's length and between parties sophisticated and knowledgeable in the matters dealt with in this Agreement. Each Party has been represented by experienced and knowledgeable legal counsel. Accordingly, any rule of law (including, without limitation, California's Civil Code Section 1654) or legal decisions that would require interpretation of any ambiguities in this Agreement against the party that has drafted it shall not be applicable and are hereby waived. The provisions of the Agreement shall be interpreted in a reasonable manner to effectuate the purpose of the Parties and this Agreement.

3.1.17 Precedence. In the event of any conflict, inconsistency, or ambiguity between the terms and conditions in the main body of this Agreement and the terms and conditions in any exhibit, the main body of this Agreement shall control. This Agreement and all attached exhibits will be construed to be consistent, insofar as reasonably possible. When interpreting this Agreement, precedence shall be given to its respective parts and amendments in the following descending order:

- (a) Amendments to this Agreement entered into pursuant to Section 3.1.7 herein.
- (b) This Agreement.

- (c) Exhibit A: Scope of Services, Exhibit B: Fee Schedule, and Exhibit C: Key Personnel.
- (d) OCERS Request for Proposal dated [REDACTED], attached as Exhibit "D".
- (e) Contractor's Response to OCERS Request for Proposal, attached as Exhibit "E".

IN WITNESS WHEREOF, the Parties hereby have caused this Agreement to be executed on the Effective Date:

APPROVED:

APPROVED:

**OCERS**

**[CONTRACTOR]**

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_



**EXHIBIT A**  
**SCOPE OF SERVICES**

Starting on the Effective Date, and continuing during the Term, Contractor will perform the Services in accordance with the terms of the Agreement. The Services consist of:

1. [complete description of services and timetable for performance]



**EXHIBIT B  
FEE SCHEDULE**

1. **Fees and Expenses.** Contractor agrees to accept the compensation set forth in this Exhibit B as full payment for performing all Services, including all staffing and materials required, for any reasonably unforeseen difficulties which may arise or be encountered in the execution of the Services, for risks connected with the Services, and for performance by Contractor of all its duties and obligations under the Agreement. OCERS will pay the following fees in accordance with the provisions of this Agreement:

- 

- *The total compensation shall not exceed XXX Dollars (\$XXX.00) without written approval by OCERS.*

- *[provision for expense reimbursement]*

2. **Payment Terms – Payment in Arrears:** Invoices are to be submitted in arrears to OCERS unless otherwise directed in this Agreement. Payment by OCERS will be net thirty (30) days after receipt and approval of an invoice in a format acceptable to OCERS.

3. **Payment – Invoicing Instructions:** Contractor will provide an invoice on the Contractor’s letterhead for services rendered under this Agreement. Each invoice will have a number and will include the following information:

- a. Contractor’s name and address
- b. Contractor’s remittance address, if different from item #1 above
- c. Contractor’s Taxpayer ID Number
- d. Name of OCERS Agency/Department
- e. Delivery/service address
- f. Agreement number
- g. Agency/Department’s Account Number
- h. Date of invoice
- i. Description and price of services provided
- j. Sales tax, if applicable
- k. Freight/delivery charges, if applicable
- l. Total



Invoice and support documentation are to be forwarded to:

Email: [Accountspayable@ocers.org](mailto:Accountspayable@ocers.org)

The physical address for OCERS is at:

Orange County Employees Retirement System

2223 E. Wellington Avenue

Santa Ana, CA 92701

Attention: Accounts Payable

**EXHIBIT C**  
**KEY PERSONNEL**

C-1



**Exhibit D**  
**Request for Proposal**



**Exhibit E**  
**Response to Request for Proposal**



## Memorandum

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** **ACTUARIAL AUDIT OF OCERS's 2021 ACTUARIAL VALUATION**

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### Recommendation

Receive and file.

### Background/Discussion

Cheiron has completed the actuarial audit of the December 31, 2021 actuarial valuation performed by Segal Consulting for OCERS. The report also includes the results of Cheiron's peer review of Segal Consulting's most recent Actuarial Experience Study (for the three years ending December 31, 2019).

The audit is part of OCERS' regular cycle of performing audits of its consulting actuary every five years. The last actuarial audit report was received and filed by the Audit Committee at the January 2018 Audit Committee meeting.

As excerpted from the executive summary of Cheiron's audit report below:

The main findings of our review are outlined below.

1. We are able to confirm that the liabilities and costs computed in the valuation as of December 31, 2021 are reasonably accurate and were computed in accordance with generally accepted actuarial principles. For the scope of this audit, materiality means the results in aggregate are within industry standards of plus or minus 5%.
2. We found two small technical issues in Segal's coding of their valuation system related to:
  - The calculation of a member's entry age to determine age-based member contribution rates
  - The service used to determine when a Safety member reaches 30 years of service and their employee contributions cease.

If these were corrected, the result would be a slight reduction to the overall employer contribution rate of approximately 0.10% of payroll. We do not believe either of these issues represents a significant finding since the impacts on the overall funding requirements of the System are very small.

3. We have reviewed the economic and demographic assumptions recommended in the Actuarial Experience Study for the period ending December 31, 2019. In general, we have found them to be reasonable and in accordance with generally accepted actuarial principles.

Segal agrees with the technical issues identified by Cheiron and that the impact of these changes on the overall funding of the System are very small and do not represent a significant finding. Segal's response is included below:



## Memorandum

Cheiron found two technical issues with Segal's valuation procedures. However, Cheiron noted, and Segal agrees, that impact of these changes on the overall funding of the System are very small and thus do not represent a significant finding. The two recommended changes are as follows:

- *The calculation of a member's entry age to determine age-based member contribution rates should be based on the member's "nearest age", or rounded age, at entry rather than the member's "completed or attained age."*

We agree with Cheiron's finding and will include this change in the Actuarial Valuation and Review as of December 31, 2022. As pointed out by Cheiron in their report, this change will only impact the calculation of the weighted average employee contribution rates<sup>1</sup> used in the valuation to determine the employer's net remaining normal cost rate to fund the total normal cost.

- *The service used to determine when a Safety member reaches 30 years of service and their member contributions cease should not include reciprocal service.*

We agree that excluding reciprocal service in the 30-year member contribution cessation determination is consistent with the description on OCERS' website. While some other 1937 CERL systems do include reciprocal service for this purpose, we understand after consulting with OCERS staff that the relevant sections of the 1937 CERL to enable the use of reciprocal service have not been adopted by OCERS' sponsoring employers. We will work with OCERS to make sure that our valuation process is consistent with OCERS' ongoing practice as part of the Actuarial Valuation and Review as of December 31, 2022.

The full report from Cheiron and the response from Segal are attached. To view Cheiron's interactive presentation, please visit: <https://presentation.cheiron.us/presentation/view/OCERSActuarialAudit?token=ABJY>

### Submitted by:



**DK- Approved**

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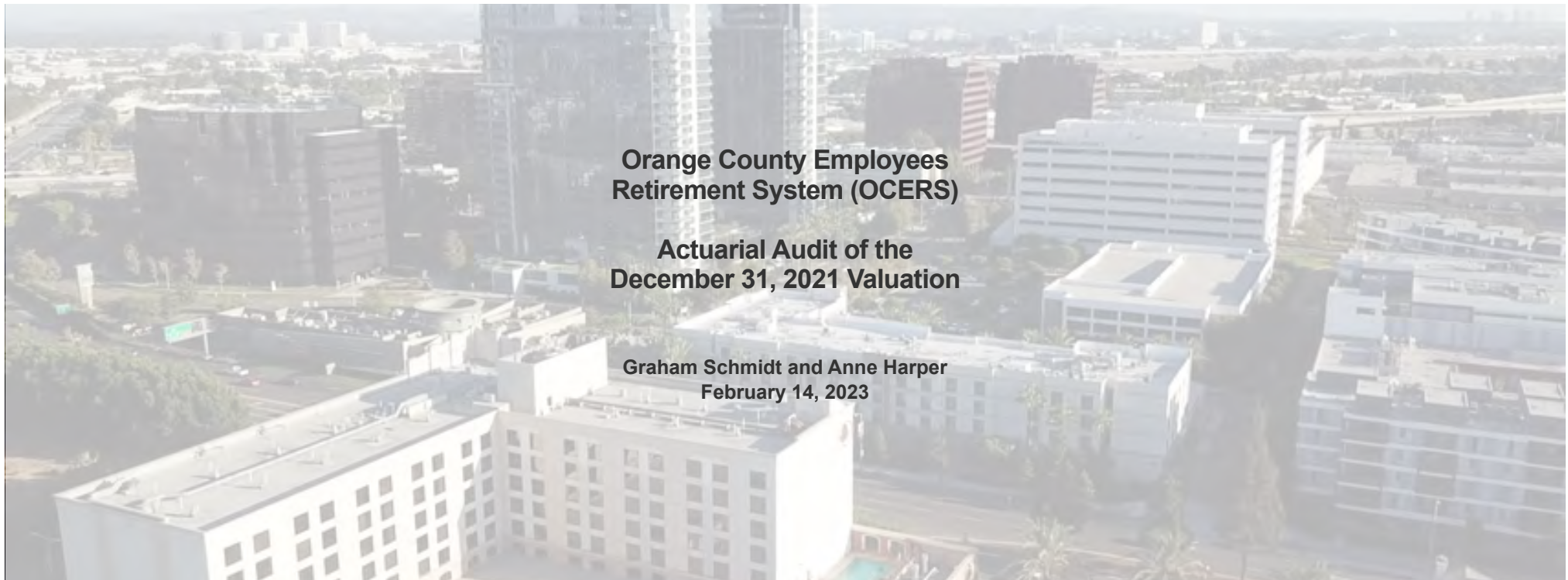
David Kim  
Director of Internal Audit





Welcome to Cheiron's presentation of the results of our actuarial audit for OCERS. Many of the exhibits in this presentation are interactive; clicking within the page can reveal additional details. You may also jump to different pages or use the Table of Contents included in the navigation bar above.

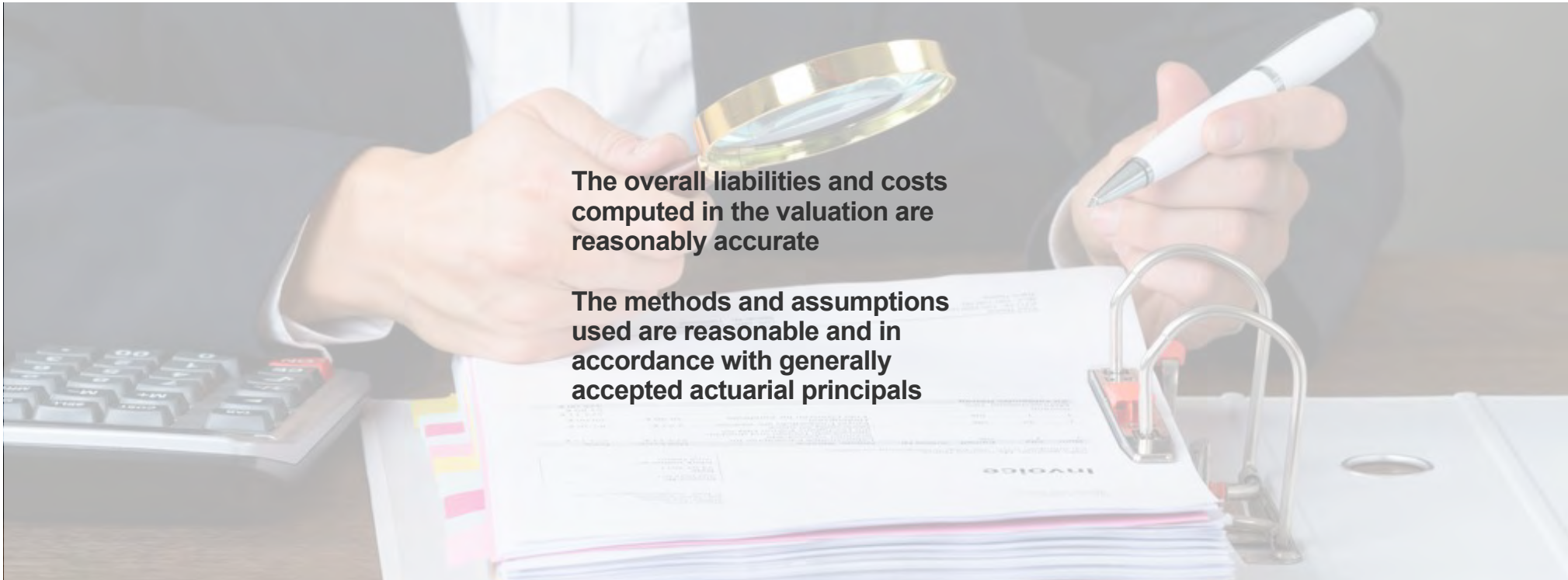
1 of 55





Cheiron has performed a complete independent replication of the December 31, 2021 Actuarial Valuation and Review completed by Segal, including a review of the actuarial assumptions and methods. The main conclusions are:

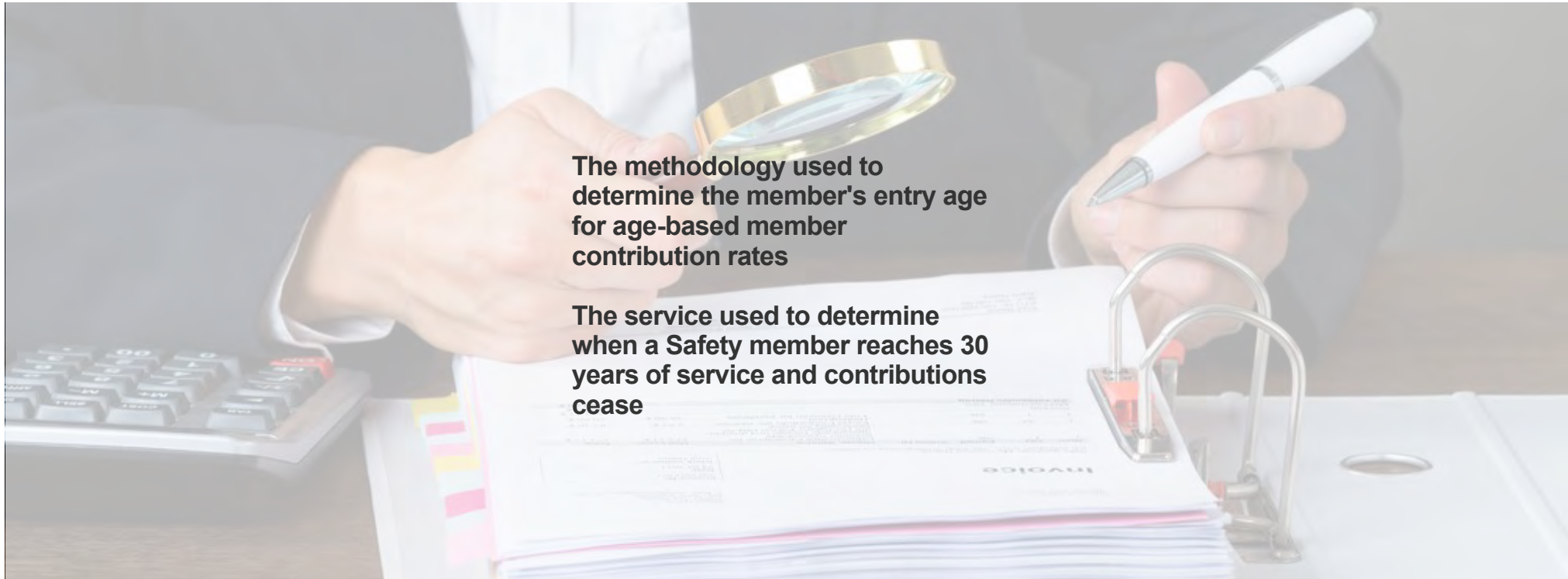
2 of 55





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Our review did result in two minor findings. Neither are expected to result in a significant impact on funded status or contributions.



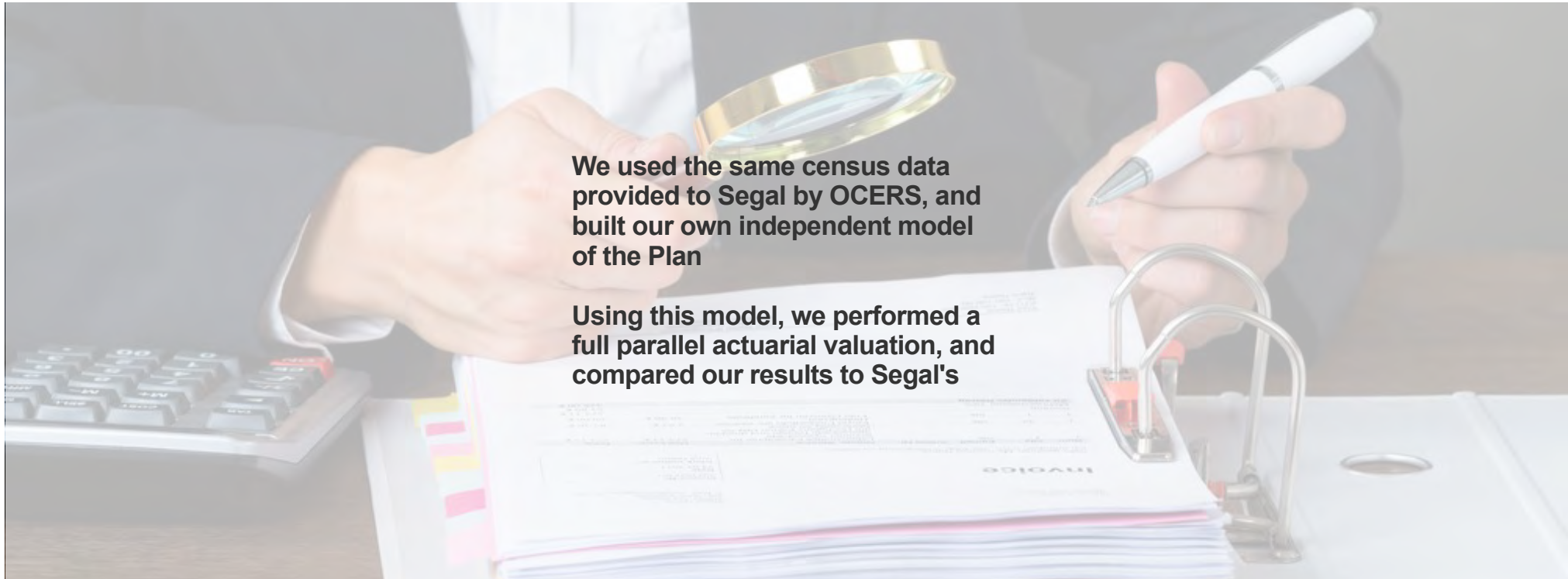
**The methodology used to determine the member's entry age for age-based member contribution rates**

**The service used to determine when a Safety member reaches 30 years of service and contributions cease**



We first summarize the steps in our review of the results of the actuarial valuation.

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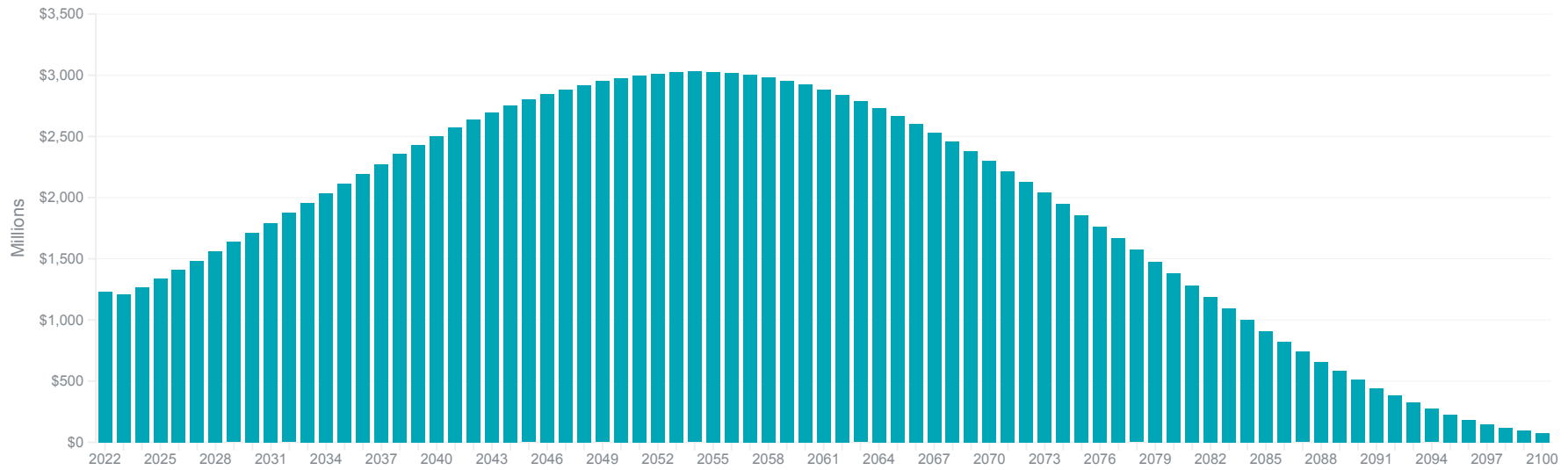


The actuarial valuation begins with the Actuary building a model to project the benefits expected to be paid to the current members (active and retired).

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## Projected Benefit Payments

Base ■ Projected Benefits ■ Discounted Benefits ■ Interest Discount



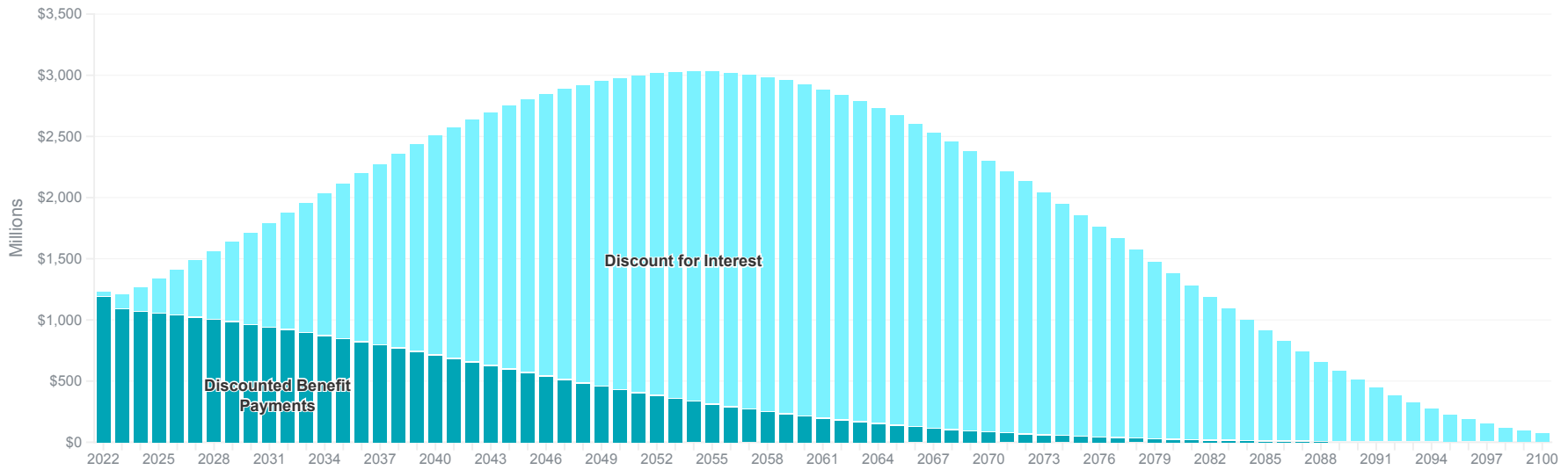


Next, an **interest discount** is applied based on the assumed rate of return on assets (7.00% for OCERS), which reduces the value of future benefits because of the **time value of money**.

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### Projected Benefit Payments

Base ■ Projected Benefits ■ Discounted Benefits ■ Interest Discount



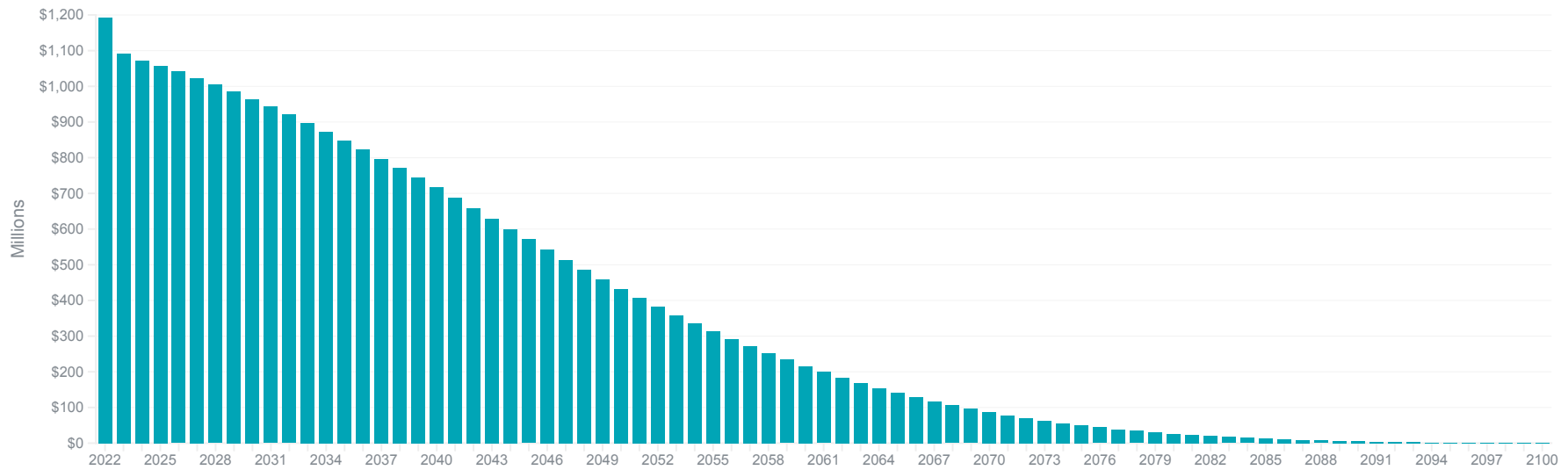


Reducing by the interest discount, leaves us with the **value in today's dollars**.

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## Projected Benefit Payments

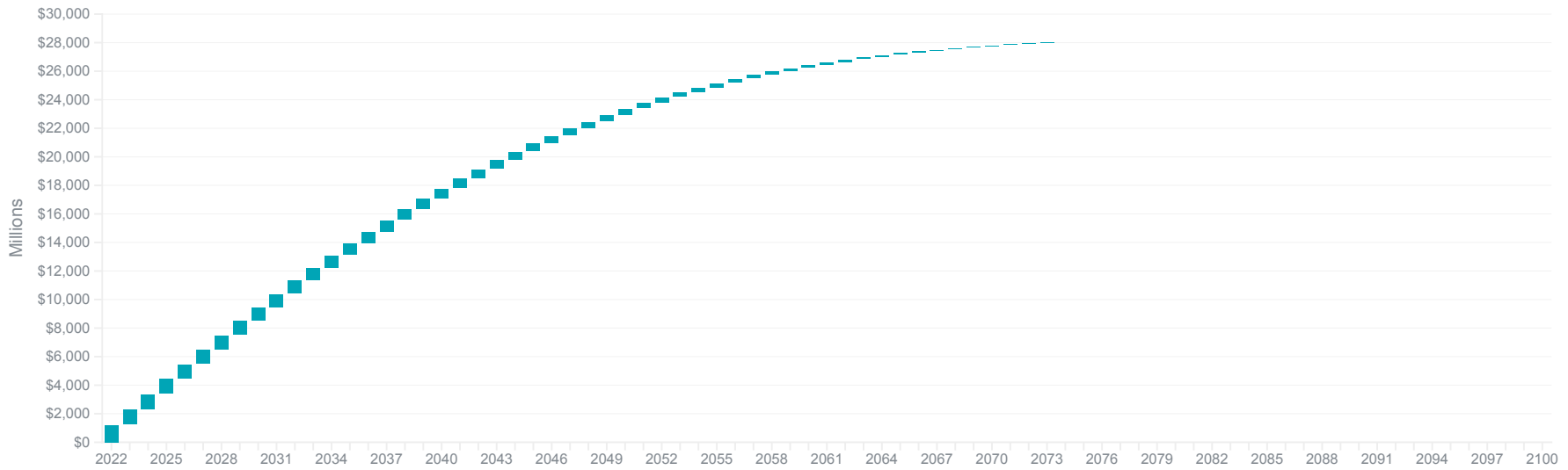
Base █ Projected Benefits █ Discounted Benefits █ Interest Discount



← → We add them together...  
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### Projected Benefit Payments

Base ■ Projected Benefits ■ Discounted Benefits ■ Interest Discount







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..and express as a single sum, the **Present Value of Benefits (PVB)**. As of December 31, 2021, Segal calculated this amount to be \$28.6 billion.

Segal

PVB AL PVFNC



← → Generally for an actuarial audit, we target a 5% threshold for differences. If our comparative results are outside of this margin, further research may be warranted.

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Segal

PVB AL PVFNC



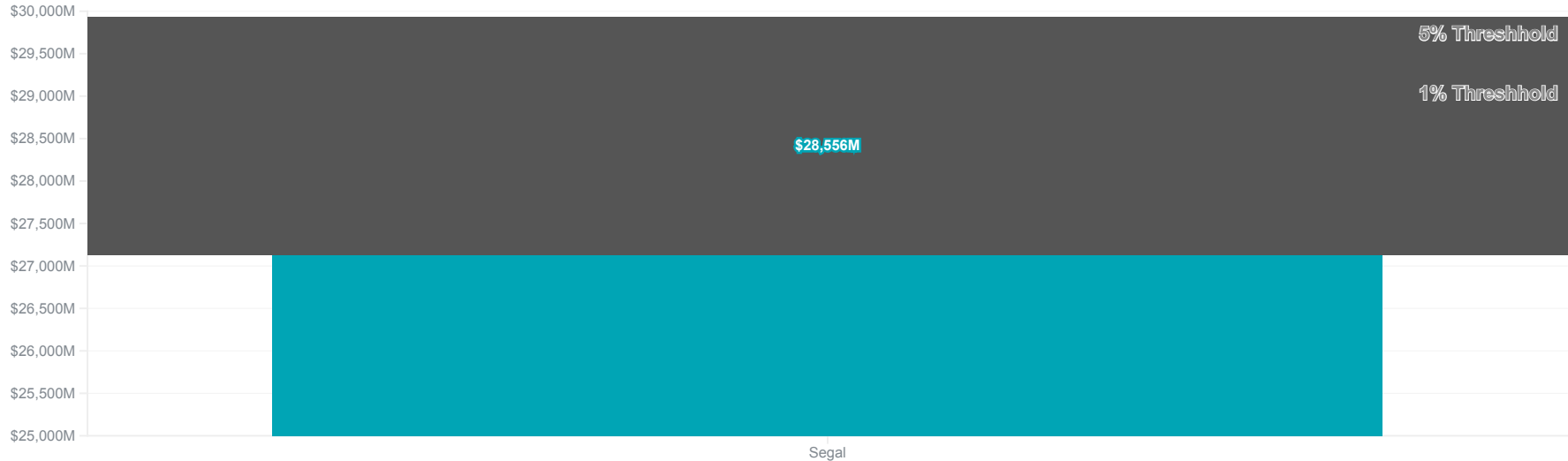


However, for some measures - particularly the overall present value of benefits - we target a much tighter margin, in this case 1%. This ensures that the overall funding requirements and funded status are being measured appropriately, given the assumptions and methods being used.

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Segal

PVB AL PVFNC



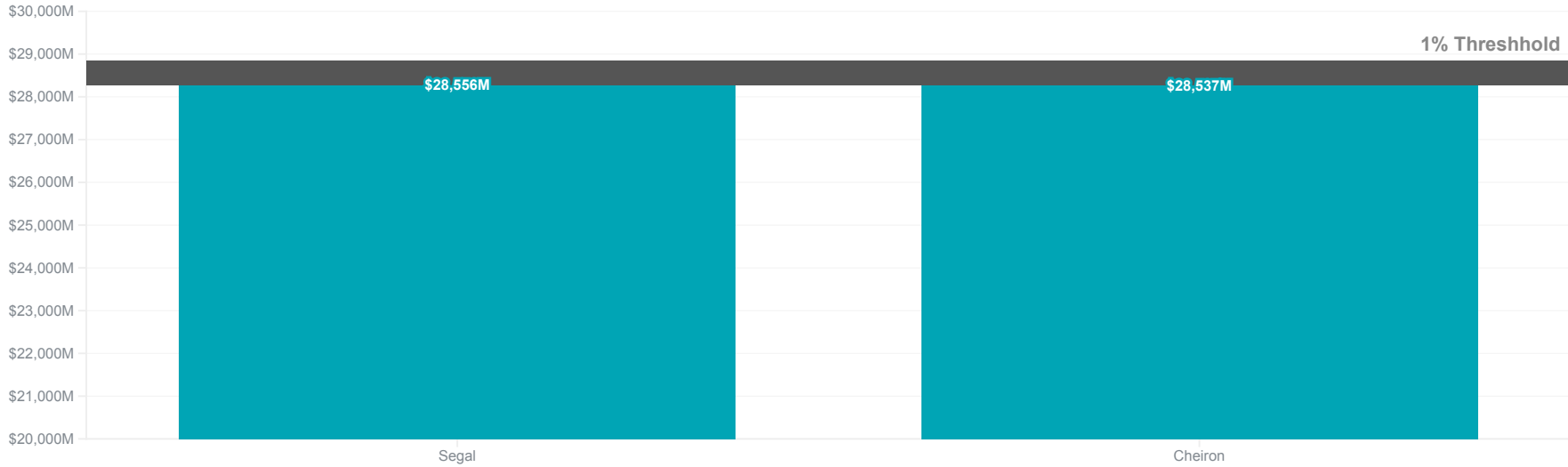


After building our own independent model of the benefits, we compared our results to Segal's. The key PVB measure is well within the 1% - within 0.1% in this case - therefore we are confident that the overall benefits are being modeled by Segal accurately.

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All

PVB AL PVFNC



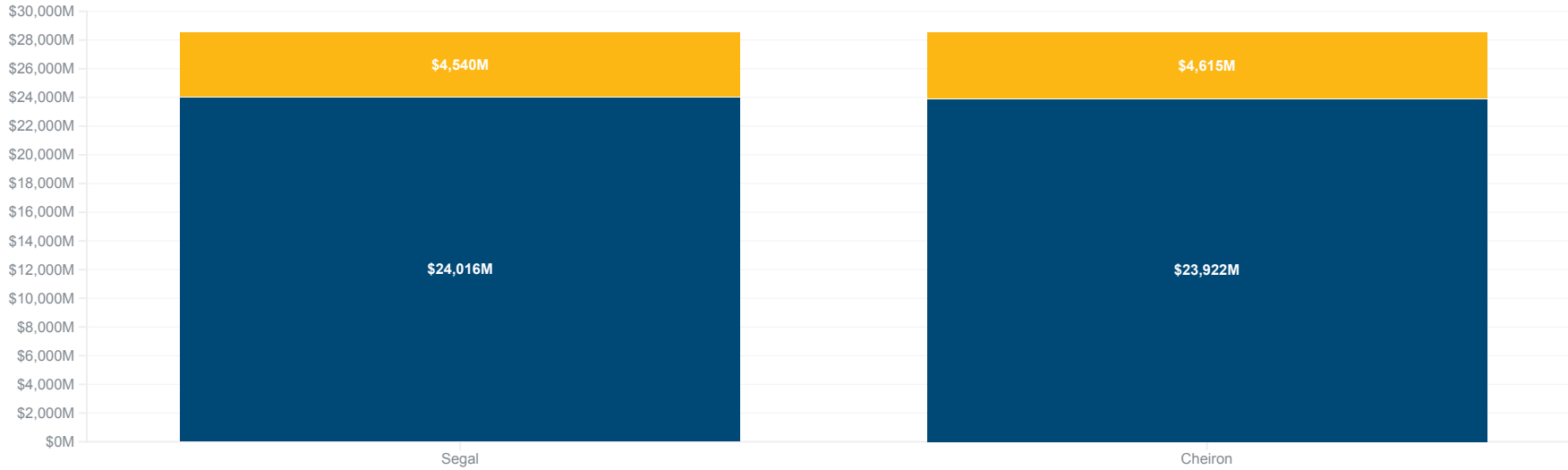


In addition to comparing the Present Value of Benefits we also calculate and compare two other measures: the **Actuarial Liability (AL)** and the **Present Value of Future Normal Costs (PVFNC)**. The AL represents the cost allocated to the benefits earned based on prior service. The PVFNC is the value of benefits expected to be paid, but yet to be earned by the active members.

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All

■ PVB ■ AL ■ PVFNC



All measures fall well within our 5% target margin, and the liability falls within 0.4%. The difference in the future normal costs is slightly larger, at about 1.7%. However, we are not concerned with this level of difference.

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All

PVB AL PVFNC

PVB

AL

PVFNC





We next turn to a comparison of the funded status. For funding purposes, the liabilities are compared to the **Actuarial Value of Assets**, or the *actuarially-smoothed* value of the assets.

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Actuarial Liability Actuarial Value of Assets Market Value of Assets UAL

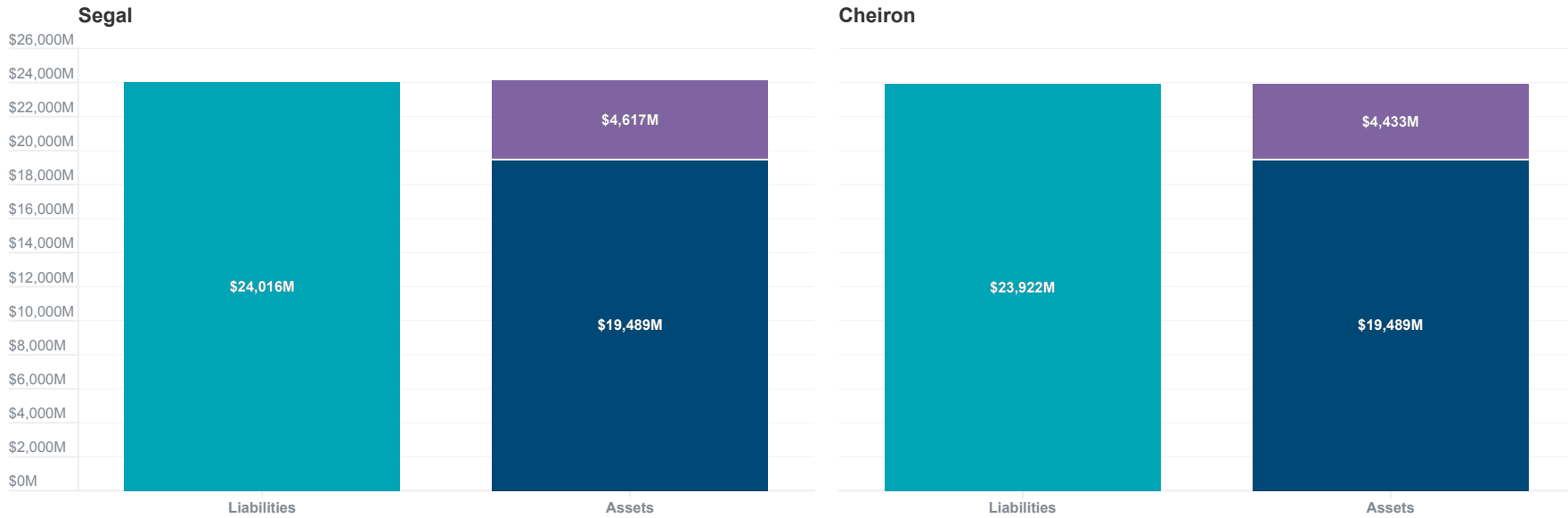




The difference between these numbers is the **Unfunded Actuarial Liability (UAL)**. Our computed value is very close to Segal's: within \$184M (less than a 5% difference).

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Actuarial Liability   Actuarial Value of Assets   Market Value of Assets   UAL



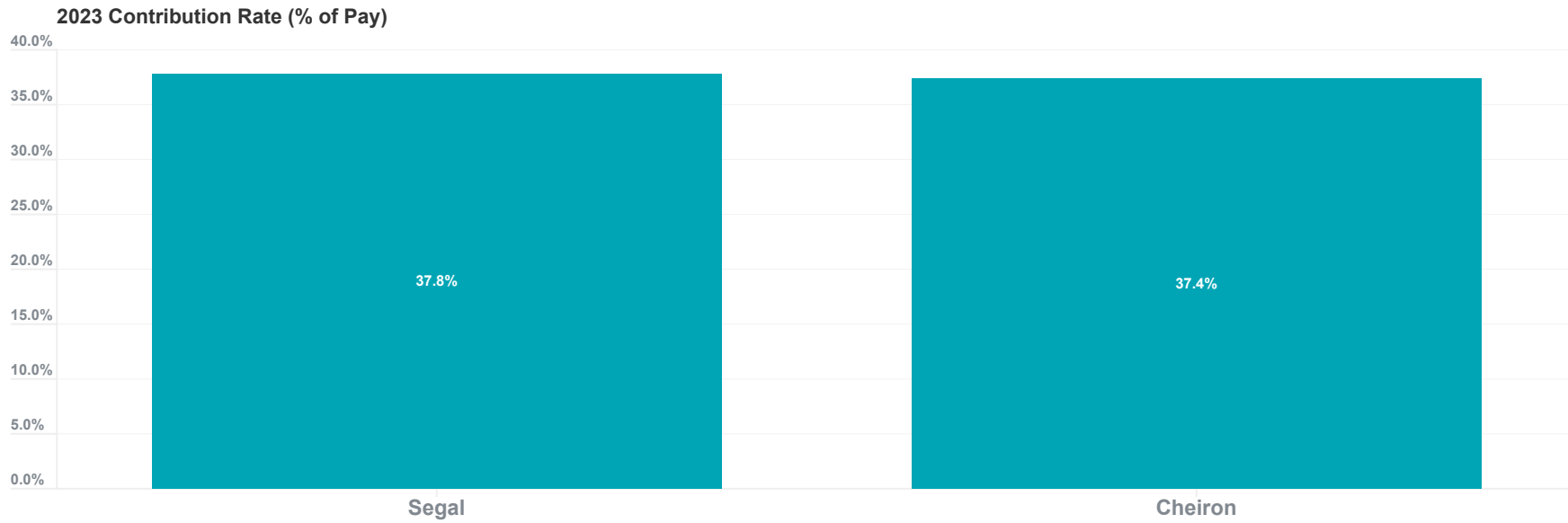




We next turn to the **Actuarially Determined Contributions (the ADC)**. Based on the results discussed earlier, an employer contribution rate is calculated and compared. The results are very close, within 0.4% of pay, which works out to a 1.1% relative difference.

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■ Total Rate ■ UAL Rate ■ Employer Normal Cost Rate

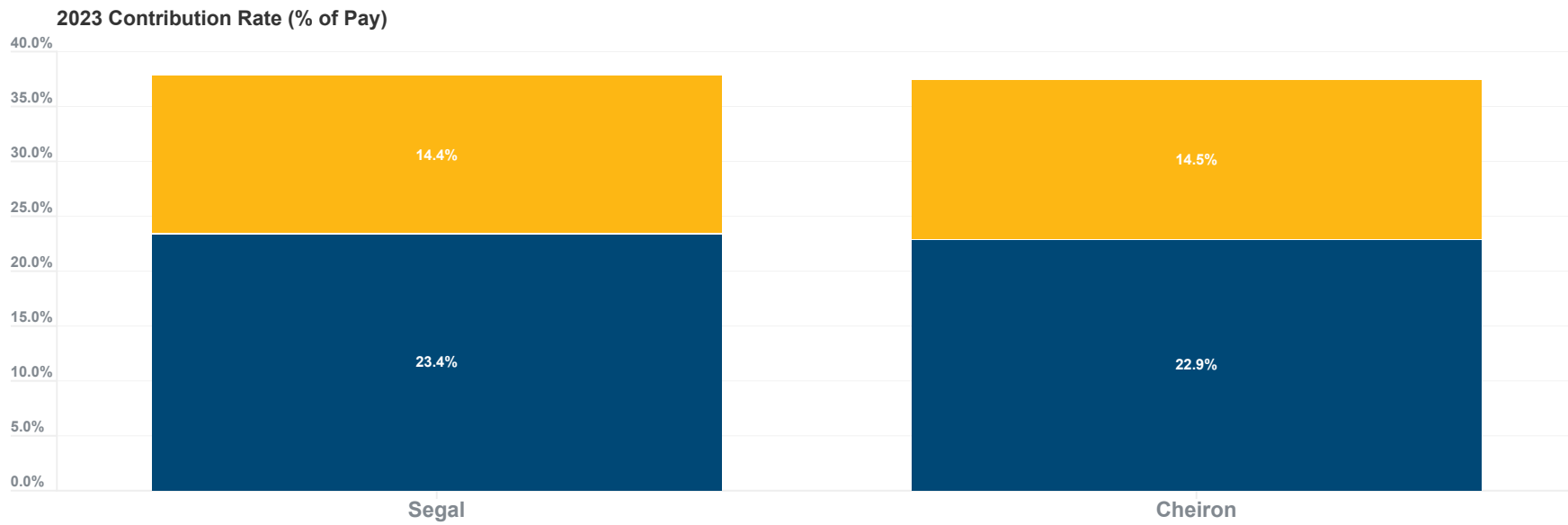




The overall employer rate is made up of two pieces: the employer's share of the **Normal Cost** (the cost assigned to this year's service) and the payment to **amortize the UAL** according to the Plan's funding policy. Both measures are also close (within 2%).

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■ Total Rate ■ UAL Rate ■ Employer Normal Cost Rate





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We did find two small technical issues in Segal's coding of their valuation system related to the allocation of normal costs between the employees and employers, neither of which have a material impact on the results. The first issue concerns the calculation of the "entry age", used to assign the member rates.

***Roughly half of the members were assigned an entry age one year less than required under the CERL, resulting in slightly lower member contribution rates and thus slightly higher employer normal cost rates.***

***If corrected, we estimate it would reduce the employer contribution rate by about 0.06% of pay.***

***There is no impact on the actual entry-age based rates paid by the members; this issue only affects the calculation of the average employee rate shown in the valuation.***



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The second issue is the determination of the 30-year cutoff for Safety members; once they reach 30 years of service they no longer make employee contributions.

***Segal included reciprocal service from other systems in determining when a member will reach 30 years of service.***

***Based on the provisions of the CERL adopted by OCERS, our understanding is that reciprocal service does NOT count toward the 30-year cutoff for Safety members.***

***If corrected, we estimate it would reduce the employer contribution rate by about 0.03% of pay overall, driven by a 0.28% of pay reduction for Safety Rate Group #8. Again, this issue does not have any impact on the actual contributions paid by the members.***

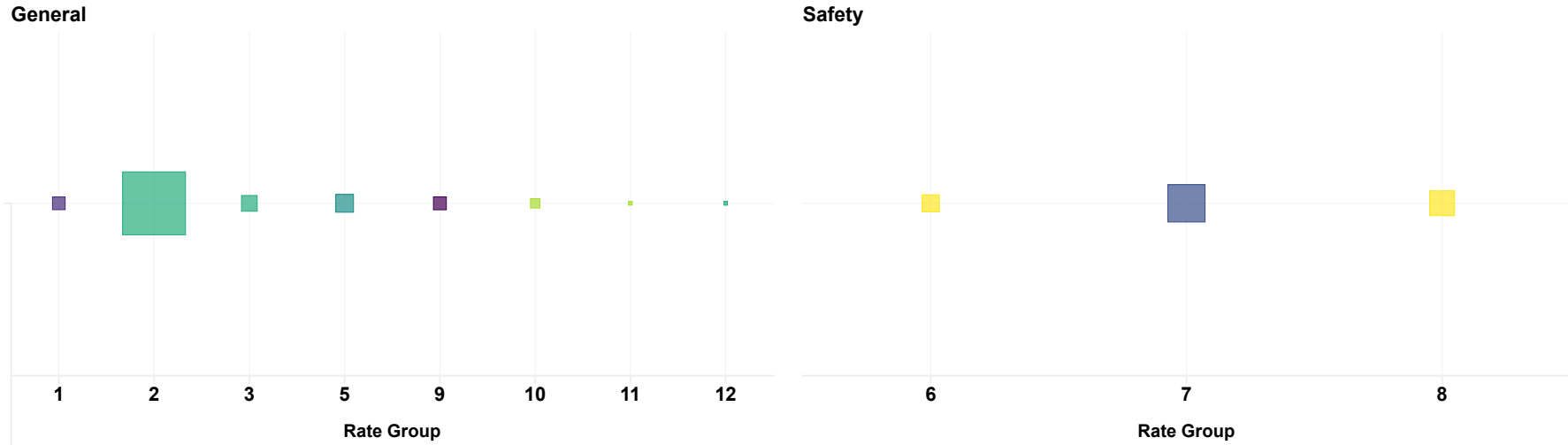


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Within the valuation report Segal also breaks down the **Actuarial Accrued Liability** by **Class and Rate Group**. We compare our results for each group, using the 5% threshold for identifying areas where further research may be warranted. In the chart below, the size of the square correlates to the size of the liability, while the percentile differences between Cheiron's results and Segal's are indicated by color. All results for the General and Safety Rate Groups are within 1%.

### Actuarial Accrued Liability Comparison

Difference between Segal and Cheiron 0% 1%



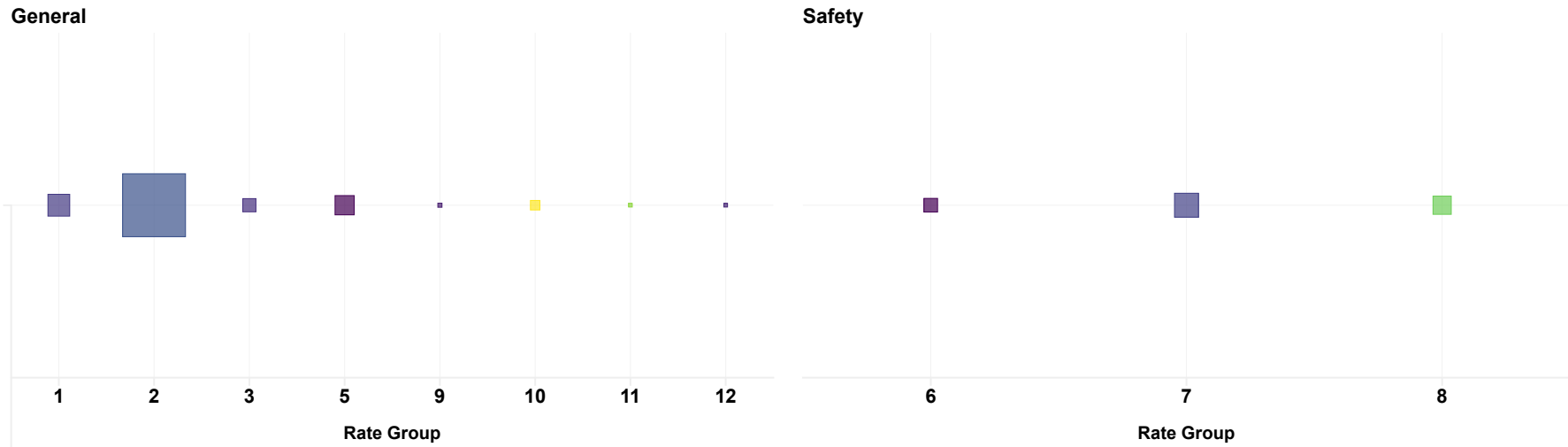


Next, we turn to a comparison of the **employer contribution rates** for each Safety and General Rate Group. Here the boxes are sized by the active headcount. All of the rates are within 4%, below the 5% threshold.

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### Employer Contribution Rate Comparison

Difference between Segal and Cheiron 0% 4%





Member contribution rates are developed for each possible age that a member enters OCERS and for each Plan - for both Legacy and PEPPA members. For each group, we independently calculated the member rates for sample entry ages at 25, 35 and 45. Our comparison of results to Segal's member rates were all within the 5% threshold.

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## Member Contribution Rate Comparison





We next turn to the actuarial assumptions and methods. We reviewed Segal's recommended assumptions in the most recent Actuarial Experience Study, and in general found them to be reasonable and consistent with the **Actuarial Standards of Practice (ASOP)**. We also reviewed the Actuarial Methods and found them to be reasonable and consistent with the ASOPs and current guidance. We have several comments for consideration at the time of the next experience study.

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We reviewed the economic assumptions recommended by Segal in the experience study. The primary recommendations are summarized below, and were adopted by the Board effective with the December 31, 2020 actuarial valuation and continue to be used in the December 31, 2021 valuation. We found Segal's recommended assumptions to be reasonable **based on the information presented at the time of the experience study** (published in August, 2020).



### Discount Rate

*Assumed annual return on investments (net of investment and administrative expenses)*

Maintain 7.00%



### Inflation Rate

*Price inflation; building block for other assumptions*

Reduced from 2.75% to 2.50%



### Wage Growth

*Base (across-the-board) pay increases*

Reduced from 3.25% to 3.00%



### COLA Rates

*Annual growth in post-retirement COLAs (affected by banking / caps)*

Maintain 2.75%

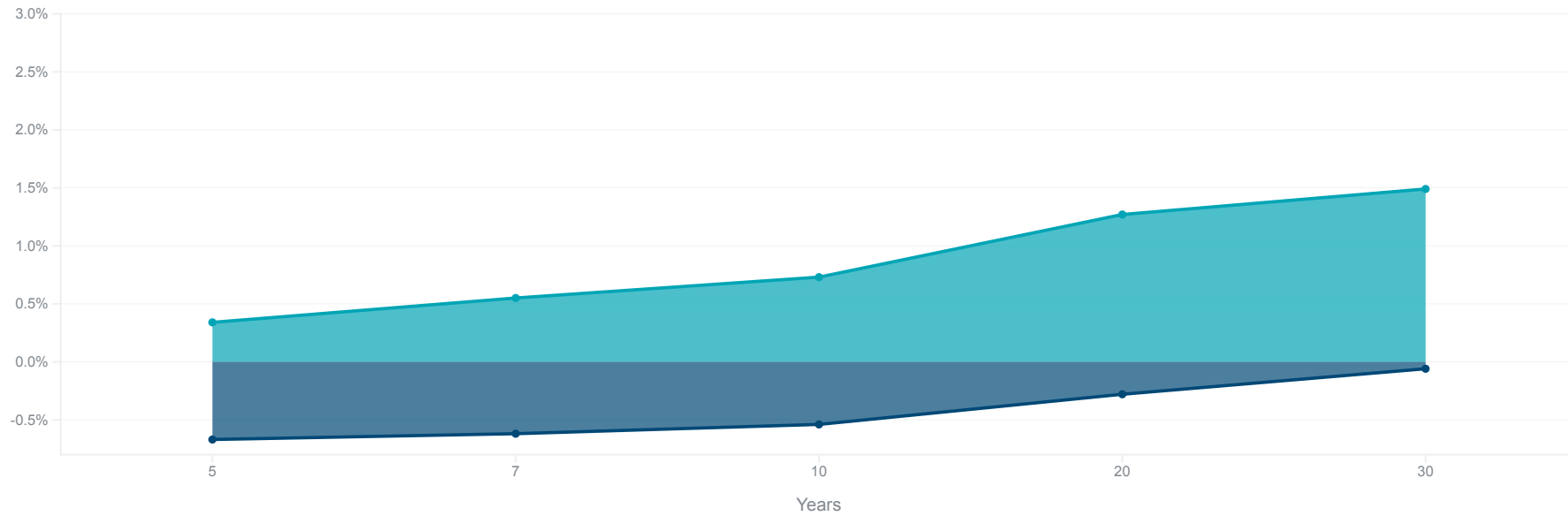




Are the assumptions **still** reasonable? First, we review recent changes in inflation. In their experience study report one of the items Segal presented was the difference between TIPS (inflation-protected bonds) and regular Treasuries. The differences at various durations as of June 2020 are shown below.

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■ Treasury Yields ■ TIPS Yields ■ Breakeven Inflation - June 2020 ■ Breakeven Inflation - Aug 2022

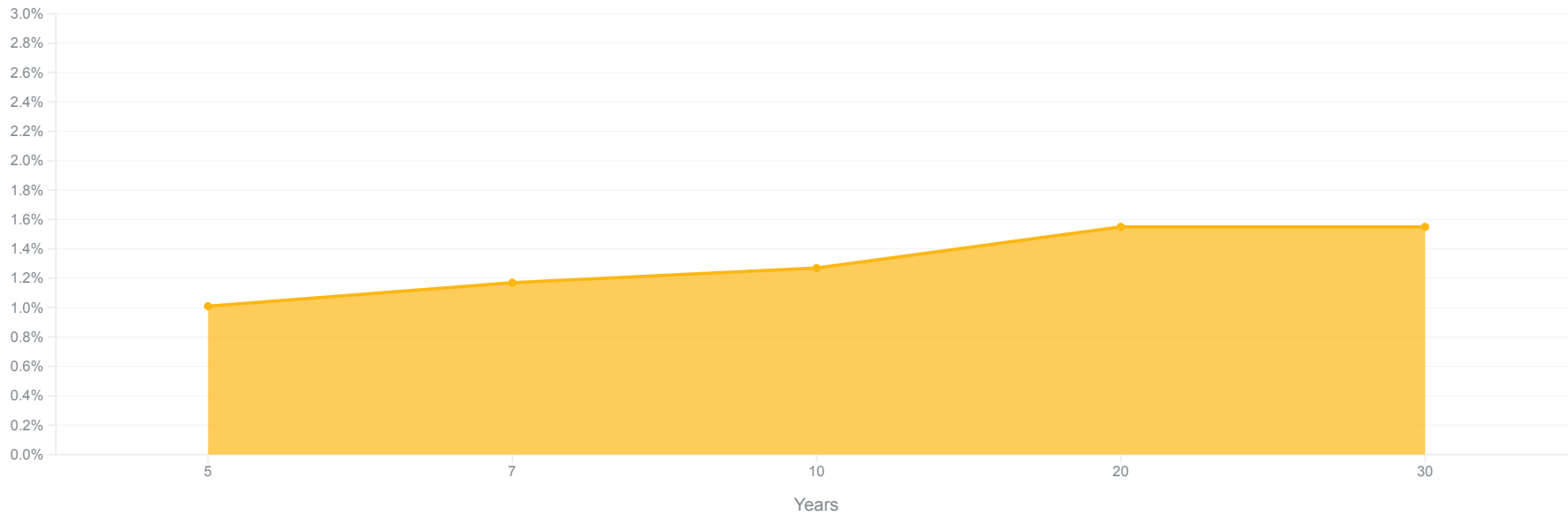




This is also known as the "break-even" inflation rate.

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Treasury Yields TIPS Yields Breakeven Inflation - June 2020 Breakeven Inflation - Aug 2022

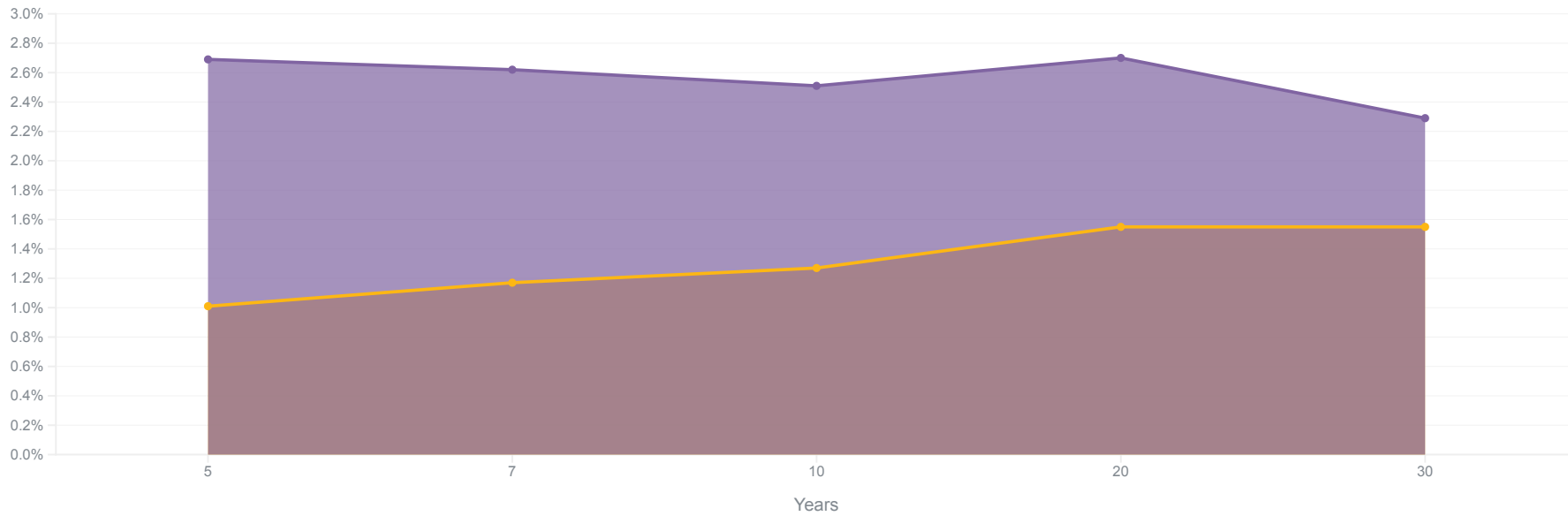




Two years later, current inflation had increased dramatically: to 8% year-over-year for the US CPI. However, although the forward-looking expectations have also increased significantly, they are still well below recent inflation levels.

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Treasury Yields TIPS Yields Breakeven Inflation - June 2020 Breakeven Inflation - Aug 2022

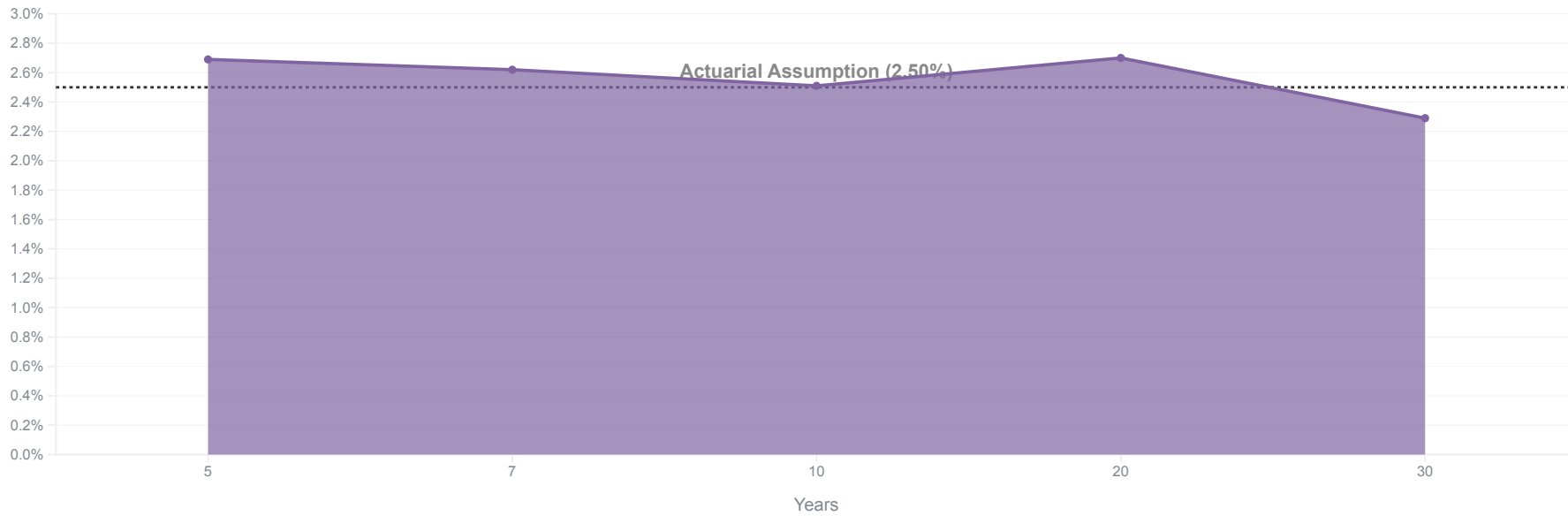




Based on these indicators, the decision to use a 2.50% long term inflation assumption for the December 31, 2021 actuarial valuation was still reasonable.

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Treasury Yields TIPS Yields Breakeven Inflation - June 2020 Breakeven Inflation - Aug 2022





Next we turn to the Plan's assumed rate of return of 7.00%. Given the asset allocation shown in the most recent Actuarial Experience Study report, 7.00% is still reasonable in today's economic environment. This chart shows the trend in the assumed rate of return from Cheiron's survey of 39 large public pension plans in California for the past 12 years. OCERS' assumption has been at or below the median (50th percentile) for the entire period.

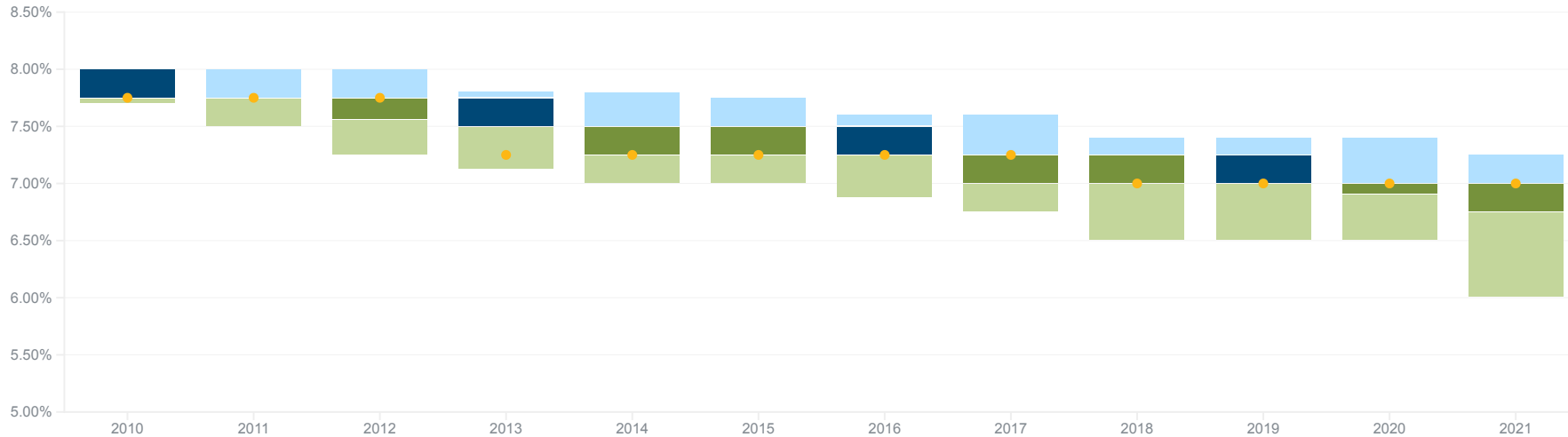
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### Distribution of Discount Rates

Cheiron Survey of California Systems

OCERS - Orange County

Selected Plan | 5th to 25th | 25th to 50th | 50th to 75th | 75th to 95th

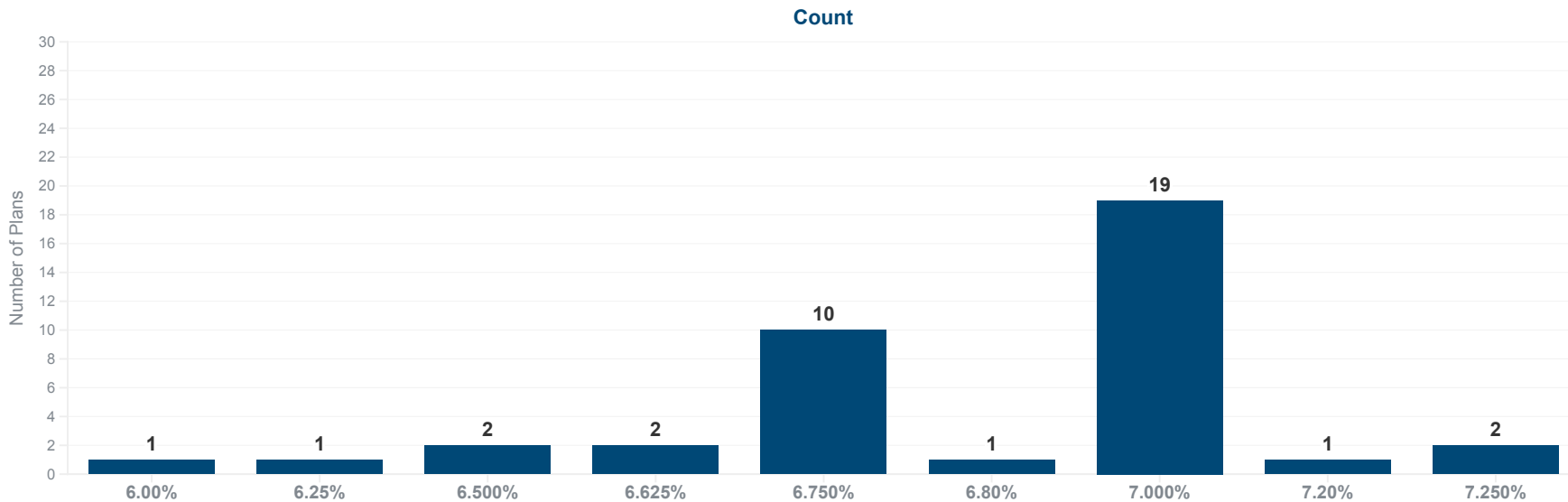




The distribution of the assumed rates of return from the 2021 actuarial valuations shows that the median and most common assumed rate for California systems is 7.00%, consistent with OCERS' current assumption.

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### 2021 Assumed Rates of Return Cheiron Survey of California Retirement Systems

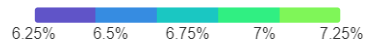




The color-coded map below shows the 2021 return assumptions for the 20 SACRS systems. Clicking on each County will provide additional details, including the applicable valuation date, other economic assumptions, and whether the discount rate is net of investment *and/or* administrative expenses.

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### SACRS Current Economic Assumptions (Click County for Details)



Source: Cheiron Survey

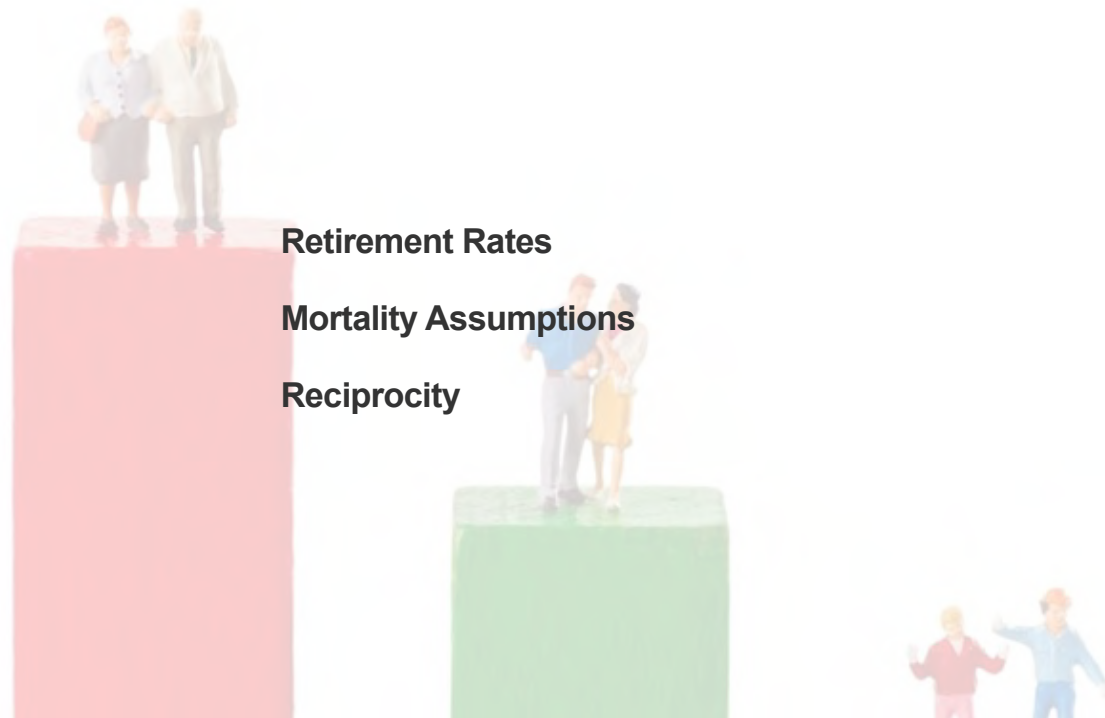






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We next review the **demographic assumptions**. In general, we find the assumptions recommended by Segal in the experience study and used in current valuation to be reasonable, but we have comments on specific assumptions.



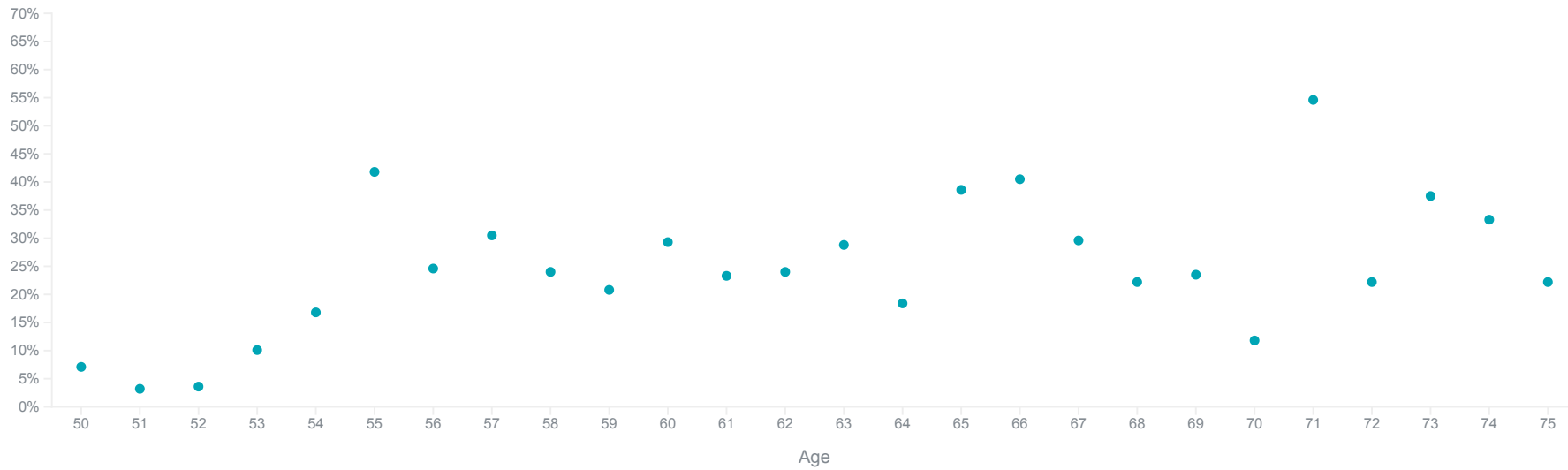


For analyzing the *rates of decrement* - i.e., the rates of retirement, termination, disability and death - Segal uses a standard approach. First, they calculate the average percentage of active members leaving service for each cause over the past three years (or over a longer period, if there isn't much experience). Here we show the data shown in their report from 2016-2019 for the General Enhanced service retirements with more than 30 years of service.

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## Retirement Rates

■ Original Assumption 
 ■ Actual Rate (<30 Yrs Svc) 
 ■ Proposed Assumption (<30 Yrs Svc) 
 ■ Actual Rate (30+ Yrs Svc) 
 ■ Proposed Assumption (30+ Yrs Svc)



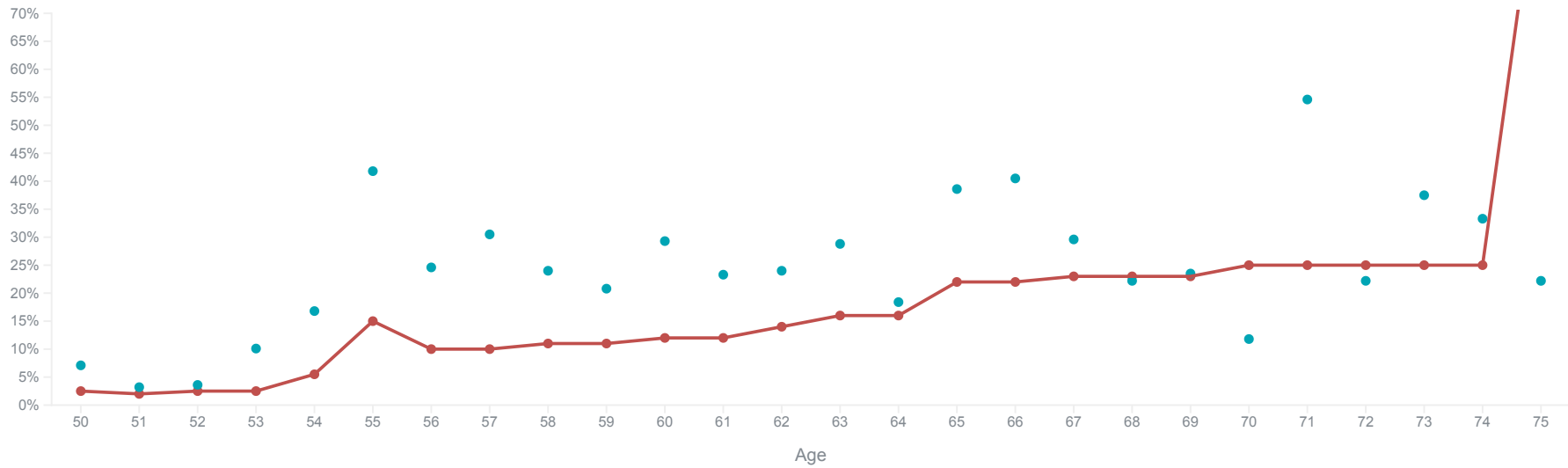


They compare the original assumption to the actual rates at each age,

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### Retirement Rates

Original Assumption Actual Rate (<30 Yrs Svc) Proposed Assumption (<30 Yrs Svc) Actual Rate (30+ Yrs Svc) Proposed Assumption (30+ Yrs Svc)



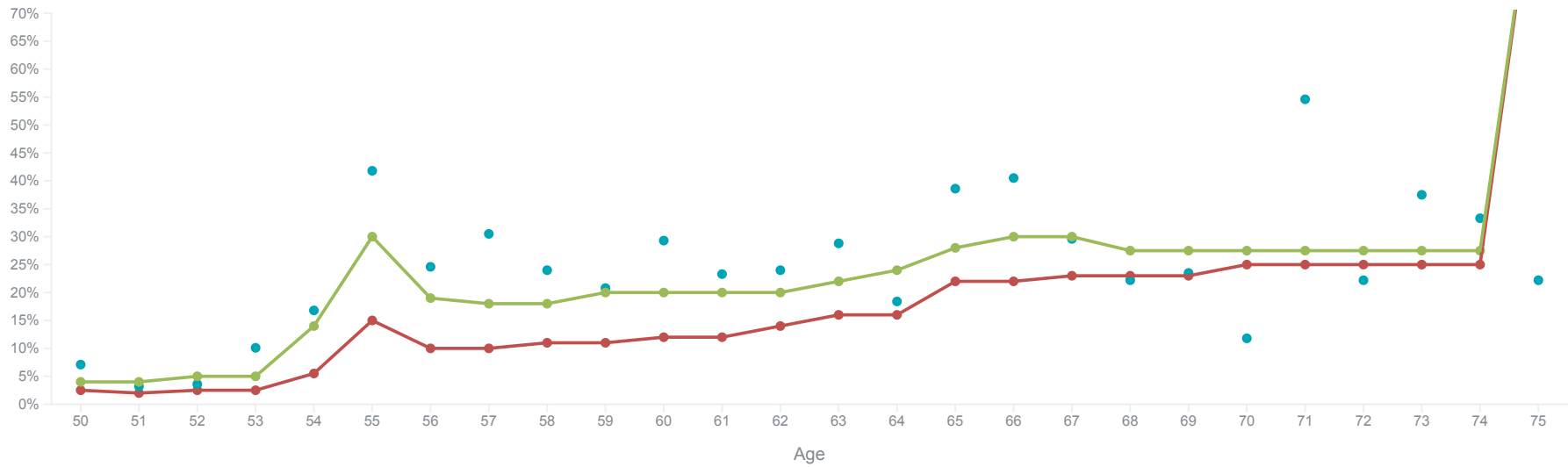


and then propose modifications to better match the data, applying professional judgement as necessary.

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## Retirement Rates

■ Original Assumption 
 ■ Actual Rate (<30 Yrs Svc) 
 ■ Proposed Assumption (<30 Yrs Svc) 
 ■ Actual Rate (30+ Yrs Svc) 
 ■ Proposed Assumption (30+ Yrs Svc)



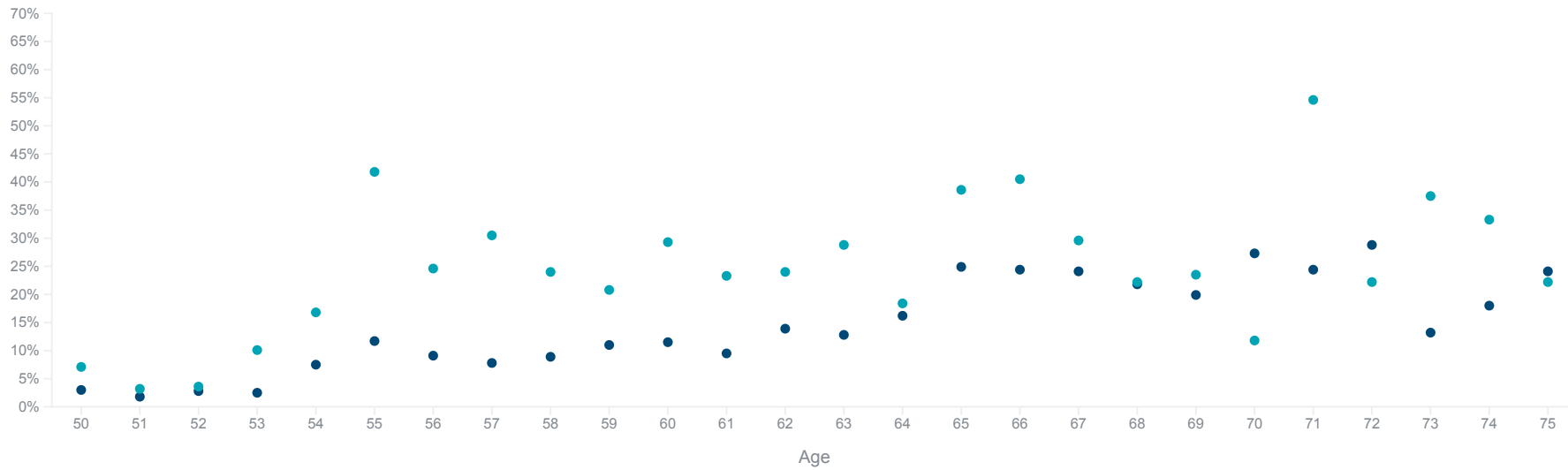


And here are the average rates of retirement at the same ages, but for those with less than 30 years of service. The rates are generally significantly higher for those with more service (teal dots).

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### Retirement Rates

Original Assumption Actual Rate (<30 Yrs Svc) Proposed Assumption (<30 Yrs Svc) Actual Rate (30+ Yrs Svc) Proposed Assumption (30+ Yrs Svc)



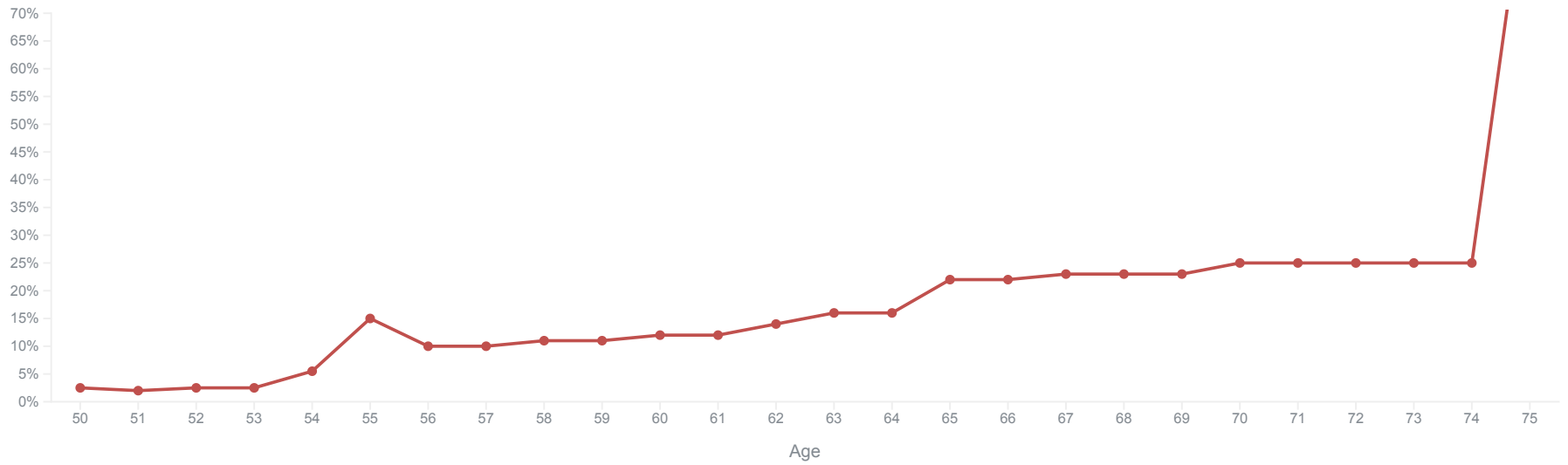


Therefore instead of recommending a single set of age-based retirement rates,

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## Retirement Rates

■ Original Assumption



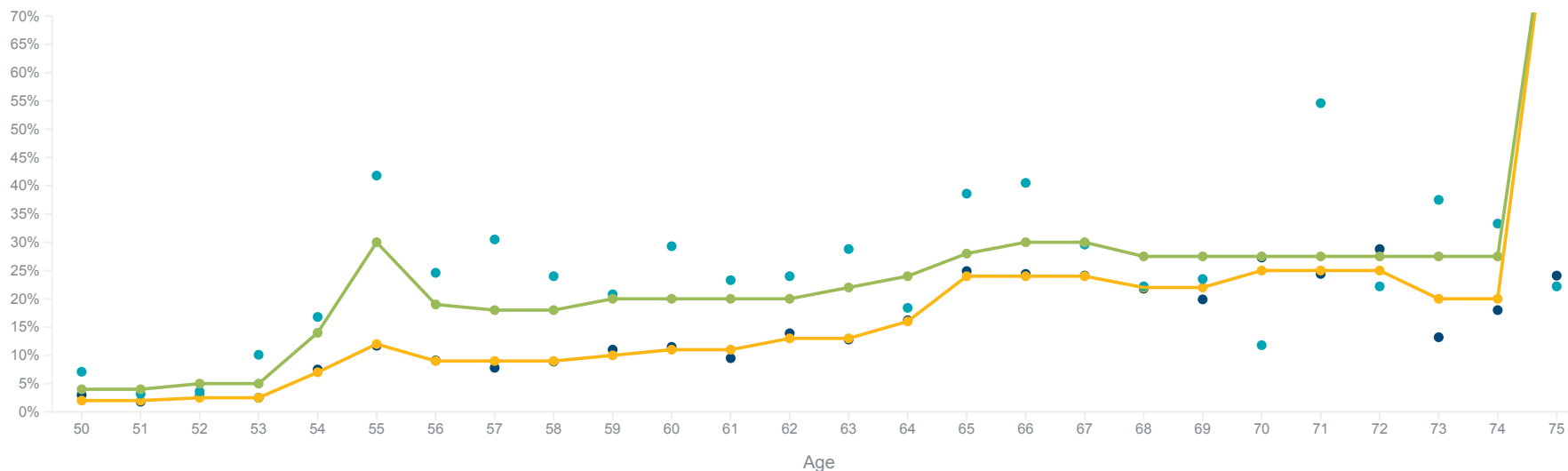


Segal modified their approach to use propose different rates for different service levels. The same is true for General Non-Enhanced and the Safety Groups. *This approach of using different rates at different service levels was one of the primary recommendations from our last audit study.*

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## Retirement Rates

■ Original Assumption 
 ■ Actual Rate (<30 Yrs Svc) 
 ■ Proposed Assumption (<30 Yrs Svc) 
 ■ Actual Rate (30+ Yrs Svc) 
 ■ Proposed Assumption (30+ Yrs Svc)

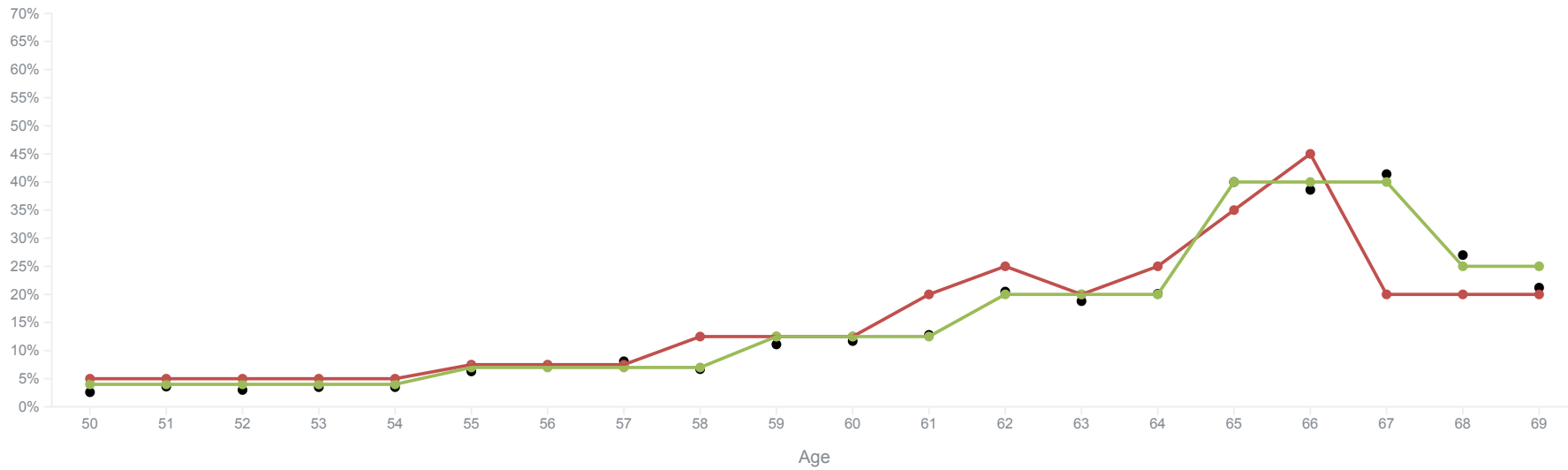


To help clients understand how robust their data is, we frequently suggest taking an additional step in analyzing and presenting information on rates of retirement and other decrements in an experience study.

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## Retirement Rates

■ Actual Rate 
 ■ Current Assumption 
 ■ Proposed Assumption 
 ■ Confidence Interval





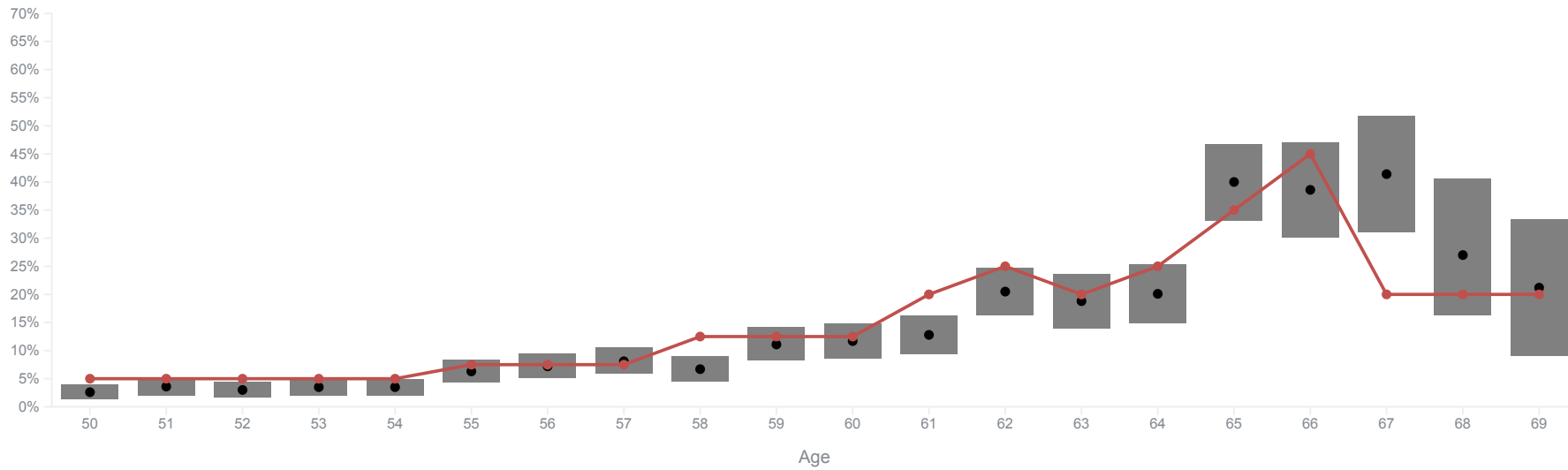


We add in a **confidence interval**, a statistical measure that indicates a range we expect the true value to lie within, based on the *credibility* of the data.

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## Retirement Rates

■ Actual Rate 
 ■ Current Assumption 
 ■ Proposed Assumption 
 ■ Confidence Interval



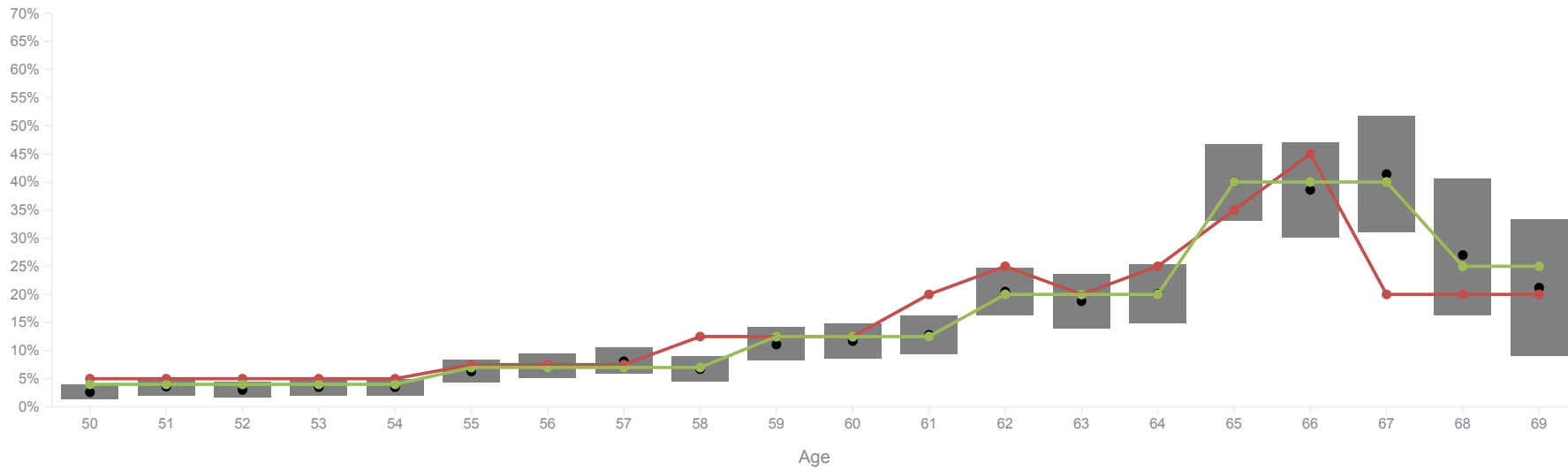


We generally propose a modified assumption if the actual rate falls outside the interval, though still applying professional judgement. We are showing a sample from one of our own recent experience studies, not OCERS, because Segal does not provide the information in their experience study report necessary to derive these statistics. We recommend including this information - specifically, the number of **exposures** and **decrements** - in future experience studies.

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## Retirement Rates

■ Actual Rate 
 ■ Current Assumption 
 ■ Proposed Assumption 
 ■ Confidence Interval



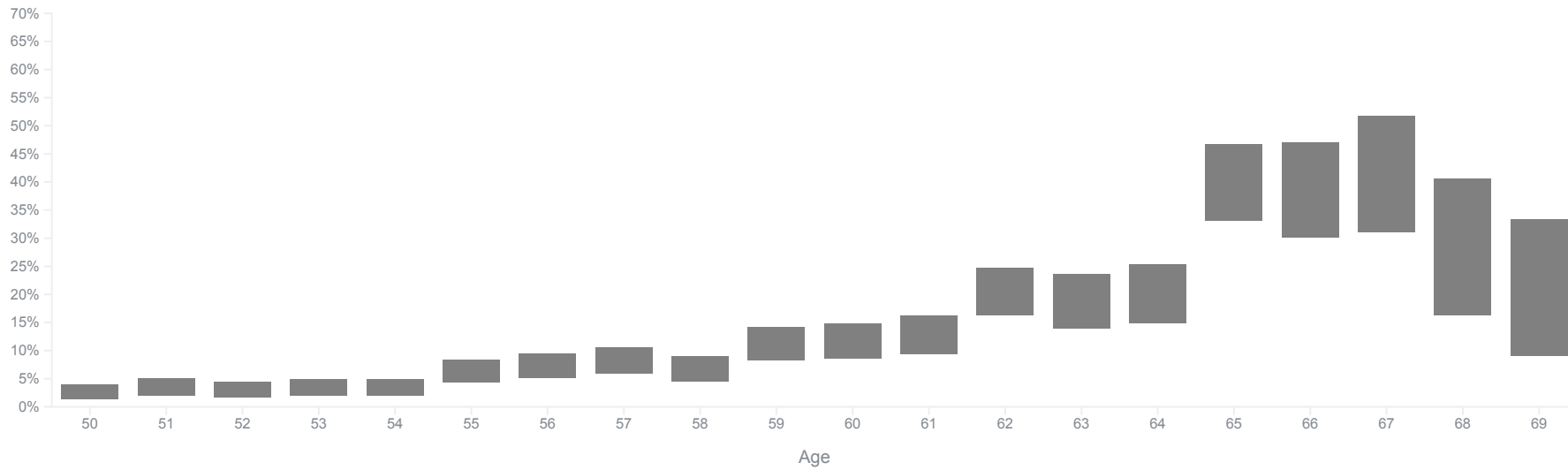


We commend Segal for proposing different retirement rates at different service levels. However, using **confidence intervals** we are able to do a deeper dive into the data. Using the data from the previous experience study (3-year period ending in 2016), on the next slide, we show retirement rates do vary for members with less than 20 years of service compared to those with 20-29 years of service, as well as 30+ years of service.

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## Retirement Rates

■ Actual Rate 
 ■ Current Assumption 
 ■ Proposed Assumption 
 ■ Confidence Interval





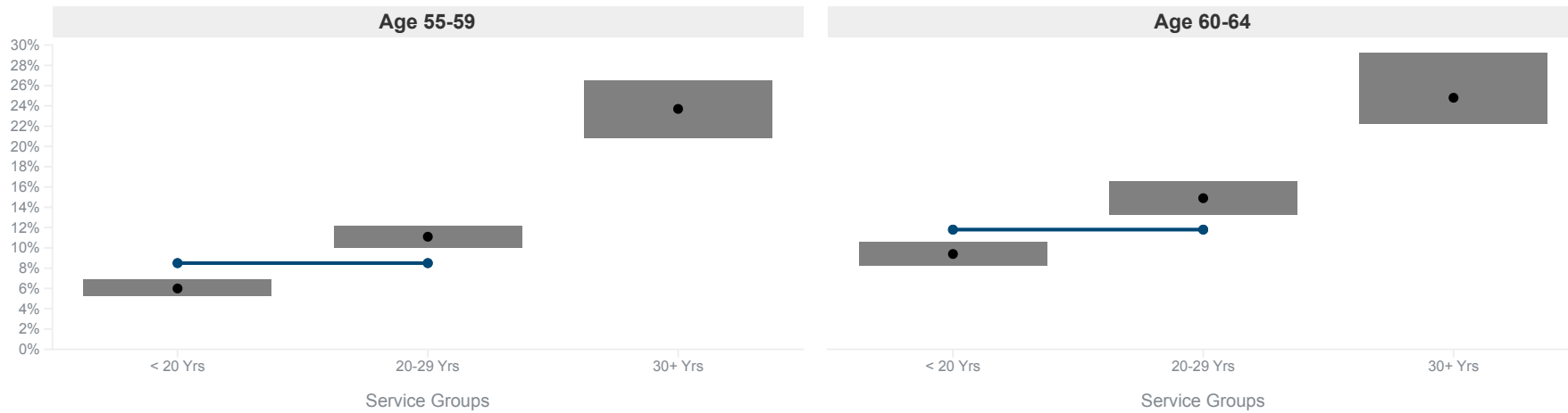
The blue line represents the weighted assumption for members with less than 30 years of service at ages 55-59 (left graph) and also ages 60-64 (right graph). There is a statistical difference in the retirement rates, shown by the narrow confidence intervals, for each of the separate service groups. In the next experience study, we recommend Segal review the retirement experience separately for members with < 20 years and 20-29 years, in addition to those with more than 30 years of service.

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## General Retirement Rates

**All** Age 55-59 Age 60-64

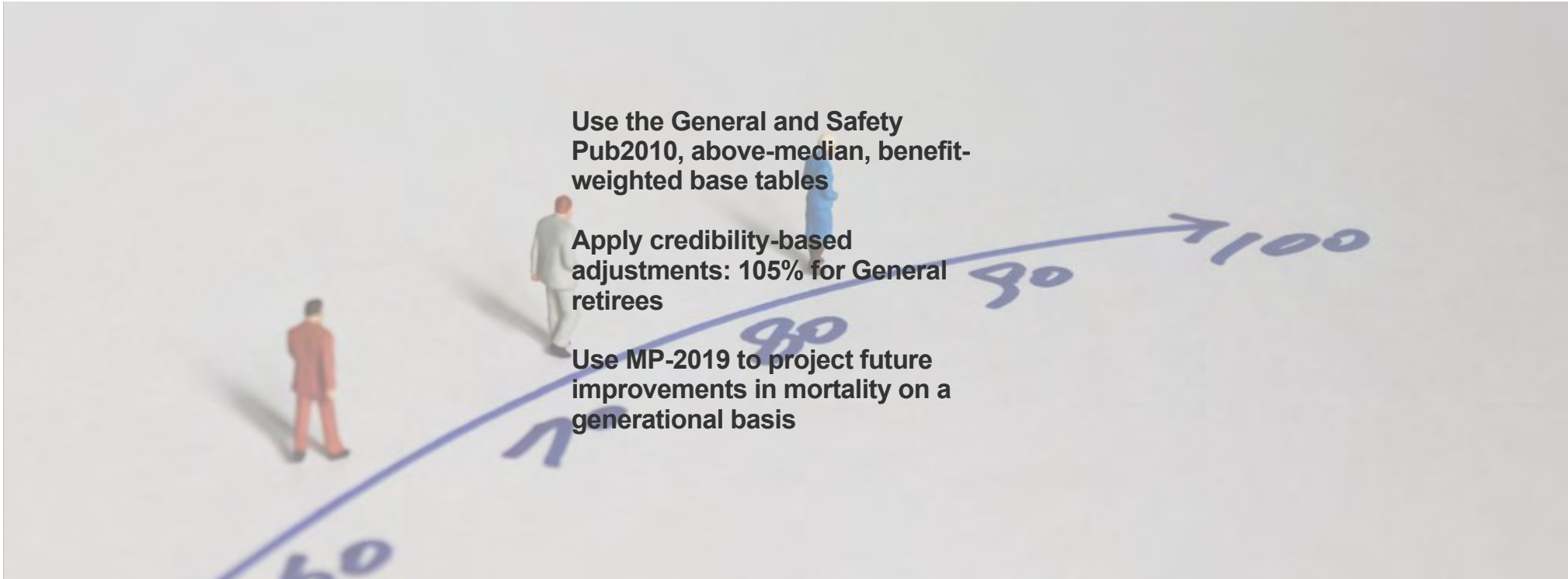
■ Actual Rate ■ Confidence Interval





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With respect to the mortality assumptions, as part of the recent experience study Segal made the recommendations shown below, all of which we agree with and strongly support. *We note that the use of benefit (not headcount) weighted mortality tables and making credibility-based adjustments to the base tables were among our primary recommendations in the last actuarial audit.*





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The reciprocity assumption is the likelihood that an OCERS deferred vested member will go to work for a reciprocal system. If they do, their OCERS' retirement benefit is calculated using their final average salary from the reciprocal system. Segal reviewed this assumption by analyzing new deferred vested members during the period. However, in our experience with other 1937 Act system, members frequently do not report that they have established *outgoing* reciprocity until they submit an application for retirement.



***OCERS reciprocity assumptions  
are lower than we have seen at  
other 1937 Act Systems***

**General 15%, Safety 20%**



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We did an independent analysis of a sample of the current OCERS deferred vested membership - 100 General and 70 Safety members - who had **not** reported any outgoing reciprocity to OCERS. We reviewed the employment history of these members using the publicly-available website <http://transparentcalifornia.com>, and found that about 30% of our sample were likely to have gone to work for another reciprocal public employer within California. This means the data used by Segal in setting their assumption is likely to be materially undercounting the number of reciprocal members.

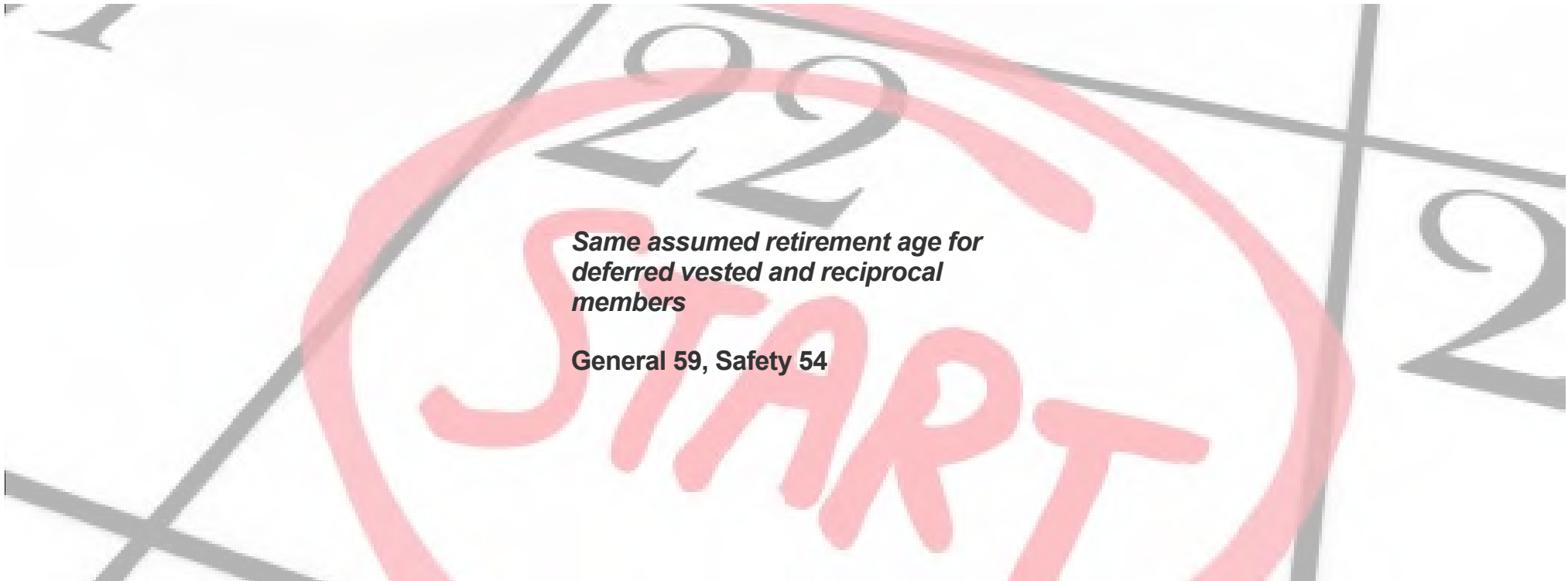


*For the next experience study, we suggest Segal review the reciprocity assumption using OCERS retirement experience of deferred vested members in addition to their current methodology.*



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Also related to reciprocity, we generally find that deferred vested members who establish reciprocity tend to retire at later ages than other deferred vested members who do not, which makes sense, since members with reciprocity may benefit from deferring retirement if their compensation continues to increase. Segal uses the same assumed retirement age for both groups.



***Same assumed retirement age for  
deferred vested and reciprocal  
members***

**General 59, Safety 54**

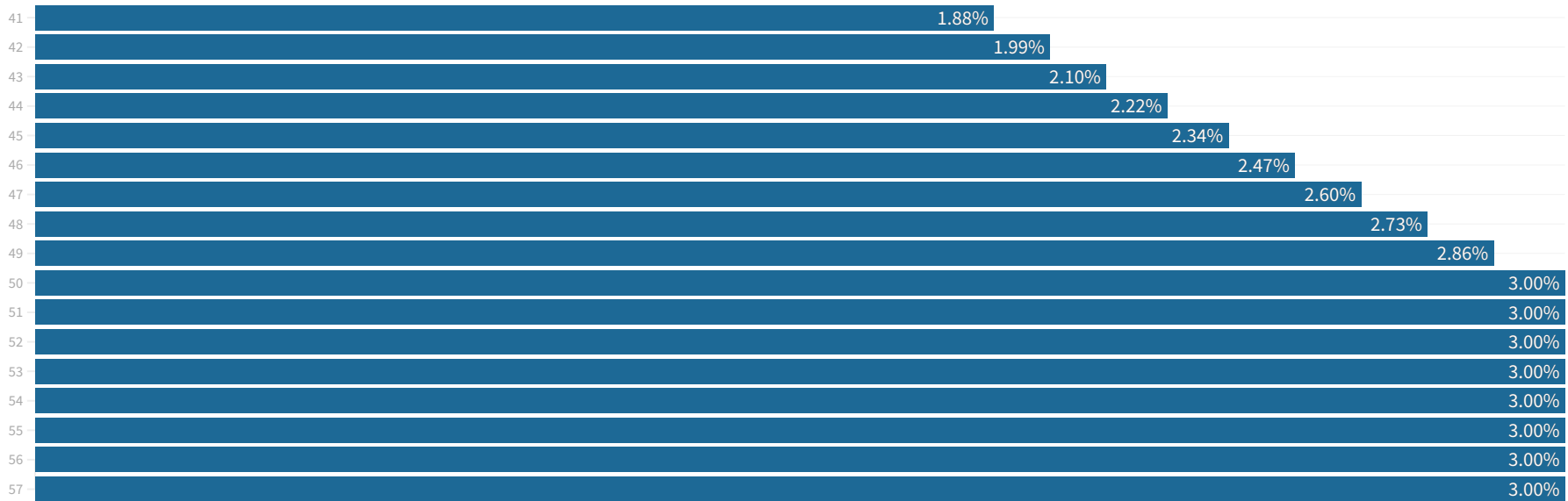




In particular, Safety members under the 3% @ 50 formula who are not working for a reciprocal system do not have **any** incentive to postpone retirement beyond age 50, since their benefit multiplier does not increase. In fact, if they postpone retirement to age 54 (the current assumption), they will forfeit four years of benefit payments and associated cost of living adjustments.

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Safety 31664.1



The Service Retirement benefit is equal to the Member's Final Compensation multiplied by Credited Service multiplied by the factors shown above based on the Member's age at retirement. The percentage of Final Compensation for non-PEPRA members may not exceed 100%.





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*For the next experience study, we suggest Segal review the assumed retirement age for deferred vested and reciprocal members separately.*

*Current assumptions could produce future actuarial losses if deferred members (who do not have reciprocity) retire earlier than assumed.*



We also reviewed the Actuarial Methods used in the valuation. We found these methods to be reasonable and consistent with the [Actuarial Standards of Practice](#) and current guidance published by various organizations (such as reflected in [this document](#) from the Conference of Consulting Actuaries and this [website](#) from the Government Finance Officers Association). We provide commentary on each of the methods used in the valuation below.

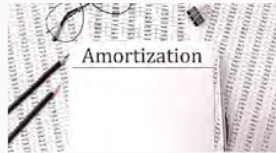
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### Actuarial Cost Method

Under the Entry Age Normal Cost Method, the Normal Cost is calculated as the amount necessary to fund Member's benefits as a level percentage of total payroll over their projected working lives.

We concur with this methodology. It is a "Model Practice" based on the California Actuarial Advisory Panel (CAAP) and "Best Practice" according to the Government Finance Officers



### Amortization Policy

Layered amortization bases over a level percentage of payroll.

The Unfunded Actuarial Liability as of June 30, 2012 is amortized over a closed period of 12 years as of December 31, 2021.

Subsequent closed layers:  
Gains or losses, assumption or method changes - 20 years;  
Plan amendments - 15 years;  
Retirement incentives - 5 years



### Actuarial Value of Plan Assets

AVA is a modified market-related value. Market Value of Assets (MVA) is adjusted to recognize, over a five-year period, difference between actual investment earnings and the assumed investment return.

In our opinion, this AVA method satisfies the Actuarial Standard of Practice No. 44.



### Cost-Sharing Methods

OCERS is a cost-sharing plan, assets of Plan are available to fund benefits of all members. Separate reserves or accounts are not maintained for the General and Safety Rate Groups. However with each valuation, Segal tracks and calculates the impact of changes in the UAL for all Rate Groups to develop their UAL payment. Special adjustments are made for O.C. Vector Control, DOE, UCI, and Cypress Recreation and Parks.





Finally, we reviewed the census data file used by Segal in their valuation, and compared it to the "raw" data provided by OCERS.

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**We reviewed the edits made to the data, based on the data questions provided to OCERS by Segal and the OCERS responses**

**We find that the data used in the valuation is valid, complete, and contains the necessary data elements**



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We also reviewed the contents of the report for consistency with the Actuarial Standards of Practice and other guidance (such as [this document](#) on model disclosure elements from the [California Actuarial Advisory Panel](#)).

**We find the actuarial valuation and experience study reports to be in compliance with *currently applicable* ASOPs and guidance**

**Future reports will need to be updated to incorporate recent changes in ASOP #4, which will require the disclosure of a "Low-Default-Risk Obligation Measure"**



We would like to thank OCERS and Segal for providing us with assistance in completing the actuarial audit.

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## OCERS Consulting Team

Click card for bio or to contact



**Anne Harper**  
Principal Consulting Actuary



**Graham Schmidt**  
Consulting Actuary





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## Certification

The purpose of this report is to present the results of the actuarial audit of the OCERS Actuarial Valuation Report dated December 31, 2021 and a review of the Experience Study covering the period from July 1, 2016 through June 30, 2019. This report is for the use of OCERS.

In preparing our presentation, we relied on information (some oral and some written) supplied by OCERS and Segal. This information includes, but is not limited to, the Plan provisions, employee data, and financial information. All data, assumptions, methods, and provisions are the same as those outlined in Segal's December 31, 2021 Actuarial Valuation Report. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

To the best of our knowledge, this presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This presentation was prepared for the SCERS Retirement Board for the purposes described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.





*Classic Values, Innovative Advice*



## **Orange County Employees Retirement System**

**Actuarial Review of the  
December 31, 2021 Actuarial  
Valuation and 2019 Actuarial  
Experience Study**

**Produced by Cheiron**

**December 2022**



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*Via Electronic Mail*

January 18, 2023

Board of Trustees  
Orange County Employees Retirement System  
2223 Wellington Avenue  
Santa Anna, California 92701

Members of the Board,

Cheiron is pleased to present the results of our actuarial audit of the December 31, 2021 actuarial valuation of the Orange County Employees Retirement System (OCERS) and peer review of the Actuarial Experience Study covering the period from January 1, 2017 to December 31, 2019, performed by Segal Consulting (Segal). We would like to thank Segal for providing us with information and explanations that facilitated the actuarial audit process and ensured that our findings are accurate and benefit OCERS.

We direct your attention to the executive summary section of our report which highlights the key findings of our review. The balance of the report provides details in support of these findings along with supplemental data, background information, and discussion of the process used in the evaluation of the work performed by Segal.

In preparing our report, we relied on information (some oral and some written) supplied by OCERS and Segal. This information includes, but is not limited to, actuarial assumptions and methods adopted by OCERS, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness in accordance with Actuarial Standard of Practice No. 23. A detailed description of all information provided for this review is provided in the body of our report.

This report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Board of Trustees  
Orange County Employees Retirement System  
January 18, 2023

This report was prepared exclusively for the Orange County Employees Retirement System for the purpose described herein. This report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,  
Cheiron



Graham A. Schmidt, ASA, EA , MAAA, FCA  
Consulting Actuary



Anne Harper, FSA, EA, MAAA  
Principal Consulting Actuary

**ACTUARIAL AUDIT REPORT OF THE  
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**SECTION I – EXECUTIVE SUMMARY**

**Scope of Assignment**

Cheiron performed a complete independent replication of the OCERS December 31, 2021 Actuarial Valuation and Review and reviewed the January 1, 2017 to December 31, 2019 Actuarial Experience Study.

We reviewed the census data provided by OCERS staff and compared it to the information used by Segal in their valuations. We then performed a full parallel valuation, including the calculation of the projected benefits, actuarial accrued liability, and normal cost for all OCERS members, and compared the results to those shown in Segal’s actuarial valuation report.

Additionally, Cheiron performed a review of the assumptions used by Segal for the December 31, 2021 valuation, as reflected in the actuarial experience study covering the period from January 1, 2017 through December 31, 2019. This review did not constitute a full replication of the experience study; it was focused on a review of the recommendations and communications from Segal, based on the information provided within the study.

This audit provides OCERS confirmation that the results reported by Segal can be relied upon, the actuarial methods and assumptions comply with Actuarial Standards of Practice (ASOP), and the communication of the actuarial valuation results is complete and reasonable.

**Key Findings and Recommendations**

The main findings of our review are outlined below.

1. We are able to confirm that the liabilities and costs computed in the valuation as of December 31, 2021 are reasonably accurate and were computed in accordance with generally accepted actuarial principles. For the scope of this audit, materiality means the results in aggregate are within industry standards of plus or minus 5%.
2. We found two small technical issues in Segal’s coding of their valuation system related to:
  - The calculation of a member’s entry age to determine age-based member contribution rates
  - The service used to determine when a Safety member reaches 30 years of service and their employee contributions cease.

If these were corrected, the result would be a slight reduction to the overall employer contribution rate of approximately 0.10% of payroll. We do not believe either of these issues represents a significant finding since the impacts on the overall funding requirements of the System are very small.

3. We have reviewed the economic and demographic assumptions recommended in the Actuarial Experience Study for the period ending December 31, 2019. In general, we have found them to be reasonable and in accordance with generally accepted actuarial principles.



**ACTUARIAL AUDIT REPORT OF THE  
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**SECTION I – EXECUTIVE SUMMARY**

In particular, we support the change to use benefit-weighted instead of headcount-weighted mortality tables and the recommendation for service retirement rates to be based both on age and service, both of which were suggestions from our previous actuarial audit.

However, we have a few recommendations for Segal to consider at the time of their next Actuarial Experience Study:

- Review the assumed retirement age for deferred vested members separately for those who work for a reciprocal system and those who do not.
- Review the probability that a terminated member will establish reciprocity by analyzing actual retirements for terminated OCERS members during the experience study period and distinguishing the percentage that were active members with a reciprocal system after their employment at OCERS, rather than using the percentage of current terminated members that have actually reported reciprocity to OCERS.
- Review the retirement experience for members with less than 30 years of service in two service groupings (less than 20 years and 20 to 29 years of service) instead of one group.
- Disclose the number of exposures, actual, and expected decrements for each of the demographic assumptions (i.e., retirement, termination, disability, and death).

**ACTUARIAL AUDIT REPORT OF THE  
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

This section summarizes our review of the actuarial valuation and experience study and our recommendations.

**Valuation Procedures**

Overall, we find that the December 31, 2021 actuarial valuation procedures applied in the reporting of the funded status and the determination of the funding requirements based on the current funding policies and adopted assumptions are technically reasonable and conform to the ASOPs. This is based on our review of the valuation report, the census data used in the valuation, individual sample lives and our parallel valuation using the information described above.

**Valuation Results**

Our independent replication of the December 31, 2021 actuarial valuation found no material difference in calculations of plan liabilities, actuarial value of assets, and overall contribution rates from the amounts calculated by Segal based on the adopted assumptions and methods. For the scope of this audit, materiality means the results in the aggregate were within industry standards of plus or minus 5%. Consequently, we conclude that the valuation prepared by Segal for OCERS as of December 31, 2021 is reasonable and can be relied on by the Board for its intended purpose. Our replication of the measures of plan liabilities and costs is summarized in Table II-1 below.

<b>Table II-1</b>			
<b>Summary of Valuation Results as of December 31, 2021</b>			
(\$ in millions)			
	Segal	Cheiron	Ratio
Actuarial Accrued Liability	\$ 24,016	\$ 23,922	99.6%
Actuarial Value of Assets	<u>19,489</u>	<u>19,489</u>	100.0%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 4,527	\$ 4,433	97.9%
Funded Percentage	81.1%	81.5%	100.4%
<b>Contribution Rate by Component</b>			
Employer Normal Cost Rate	14.46%	14.53%	100.5%
UAAL Rate	<u>23.36%</u>	<u>22.87%</u>	97.9%
Total Employer Contribution	37.82%	37.40%	98.9%

*We note that all results are within 5% of Segal's calculations.*

**ACTUARIAL AUDIT REPORT OF THE  
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

During the independent replication and review of sample lives from Segal, we found two small technical issues in Segal’s coding of their valuation system that would impact the weighted average of the employee contribution rates used the valuation results. The net employer normal cost rate is the total normal cost rate less the weighted average of the members’ contribution rate in total and by each Rate Group. In both instances, Segal is slightly undervaluing the weighted average of the employee contribution rates, which Segal confirmed in an email correspondence on September 23, 2022.

The first issue is the calculation of each active member’s entry age which determines their individual member contribution rate used in the valuation. These calculations are necessary since the actual member contribution rates are not provided in the raw census data. Section 31620 of the CERL requires that the calculation uses “nearest age” which is the same as standard rounding. However, Segal is using the member’s “completed or attained age”, which results in a lower entry age of one year less than the CERL requires for about half the members in their coding. Since member contribution rates increase with entry age, lower entry ages results in lower member contribution rates and slightly higher employer normal cost rates. If Segal were to update the rounding convention to calculate members’ entry ages using the method required by the CERL, we estimate it would reduce the employer normal cost rates by approximately 0.06% of pay, on average.

The second is issue is that Segal is including reciprocal service for the purpose of determining when a Safety member has 30 years of service and can cease their member contributions (i.e., the 30-year cutoff). Our understanding, based on CERL Sections 31664.1 and 31664.2, is that reciprocal service does **not** count towards the 30-year cutoff. If Segal were to exclude reciprocal service in this calculation, we estimate it would reduce the overall employer rate by about 0.03% pay, driven by a reduction of about 0.28% of pay for Safety Rate Group #8.

Again, we do not believe either of these issues represents a significant finding since the impacts on the overall funding requirements of the System are very small.

**ACTUARIAL AUDIT REPORT OF THE  
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

Our independent replication of the December 31, 2021 actuarial valuation found no material differences in the calculation of plan liabilities, actuarial value of assets, or overall contribution rates from the amounts calculated by Segal based on the adopted assumptions and methods. For the scope of this audit, materiality means the results in the aggregate were within industry standard of plus or minus 5%.

Our replication of the actuarial accrued liability by Rate Group is shown below in Table II-2. We note that the liabilities by Rate Group are all within the 5% threshold.

<b>Table II-2</b>			
<b>Actuarial Accrued Liability by Rate Group</b>			
(\$ in millions)			
	Segal	Cheiron	Ratio
<b>General Members</b>			
Rate Group #1	\$ 544.0	\$ 543.7	99.9%
Rate Group #2	13,398.4	13,335.2	99.5%
Rate Group #3	835.0	830.7	99.5%
Rate Group #5	1,069.8	1,065.8	99.6%
Rate Group #9	56.4	56.4	100.0%
Rate Group #10	299.9	297.8	99.3%
Rate Group #11	13.6	13.5	99.3%
Rate Group #12	12.1	12.0	99.5%
<b>Safety Members</b>			
Rate Group #6	\$ 998.2	\$ 1,006.3	100.8%
Rate Group #7	4,707.7	4,696.4	99.8%
Rate Group #8	2,080.9	2,064.2	99.2%
<b>Combined</b>	<b>\$ 24,016.0</b>	<b>\$ 23,922.0</b>	<b>99.6%</b>



**ACTUARIAL AUDIT REPORT OF THE  
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

Our replication of the employer contribution rates by Rate Group is shown below in Table II-3. We note that the employer rates by Rate Group are all within the 5% threshold.

<b>Table II-3 Comparison of Employer Contribution Rates</b>			
	<b>Segal</b>	<b>Cheiron</b>	<b>Ratio</b>
<b>General Members</b>			
Rate Group #1	13.53%	13.64%	100.8%
Rate Group #2	37.69%	37.27%	98.9%
Rate Group #3	11.82%	11.90%	100.7%
Rate Group #5	28.74%	28.68%	99.8%
Rate Group #9	12.81%	12.87%	100.5%
Rate Group #10	22.20%	21.36%	96.2%
Rate Group #11	13.47%	13.04%	96.8%
Rate Group #12	13.01%	13.09%	100.6%
<b>Safety Members</b>			
Rate Group #6	52.95%	52.82%	99.8%
Rate Group #7	58.70%	58.15%	99.1%
Rate Group #8	36.02%	34.95%	97.0%
<b>Combined</b>	<b>37.82%</b>	<b>37.40%</b>	<b>98.9%</b>

In determining the unfunded actuarial liability, Segal relies on reserve balances provided by OCERS, as well as information related to the liabilities associated with the withdrawal calculations for individual employers provided outside of the actuarial valuation report. Our review did not include an audit of these additional sources of information.

**ACTUARIAL AUDIT REPORT OF THE  
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

**Employee Contribution Rates**

As part of the audit, we replicated the calculations of the individual employee contribution rates based on the applicable provisions of the County Employees Retirement Law (the CERL) and our understanding of additional cost-sharing as described in the valuation report. For the Non-PEPRA (Legacy) tiers, we understand the employee Basic or “Normal” contribution rates to be made up of the following components:

Plan/Tier	Code Section	Member Contribution Provides Average Annuity	FAS Period
General I	31621.8	1/100th of Final Average Salary (FAS) at age 55	1 year
General H,J	31622.8	1/100th of Final Average Salary (FAS) at age 55	3 year
General B,N,P	31621	1/120th of Final Average Salary (FAS) at age 60	3 years
General S	31621.2	1/100th of Final Average Salary (FAS) at age 60	3 years
General A	31621.5	1/200th of Final Average Salary (FAS) at age 60	1 year
Safety F,R	31639.25	1/100th of Final Average Salary (FAS) at age 50	3 years

Non-PEPRA Safety members with 30 or more years of service (and General members hired on or before March 7, 1973) are exempt from paying member contributions.

We independently calculated the individual employee contribution rates based on the applicable provisions of the CERL and calculated the future Cost-of-Living costs. We have shown our comparison to Segal’s calculated rates for the sample Entry Age of 35 in Table II-4 on the following page. For all Rate Groups, our calculations of the Normal (non-COLA) rates are within 1.5% of Segal’s rates and our Total rates are within 2.5% of Segal’s rates for all Legacy tiers.

We also compared the individual employee contribution rates for sample Entry Ages of 25 and 45. We found that all member rates were within the 5% threshold for both the Normal and Total contribution rates.

**ACTUARIAL AUDIT REPORT OF THE  
ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**SECTION II – REVIEW OF ACTUARIAL VALUATION RESULTS**

<b>Table II-4 Member Contribution Rates Comparison by Plan Sample Entry Age 35</b>						
<b>Plan</b>	<b>Segal</b>		<b>Cheiron</b>		<b>Ratio</b>	
	Normal	Total	Normal	Total	Normal	Total
<b>General Tier 1</b>						
Plan A (OCTA)	4.43%	7.51%	4.44%	7.67%	100.1%	102.1%
Plan I	10.24%	14.55%	10.26%	14.64%	100.2%	100.6%
<b>General Tier 2</b>						
Plan B (OCSD)	7.08%	10.17%	7.11%	10.14%	100.4%	99.7%
Plan B (OCTA)	7.08%	10.04%	7.11%	10.10%	100.4%	100.6%
Plan B (County/IHSS)	7.08%	9.79%	7.11%	9.79%	100.4%	100.0%
Plan H (OCSD)	9.82%	13.62%	9.86%	13.62%	100.4%	100.0%
Plan H (Law Library)	9.82%	13.57%	9.86%	13.57%	100.4%	100.0%
Plan J (non-OCFA)	9.82%	13.95%	9.86%	13.94%	100.4%	99.9%
Plan J (OCFA)	9.82%	13.88%	9.86%	13.87%	100.4%	99.9%
Plan N (non-OCFA)	7.08%	10.46%	7.11%	10.42%	100.4%	99.6%
Plan N (OCFA)	7.08%	11.14%	7.11%	10.99%	100.4%	98.6%
Plan P	7.08%	9.00%	7.11%	9.03%	100.4%	100.4%
Plan S (City of SJC)	8.50%	12.39%	8.53%	12.32%	100.3%	99.4%
<b>Safety Tier 2</b>						
Plan F (OCFA)	11.80%	19.76%	11.83%	19.88%	100.3%	100.6%
Plan F (Law Enf)	12.29%	20.78%	12.46%	20.86%	101.4%	100.4%
Plan F (Probation)	11.97%	19.79%	12.05%	19.47%	100.7%	98.4%
Plan R (OCFA)	11.80%	19.87%	11.83%	20.33%	100.3%	102.3%
Plan R (Law Enf)	12.29%	19.57%	12.46%	19.78%	101.4%	101.1%

For the PEPRA members, the employee contribution rates were calculated following the proposed methodology outlined in Segal’s December 4, 2012 letter. The total member rates computed for the new CalPEPRA tiers are designed to provide for 50% of the total normal cost rate within each Rate Group. We checked that the total member rates determined by Segal meet this requirement and all Rate Groups are within the 5% margin.

The Segal methodology is commonly used by '37 Act systems (determining Basic rates and then applying a COLA load based on each years’ valuation results) and appears to meet the requirement that “Any increases in contribution shall be shared equally between the county or district and the contributing members” (CERL 31873). However, we have previously shared with Segal’s

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consultants an alternative methodology for determining employee COLA contribution rates, which involves calculating a distinct COLA rate for each individual entry-age, rather than applying a certain percentage load to the Basic rates. This methodology has the advantage of avoiding annual changes to the COLA contribution rates; the COLA rates will only change if there is a modification to the benefit provisions or actuarial assumptions.

### Census Data

We reviewed the information in the raw census data provided to us by OCERS Staff and Segal's processed valuation data that was used in the December 31, 2021 actuarial valuations. Table II-5 below shows the comparison of OCERS raw data with slight modifications based on the data questions provided to OCERS by Segal and the OCERS responses. Note that the average compensation for active members shown for OCERS is prior to any projection to 2022.

<b>Table II-5 Summary of Member Statistics as of December 31, 2021</b>			
	Segal	OCERS Data	Ratio
<b>Active Members</b>			
Total Number	22,011	22,011	100.0%
Average Age	44.9	44.9	100.0%
Average Service	12.4	12.4	100.0%
Average Compensation <sup>1</sup>	\$ 93,258	\$ 87,991	94.4%
<b>Vested Terminated Members</b>			
Total Number	7,238	7,238	100.0%
Average Age	45.0	45.0	100.0%
<b>Service Retirees</b>			
Total Number	15,607	15,649	100.3%
Average Age	70.3	70.3	100.0%
Average Monthly Benefit	\$ 4,717	\$ 4,703	99.7%
<b>Disabled Retirees</b>			
Total Number	1,561	1,565	100.3%
Average Age	66.2	66.1	99.8%
Average Monthly Benefit	\$ 4,360	\$ 4,350	99.8%
<b>Beneficiaries</b>			
Total Number	2,658	2,653	99.8%
Average Age	73.3	73.4	100.1%
Average Monthly Benefit	\$ 2,402	\$ 2,401	100.0%

\*Segal's average compensation includes projected salary increases for the coming year

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We find that the data used in the valuation is valid, complete and contains the necessary data elements for purposes of performing the actuarial valuation of OCERS. We also find that the methods and requirements provided in the Actuarial Standard of Practice No. 23 *Data Quality* have been adhered to, to the extent applicable for the valuation of pension plan obligations.

**Plan Provisions**

We compared the summary of plan provisions shown in Section 4, Exhibit 2 of Segal's December 31, 2021 valuation report to the benefits as summarized in the member handbooks shown on the OCERS website. In general, the plan provisions shown in the exhibit match what is in the handbooks. Based on our close match of the Segal liabilities as part of our parallel valuation, we conclude that Segal has appropriately reflected these provisions in the actuarial valuation, with the exception of the two minor coding issues described elsewhere in our report.

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**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS**

**Actuarial Assumptions**

The December 31, 2021 actuarial valuation was based on the assumptions ultimately adopted by the OCERS Board, based on recommendations made by Segal in the Actuarial Experience Study covering the three-year period ending December 31, 2019. As part of our actuarial audit review, we have performed a peer review of this study. Our suggested recommendations for the next Actuarial Experience Study are outlined in this section.

**Demographic Assumptions**

***Retirement age for deferred vested members***

Segal recommends different assumed retirement ages for General and Safety inactive members with a deferred benefit. However, the assumed retirement age is the same regardless of whether the inactive member works for a reciprocal employer subsequent to their departure from OCERS. The current assumed retirement age for deferred vested members is 59 for General and age 54 for Safety.

We have generally found for the systems we work with that the age at which deferred vested members typically commence benefits differs between those who have and have not established reciprocity, with those who establish reciprocity commencing benefits later, on average. This makes intuitive sense, since the members with reciprocity may benefit from deferring their retirement, if the final average compensation used to determine their OCERS benefit continues to increase during their employment with the other system. The same incentive does not exist for members without reciprocity.

In particular, Safety members under Section 31664.1 (3.0% @ 50) who are not working for a reciprocal system do not have *any* incentive to postpone retirement beyond age 50, since their benefit multiplier does not increase beyond that point. In fact, if they postpone retirement to age 54 (based on the current assumption), they will forfeit four years of benefit payments and the associated potential cost of living adjustments, with no additional benefits accruing during that period. We suggest that Segal review the assumed commencement age for deferred vested members separately for those who have and have not established reciprocity, since the current assumptions will potentially produce future actuarial losses for deferred vested members without reciprocity if their actual age at retirement is earlier.

***Reciprocity rates for deferred vested members***

As part of their last experience review, Segal recommended an assumption that 15% of General and 20% of Safety deferred vested members will go on to be covered by a reciprocal retirement system. These assumptions are lower than the rates of reciprocity we have seen at other 1937 Act systems.

Segal noted that they reviewed the data for all deferred vested members and not “just new deferred vested members during the three-year period. This is because there is usually a lag between a member’s date of termination and the time that it is know if they have reciprocity with a reciprocal retirement system.”

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However, for many of the 1937 Act plans we work with, members may not report that they have established reciprocity with another system until just prior to retirement. Therefore, we generally request that the system provide us with information on the number of members that have retired from deferred status and have reciprocity with another system during the experience study period or we perform our own research on these members, rather than just looking at the data reported on those who have terminated. When we have reviewed reciprocity rates under both methods – by looking at new terminations and newly retired deferred vested members who subsequently were employed by a reciprocal system - the rates are substantially higher when looking at recent retirements.

We performed an independent analysis of the current OCERS deferred vested membership, reviewing approximately 100 Safety and 70 General members who had not reported any reciprocity to OCERS as indicated in the raw census data. We searched for these individuals using publicly-available sources (including <https://transparentcalifornia.com/>) and found that approximately 31% and 33% of these General and Safety deferred vested members, respectively, are likely to have gone to work for another public/government employer within California.

We suggest that as part of the next experience study for OCERS, Segal considers analyzing this assumption using retirement experience of deferred vested members in addition to their current method of analyzing the data for deferred vested members.

***Retirement Rates***

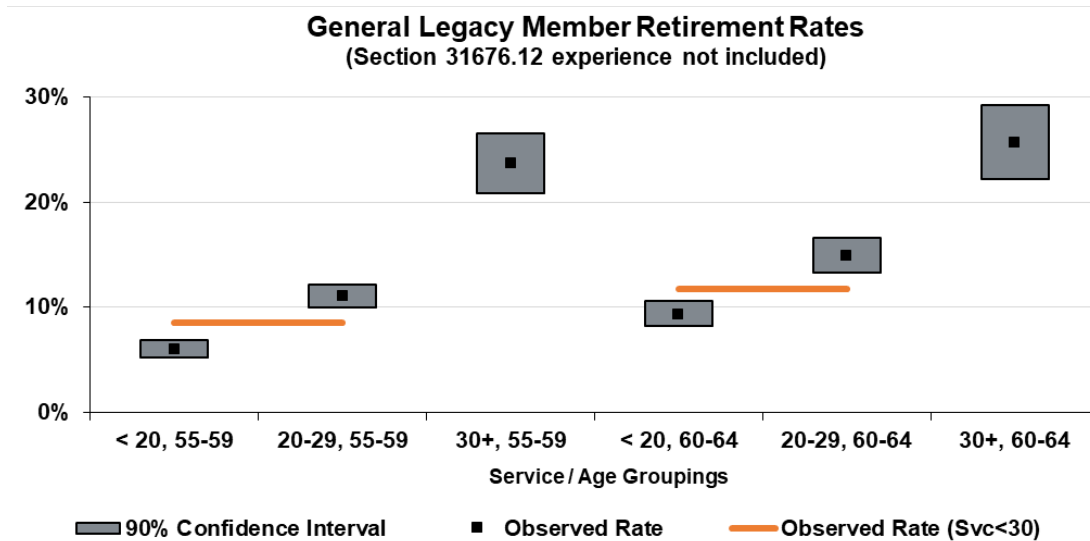
We strongly support Segal’s recommendation to use a different set of retirement rates for actives who have less than 30 years of service and those who have 30 or more years of service. It is intuitive and reasonable to assume that, for two members of the same age, the one with the higher level of service will be more likely to retire, if for no other reason than the higher-service member is more likely to have achieved their desired level of post-retirement replacement income. On page 31 and 32 of their Actuarial Experience Study report for the three-year period ending December 31, 2019, Segal shows the actual OCERS retirement experience is significantly different for actives with less than 30 years of service compared to actives with more than 30 years of experience.

However, as part of our previous review of the OCERS Actuarial Experience Study for the three-year period ending December 31, 2016, we found that retirement experience also varied significantly for the period from 2014-2016 for members with less than 20 years of service compared to those with 20-29 years of service (as shown in the graph on the next page for certain General retirement experience). This experience shows that a large difference exists between both the observed rates (black squares) and the 90% confidence intervals (gray boxes) at all of the selected service levels, not just above and below 30 years of service. The 90% confidence interval is a statistical measure of where the true retirement rate falls within a 90% certainty.

The left side of the graph shows the General retirement experience for active members retiring between the ages of 55-59 at three difference service levels (less than 20 years of service, 20-29 years of service, and 30 or more years of service). The right side of the graph shows the same experience except for ages 60-64. In both age groupings, the actual retirement experience for those with less than 20 years of experience is materially lower than those with 20-29 years of experience, yet the current retirement assumptions are the same for both service groupings.

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**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS**



This discrepancy in the rates matters, because all other things being equal, the liabilities will be more heavily weighted towards those with higher levels of service (and thus higher benefits). If the retirement rates accurately predict the number of retirements by age but overestimate the number of retirements for those with low levels of service and underestimate the number of retirements for those with high levels of service, it is likely that the assumptions will underestimate the future liabilities and costs of the System. We note that Segal’s recommendation to split the retirement rates by those with more or less than thirty years of service and increase the rates for the higher service individuals had the largest impact of any of the demographic assumption changes in the 2019 experience study

***Other Demographic Assumptions***

We believe the analysis and assumptions proposed by Segal for the other demographic assumptions – including disability and termination rates, merit and promotional (merit) pay increases, percentage married and assumed spouse age differences, and assumptions regarding additional cashouts for terminal pay – are reasonable based on the information presented, and consistent with the methods and assumptions we have seen used at other systems.

For future studies, we recommend Segal disclose the number of exposures, actual, expected and proposed decrements (or the benefit-weighted amounts, if applicable) for the demographic assumptions to provide more transparency. Segal shows only the actual, expected, and proposed **rates** of decrement. Thus, it is unclear how much data was available and used in setting the assumptions and if a change is warranted based on the amount of information in the analysis.

**Economic Assumptions**

The Actuarial Experience Study we are reviewing was published in August 2020 and since then, the economic environment has changed dramatically. Inflation and interest rates are higher than





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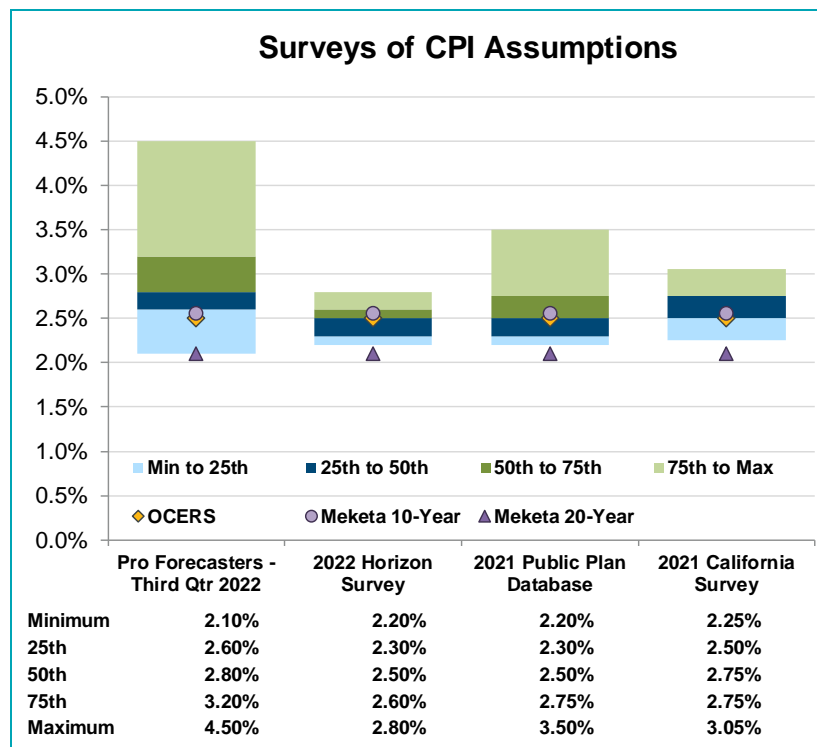
**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS**

they have been in decades and there is significant volatility in the investment markets. The capital market assumptions used in the Actuarial Experience Study report were developed by investment consultants using the market conditions at the end of 2019. However, the economic assumptions used in the December 31, 2021 actuarial valuation report are reasonable and consistent with those of their peers who have conducted more recent experience studies.

***Inflation***

We believe Segal’s recommended inflation assumption of 2.50% still represents a reasonable long-term assumption. Our analysis of the inflation assumption includes reviewing inflation surveys and market indicators of inflation expectations.

The chart below shows the range of inflation expectations of a Federal Reserve survey of professional economic forecasters from the Federal Reserve survey (10-year forecasts), investment consultants from the Horizon survey (20-year forecasts) as well as a comparison of inflation assumptions among OCERS public plan peers in California and nationally. All the surveys had a median inflation expectation between 2.50% and 2.80%.

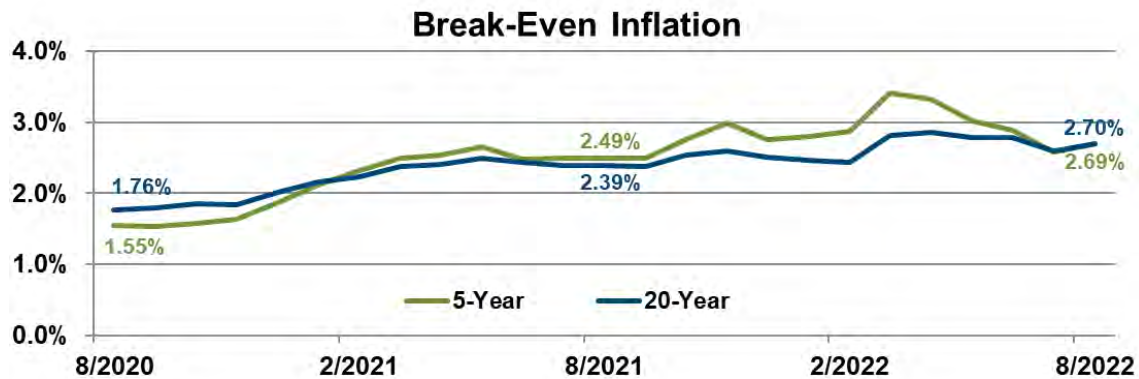


*Meketa’s inflation assumptions are based on their June 2022 capital market assumptions.*

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Another measure of the future expectations of inflation is called “break-even inflation” which is the difference between yields on nominal Treasury securities and Treasury Inflation-Protected Securities (TIPS) at the same maturity. Break-even inflation is the level of inflation needed for an investment in TIPS to “break even” with an investment in conventional treasury bonds of the same maturity. The graph below shows market expectations of inflation over a 5-year and 20-year time horizon. Break-even inflation rates were less than 2.00% in August 2020 when Segal recommended to lower the inflation assumption from 2.75% to 2.50%. Break-even inflation increased to just below 2.50% in August 2021. Recent market data show that the expectation has continued to increase through August 2022 to around 2.70%. Long-term and short-term expectations are almost the same.



***Investment Rate of Return Assumption***

The recommended assumed rate of investment return of 7.00%, net of both investment and administrative expenses, was reasonable in August 2020 and is still reasonable in today’s economic environment, given the asset allocation shown in the most recent Actuarial Experience Study. Many public retirement systems in California who have had actuarial experience studies conducted in 2022 have adopted to stay at their current assumed rate of return, a “wait-and-see” philosophy based on the extreme volatility and changes to market conditions over the last few years. Some investment consultants updated their capital market assumptions based on conditions as of June 2022, which significantly increased forward looking return expectations compared to the capital market assumptions developed in December 2021.

The charts which follow show a series of comparisons of the OCERS return assumption based on Cheiron’s survey of 39 large public pension plans in California, including all 20 of the 1937 Act Systems. The first chart on the next page shows the trend in the assumed rate of investment return from this survey. For most of the last decade, OCERS’ assumed rate of return has been on the lower end of the range, in the 25<sup>th</sup> and 50<sup>th</sup> percentile, of California systems.

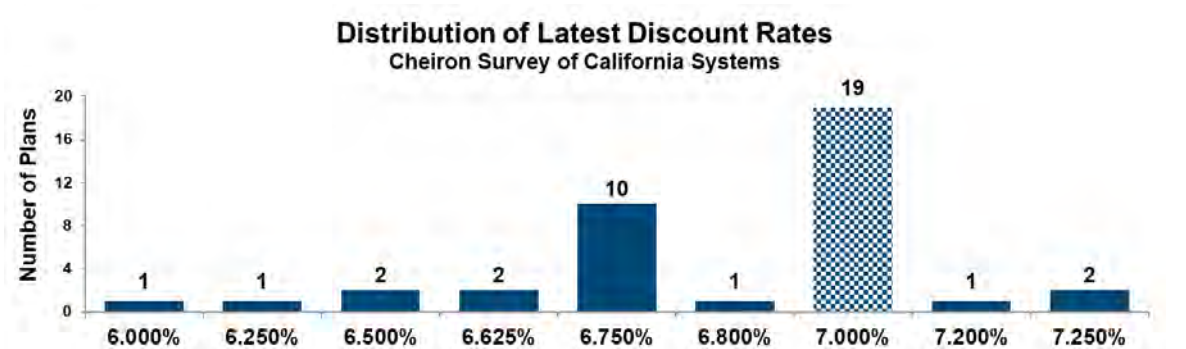


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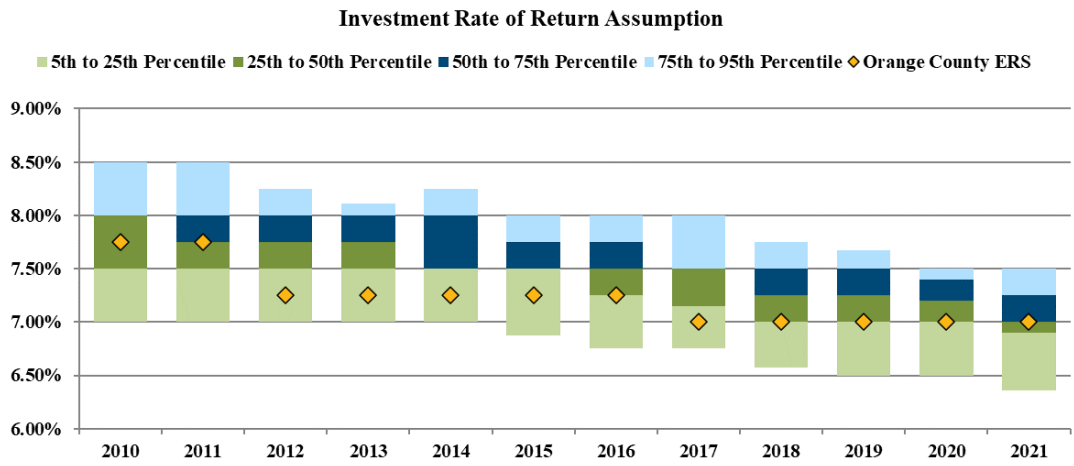
**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS**



The chart below shows the distribution of the latest assumed rates of return, mostly from 2021 actuarial valuations. The median and most common assumed rate of instead return for California systems is 7.00%, OCERS current assumption.



The chart below shows the trends in the assumed rate of return for almost 200 public retirement systems nationwide. Over the last decade, OCERS has been in the lowest 5<sup>th</sup>-25<sup>th</sup> percentile, with the exception of 2011 and 2021.



*Survey Data from Public Plans Data as of 11/16/2022*



**ACTUARIAL AUDIT REPORT OF THE  
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**SECTION III – REVIEW OF ACTUARIAL ASSUMPTIONS**

***Alternative Approaches to Reviewing the Investment Return Assumption***

As Segal noted in the Actuarial Experience Study report, the Actuarial Standards of Practice (ASOP) No. 27 outlines two approaches for reviewing the assumed rate of return for each asset class in a system’s portfolio: 1) using expected arithmetic returns and 2) using expected geometric returns.

Segal uses expected arithmetic return with a “risk adjustment” net of investment and administrative expense, while Cheiron and other actuaries working with California public plans typically use the expected geometric returns, net of investment expenses only. One advantage to developing an assumed rate of investment return that is net of investment expenses only is that this method complies with Governmental Accounting Standards Board No. 67 and 68.

Overall, we agree that both approaches are reasonable and lead to comparable outcomes.

***Investment Expenses***

A frequent assumption used in setting return assumptions is that the additional returns earned due to active management will offset the higher level of expenses associated with active management. Instead of this approach, Segal assumes that additional expenses for active management simply reduce the return, which is a more conservative assumption but implies that – all other things being equal – Segal’s model would result in a higher recommended return assumption if the Board were invested passively instead of using active managers. Segal noted that nearly all of the investment expenses paid during 2015-2019 were paid for expenses associated with active management.

While there is much debate about this question among investment professionals, we prefer to remain neutral, assuming no advantage or disadvantage to active management. This is consistent with the Actuarial Standard of Practice (No. 27) quoted by Segal in their experience study report:

"The actuary should not assume that superior **or inferior** (*emphasis added*) returns will be achieved, net of investment expenses, from an active investment management strategy compared to a passive investment management strategy unless the actuary has reason to believe, based on relevant supporting data, that such superior or inferior returns represent a reasonable expectation over the long term."

However, as Segal has done in their own report, we note that the conservatism included in their approach may enhance the likelihood that the investment return assumption will be achieved.

***Other Economic Assumptions***

We believe the analysis and assumptions proposed by Segal for the real wage growth (0.50%), retiree cost-of-living increases (2.75%), and the System administrative and investment expenses are reasonable based on the information presented, and consistent with the methods and assumptions we have seen used at other systems.

**ACTUARIAL AUDIT REPORT OF THE  
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**SECTION IV – REVIEW OF ACTUARIAL METHODS**

**Actuarial Methods**

Actuarial methods relate to the application of actuarial assumptions in the determination of Plan liabilities and contributions. These methods include the actuarial cost method, amortization policy, actuarial asset smoothing, and cost-sharing methodologies. The questions guiding our review of the actuarial methods were the following:

- Are the methods acceptable and appropriate for the intended purpose?
- Do the methods comply with relevant accounting and actuarial standards?

***Actuarial Cost Method***

The individual Entry Age actuarial cost method is used in the December 31, 2021 actuarial valuation. Under this method, the expected cost of benefits for each individual member is allocated over that member's career as a level percentage of that member's expected salary. The normal cost for the plan is the sum of the individual normal costs calculated for each member. We concur with this methodology and note that it is a "Model Practice" based on the guidance issued by the California Actuarial Advisory Panel (CAAP) and the Conference of Consulting Actuaries Public Plans Community, and a "Best Practice" based on guidance issued by the Government Finance Officers Association. Segal has also applied this method in a manner which complies with the disclosure requirements under GASB Statements 67 and 68.

***Asset Smoothing Method***

The actuarial (or smoothed) value of assets is determined using a five-year smoothing period for investment gains and losses. We have confirmed that the Segal report applies the actuarial smoothing method as described.

In our opinion, this method satisfies the Actuarial Standard of Practice which governs asset valuation methods (ASOP No. 44), which requires that the actuarial asset value should fall within a "reasonable range around the corresponding market value" and that differences between the actuarial and the market value should be "recognized within a reasonable period of time."

We commend Segal for including the funded ratio and unfunded liability using both the market value and smoothed value of assets in their report. These disclosures are included in the "Model Disclosure Elements for Actuarial Valuation Reports" adopted by the CAAP.

***Amortization Policy***

The current Amortization Policy for OCERS is a layered amortization policy, with the balance of the unfunded liability as of December 31, 2012 amortized as a level percentage of payroll over a closed 20-year period beginning December 31, 2013 (12 years remaining as of December 31, 2021). Each subsequent year's unfunded liability attributable to experience gains or losses, assumption changes, and cost method changes is amortized as a level percentage of payroll over a new closed 20-year period. Plan amendments are amortized over closed 15-year periods and early retirement incentive programs will be amortized over five years.

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**SECTION IV – REVIEW OF ACTUARIAL METHODS**

We have confirmed that the Segal report applies the amortization method as described. This amortization method is in accordance with the recent funding policy guidance issued by the CAAP, GFOA, and the Conference of Consulting Actuaries Public Plans Community. This amortization policy also meets the minimum standards of the 1937 Act.

**ACTUARIAL AUDIT REPORT OF THE  
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**SECTION V – CONTENTS OF THE REPORT**

**Contents of the Reports**

We find the actuarial valuation and experience study reports to be in compliance with the relevant Actuarial Standards of Practice.

ASOP No. 51 Assessment and Disclosure of Risk for pension plans now mandates more focus on risks and future outcomes. We understand that Segal publishes a separate report to comply with ASOP No. 51 (which is not under the scope for this audit), in addition to the actuarial valuation report. We encourage Segal to consider whether a demonstration of future expected contribution rates and funding progress should be contained within the actuarial valuation report. We believe that a longer projection can also be helpful to the Board. For example, such a projection could show the Board how the costs are expected to be affected by the interplay of the deferred investment gains currently not reflected in the smoothed value of assets and potential investment losses for the 2022 plan year.

Again, we recommend Segal disclose the number of exposures, actual, expected, and proposed decrements, not just the rates of decrement, for the demographic assumptions in future experience study reports.

**ACTUARIAL AUDIT REPORT OF THE  
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**APPENDIX A – GLOSSARY OF TERMS**

**1. Actuarial Assumptions**

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, investment income, and salary increases. Demographic assumptions (rates of mortality, disability, turnover, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

**2. Actuarial Gain (Loss)**

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial funding method.

**3. Actuarial Liability**

The Actuarial Liability is the present value of all benefits accrued as of the valuation date using the methods and assumptions of the valuation. It is also referred to by some actuaries as the “accrued liability” or “actuarial accrued liability.”

**4. Actuarial Present Value**

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

**5. Actuarial Value of Assets**

The Actuarial Value of Assets equals the Market Value of Assets adjusted according to the smoothing method. The smoothing method is intended to smooth out the short-term volatility of investment returns in order to stabilize contribution rates and the funded status.

**6. Actuarial Cost Method**

A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the actuarial present value of future normal costs and the actuarial liability. It is sometimes referred to as the “actuarial funding method.”



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UNIVERSITY OF CALIFORNIA RETIREMENT PLAN**

**APPENDIX A – GLOSSARY OF TERMS**

**7. Funded Status**

The Actuarial Value of Assets divided by the Actuarial Liability. The Funded Status can also be calculated using the Market Value of Assets.

**8. Governmental Accounting Standards Board**

The Governmental Accounting Standards Board (GASB) defines the accounting and financial reporting requirements for governmental entities. GASB Statement No. 67 defines the plan accounting and financial reporting for governmental pension plans, and GASB Statement No. 68 defines the employer accounting and financial reporting for participating in a governmental pension plan.

**9. Market Value of Assets**

The fair value of the Plan's assets assuming that all holdings are liquidated on the measurement date.

**10. Normal Cost**

The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. It is sometimes referred to as "current service cost." Any payment toward the unfunded actuarial liability is not part of the normal cost.

**11. Present Value of Future Benefits**

The estimated amount of assets needed today to pay for all benefits promised in the future to current members of the Plan, assuming all Actuarial Assumptions are met.

**12. Present Value of Future Normal Costs**

The Actuarial Present Value of retirement system benefits allocated to future years of service.

**13. Unfunded Actuarial Liability (UAL)**

The difference between the Actuarial Liability and the Actuarial Value of Assets. This is sometimes referred to as the "unfunded accrued liability."



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January 20, 2023

Mr. Steve Delaney  
Chief Executive Officer  
Orange County Employees Retirement System  
2223 Wellington Avenue  
Santa Ana, CA 92701-3101

**Re: Orange County Employees Retirement System (OCERS)  
Response to Cheiron's Audit Findings and Recommendations**

Dear Steve:

Cheiron was contracted by the Board of Retirement to review the liabilities and the fiscal year 2023/2024 contribution rates determined in the Actuarial Valuation and Review as of December 31, 2021. They were also contracted to perform a high-level review of the January 1, 2017 through December 31, 2019 Actuarial Experience Study that Segal used as the bases for the actuarial assumptions applied in the Actuarial Valuation and Review as of December 31, 2021.

**Statement of Key Findings and Recommendations**

Valuation Results

According to Cheiron, "the results reported by Segal can be relied upon, the actuarial methods and assumptions comply with Actuarial Standards of Practice (ASOP), and the communication of the actuarial valuation results is complete and reasonable."

The following are the principal valuation results from Cheiron's audit of the Actuarial Valuation and Review as of December 31, 2021 (\$ in millions):

	<b>Segal</b>	<b>Cheiron</b>
Actuarial Accrued Liability	\$24,016	\$23,922
Actuarial Value of Assets	<u>19,489</u>	<u>19,489</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$4,527	\$4,433
Funded Percentage	81.1%	81.5%
Contribution Rate by Component		
Employer Normal Cost Rate	14.46%	14.53%
UAAL Rate	<u>23.36%</u>	<u>22.87%</u>
Total Employer Contribution	37.82%	37.40%

Mr. Steve Delaney  
January 20, 2023  
Page 2

### Other Key Findings and Recommendations

Cheiron found two technical issues with Segal's valuation procedures. However, Cheiron noted, and Segal agrees, that the impact of these changes on the overall funding of the System are very small and thus do not represent a significant finding. The two recommended changes are as follows:

- *The calculation of a member's entry age to determine age-based member contribution rates should be based on the member's "nearest age", or rounded age, at entry rather than the member's "completed or attained age."*

We agree with Cheiron's finding and will include this change in the Actuarial Valuation and Review as of December 31, 2022. As pointed out by Cheiron in their report, this change will only impact the calculation of the weighted average employee contribution rates<sup>1</sup> used in the valuation to determine the employer's net remaining normal cost rate to fund the total normal cost.

- *The service used to determine when a Safety member reaches 30 years of service and their member contributions cease should not include reciprocal service.*

We agree that excluding reciprocal service in the 30-year member contribution cessation determination is consistent with the description on OCERS' website. While some other 1937 CERL systems do include reciprocal service for this purpose, we understand after consulting with OCERS staff that the relevant sections of the 1937 CERL to enable the use of reciprocal service have not been adopted by OCERS' sponsoring employers. We will work with OCERS to make sure that our valuation process is consistent with OCERS' ongoing practice as part of the Actuarial Valuation and Review as of December 31, 2022.

Cheiron found the economic assumptions recommended in the most recent Actuarial Experience Study to be reasonable, including the investment return assumption of 7.00%. This is true even though, in the body of their report, they also comment on the "expected arithmetic return" approach we use to set the investment return assumption for OCERS versus the "expected geometric return" approach they use for their clients (both of which are acceptable under the applicable Actuarial Standards of Practice) as well as differential treatment of investment expenses. Cheiron also supports our recommendation to lower the inflation assumption by 0.25% from 2.75% to 2.50%.

Cheiron also found the demographic assumptions recommended in the most recent Actuarial Experience Study to be reasonable and they support our recommendation to change to the benefit-weighted approach when selecting mortality tables.

Cheiron provided suggestions for us to consider when reviewing the following assumptions in the next Actuarial Experience Study:

- *Review the assumed retirement age for deferred vested members separately for those who work for a reciprocal system and those who do not.*

<sup>1</sup> Because the actual employee contribution rates are determined using the age at entry as calculated by OCERS, this change will have no impact on the actual contributions paid by the employees.

Mr. Steve Delaney  
January 20, 2023  
Page 3

We agree with this suggestion and we will include this analysis in the next Actuarial Experience Study covering the period January 1, 2020 through December 31, 2022.

- *Review the probability that a terminated member will establish reciprocity by analyzing actual retirements for terminated OCERS members during the experience study period and distinguishing the percentage that were active members with a reciprocal system after their employment at OCERS, rather than using the percentage of current terminated members that have actually reported reciprocity to OCERS.*

We will work with OCERS to collect additional data in order to include this analysis in a future Actuarial Experience Study.

- *Review the retirement experience for members with less than 30 years of service in two service groupings (less than 20 years and 20 to 29 years of service) instead of one group.*

We will continue to analyze retirement experience as a function of both age and service and will take this suggestion into account when performing the next Actuarial Experience Study.

- *Disclose the number of exposures, actual, and expected decrements for each of the demographic assumptions (i.e., retirement, termination, disability, and death).*

We will take this suggestion into account when performing the next Actuarial Experience Study.

Finally, Cheiron suggested that Segal “consider whether a demonstration of future expected contribution rates and funding progress should be contained within the actuarial valuation report.” Based on Segal’s experience with similar retirement systems and consistent with OCERS’ past practice and direction, we have included projections of the employer contribution rate in a stand-alone Segal work product. In particular, OCERS’ sponsoring employers have in the past requested projected employer contribution rates by Rate Group and by Tier be provided for multiple years for budgetary purposes. We believe the volume of results produced for such purposes are best included in a separate work product.

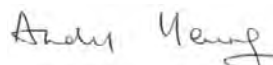
The funding valuation determines current funding status and recommends contribution rate requirements based on a point-in-time measure of the assets and liabilities. Therefore, we believe it is more effective to provide such projections in a separate presentation.

In closing, we would like to thank Cheiron for their work on this audit. Please let us know if you have any questions.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President & Actuary



Andy Yeung, ASA, MAAA, FCA, EA  
Vice President & Actuary

MYM/hy

cc: Brenda Shott



## Memorandum

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** **AUDIT REPORT – THE TRANSPORTATION CORRIDOR AGENCIES EMPLOYER AUDIT**

---

### Recommendation

Receive and file.

### Background/Discussion

As per the 2022 Audit Plan, Internal Audit performed an audit of the County of the Transportation Corridor Agencies (TCA) payroll transmittals.

There were four observations identified in this audit regarding a Member Affidavit; time sheet approval; service credit and pay rate reported into the pension administration system; and an eligibility compliance spreadsheet and documentation of a premium pay item.

Please note, Internal Audit worked with the Audit Committee Chair to revise the format of the audit report, attached. A copy of the audit report in the previous format has also been attached as a reference.

### Submitted by:

**DK - Approved**

David Kim  
Director of Internal Audit



## **Transportation Corridor Agencies Employer Audit**

**Report Date: February 14, 2023**

**Internal Audit Department**

**OCERS Internal Audit**  
**The Transportation Corridor Agencies Employer Audit**  
**February 14, 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 Transportation Corridor Agencies (TCA) payroll transmittal data. This includes, but is not limited to the controls both TCA and OCERS management have in place over the payroll transmittals.

The scope of the audit included TCA’s payroll data submitted to OCERS between January 2021 and October 2022 on a sample basis.

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

**Conclusion / Executive Summary**

**Opinion: *Opportunities for Improvement***

Overall, Internal Audit identified opportunities to improve controls to ensure that payroll data is sent accurately and completely to OCERS.

<p><b>Priority Observations</b></p> <div style="border: 1px solid blue; background-color: #4a7ebb; color: white; text-align: center; width: 40px; margin: 5px auto; padding: 5px;">0</div> <p><b>Important Observations</b></p> <div style="border: 1px solid blue; background-color: #4a7ebb; color: white; text-align: center; width: 40px; margin: 5px auto; padding: 5px;">4</div>	<p><b>Priority Observations</b> None</p> <p><b>Important Observations</b></p> <ol style="list-style-type: none"> <li>1. For one member in our test sample, the Member Affidavit Form was incomplete regarding the member’s previous public service.</li> <li>2. For two members in our test sample, the employer incorrectly reported payroll information (service credit and hourly pay rate) into the OCERS pension administration system (PAS).</li> <li>3. We noted a single instance in which a timesheet lacked supervisory signoff.</li> <li>4. Two process and review controls related to member eligibility and premium pay are not formally documented.</li> </ol>
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Internal Audit sampled 60 payroll transactions from TCA’s approximately 3,000 payroll transactions during our audit scope:

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

**Background**

TCA is comprised of the two joint powers agencies - the San Joaquin Hills Transportation Corridor Agency and the Foothill/Eastern Transportation Corridor Agency - formed in 1986 to manage the planning, financing, construction, and operation of State Routes 73, 133, 241 and 261. TCA and its employees contributed approximately \$1.6 million and \$1.7 million to OCERS for the years ended December 31, 2021, and December 31, 2022, respectively. It has 61 active members.

**Copies to OCERS:**

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

**Copies to Employer:**

K. Nicholson  
P. Mertz  
E. Raya

Observation	Action Plan / Responsible Party / Completion Date
Important Observation (to OCERS)	
<p><b>1. For one member in our test sample, the Member Affidavit Form was incomplete regarding the member’s previous public service.</b></p> <p>During our test work, Internal Audit reviewed Member Affidavits to confirm that the members’ entry ages and contribution basis dates were correctly input into the OCERS pension administration system (PAS). These are needed to help determine the member’s entry-age contribution rate. For one member’s Member Affidavit, we noted that the section pertaining to previous public service was left blank.</p> <p>The public service portion of the Member Affidavit document provides OCERS with the information needed to determine if a new member is eligible to establish reciprocity with other pension systems.</p> <p>Internal Audit performed testing of additional Member Affidavits of all other current TCA employees noting that the previous public service section was completed by the employee.</p> <p><b>Risk:</b> If OCERS is not made aware of prior public service on the Member Affidavit Form, an active member would potentially forego the benefits of establishing reciprocity with a reciprocal agency.</p>	<p><b>Action Plan:</b> TCA ensures all member affidavits are completed for previous public service. The instance identified was for the HR Director. He did not fill out the previous experience because he knew it would not be eligible for reciprocity. TCA reminded the HR Director to ensure all member affidavits have this section completed, regardless of the employee’s service credit reciprocity eligibility.</p> <p><b>Responsible Party:</b> Ed Raya, HR Director.</p> <p><b>Completion Date:</b> 12/28/2022</p>

Observation	Action Plan / Responsible Party / Completion Date
<p><b>2. For two members in our test sample, the employer incorrectly reported the payroll information to the OCERS pension administration system (PAS).</b></p> <p>During our test work, Internal Audit reviewed member timesheets and paystubs to ensure that hours worked were correctly reported in the OCERS PAS. For one member, the employer incorrectly reported 53 service eligible hours to the OCERS PAS instead of 80 hours as recorded on the timesheet and paystub for pay period 14 of 2022. TCA later identified that the previous pay period 13 of 2022 also contained the same error (53 hours instead of 80). The member's service credit is thus understated by 0.026 YOS. The member is currently on active status.</p> <p>These were manual data entry mistakes. The Toll Road's payroll system is not configured to generate an automated payroll transmittal file due to cost reasons. Instead, payroll staff manually update bi-weekly payroll data submitted into the OCERS PAS. Manual data entry is inherently prone to such errors.</p> <p>Service eligible hours reported by the employer are used by the OCERS PAS to calculate a member's years of service credit, which is a component of the member's retirement benefit calculation.</p> <p>In the second sample, the hourly rate for another member was not reported correctly on the payroll</p>	<p><b>Action Plan:</b> TCA has adjusted the employee's reported hours for PP13 &amp; PP14 to correctly reflect the hours worked. TCA noted our internal OCERS schedules properly reflected the number of hours worked, but they were incorrectly copied over to the OCERS transmittal. Additionally, TCA noted the internal schedule for the second employee properly reflected the hourly rate for the pay periods noted. TCA will adjust the employee's reported hourly rate for these periods. TCA reminded the staff and supervisor responsible for preparing and reviewing the transmittal to confirm all hours and information agree to our internal documentation prior to submission. TCA is also working to automate the process of updating the OCERS transmittals with the data from our payroll reports to limit the potential for manual data entry mistakes.</p> <p><b>Responsible Party:</b> Angie Hamblin, Sr. Accounting Clerk and Joshua Huang, Accounting Supervisor/Paula Mertz, Assistant Controller.</p> <p><b>Completion Date:</b> 2/15/2023</p>

Observation	Action Plan / Responsible Party / Completion Date
<p>transmission file (\$92.01 was reported instead of \$83.65). However, the member's earnable salary was reported correctly and would therefore not impact a Final Average Salary calculation. The member had received a pay rate increase due to a temporary promotion. When the temporary promotion ended, the reported hourly rate was not updated.</p> <p><b>Risk:</b> The member's benefit calculation would be impacted if years of service reported in the OCERS PAS during the member's final average salary measuring period are incorrectly stated.</p>	
<p><b>3. We noted a single instance in which a timesheet lacked supervisory signoff.</b></p> <p>In a sampled timesheet, we noted that the supervisor did not formally sign off as having reviewed an employee's timesheet for pay period 25 of 2021. Management believes this was due to the employee transitioning from one role (and supervisor) to a new role (and new supervisor) during the middle of the pay period.</p> <p><b>Risk:</b> Lack of independent review could lead to inaccurate tracking of hours worked and leave hours used by OCERS in the calculation of member's Final Average Salary upon retirement.</p>	<p><b>Action Plan:</b> The Sr. Accounting Clerk responsible for ensuring timesheets were properly approved for the selected pay period and the supervisor of the selected employee are no longer with TCA. TCA reminded the new payroll Sr. Accounting Clerk and Accounting Supervisor responsible for review to confirm all timecards (including partial timecards under a different supervisor) include supervisor approval prior to payroll submission.</p> <p><b>Responsible Party:</b> Angie Hamblin, Sr. Accounting Clerk and Joshua Huang, Accounting Supervisor.</p> <p><b>Completion Date:</b> 12/28/2022</p>

Observation	Action Plan / Responsible Party / Completion Date
<p><b>4. Two process and review controls related to member eligibility and premium pay are not formally documented.</b></p> <p>Internal controls are not formally documented, specifically for:</p> <ul style="list-style-type: none"> <li>• Quarterly review of total hours worked by Extra Help and temporary staff.</li> <li>• The auto allowance pay item is not formally described in the employee handbook.</li> </ul> <p>To help ensure compliance with OCERS Membership Eligibility Policy (policy), TCA’s payroll team maintains a tracking spreadsheet containing hours worked by Extra Help employees and temporary workers. (TCA does not hire retirees or hire part-time staff, whom are also subject to the policy.) The spreadsheet is updated quarterly by payroll staff and reviewed by the Assistant Controller. While a review of the spreadsheet was performed, there was no formal signoff by the reviewer.</p> <p>Auto allowance is a premium pay item currently paid at a rate of \$353.08 per pay period to six TCA employees found in our sample. We were provided evidence of TCA’s Board approval of the auto allowance paid to these employees. However, TCA does not have formal documentation describing the auto allowance program in the employee handbook.</p>	<p><b>Action Plan:</b></p> <ul style="list-style-type: none"> <li>• Quarterly review of total hours worked by Extra Help and temporary staff: TCA currently requires managers to monitor the hours of temporary project employees. The Controller reviews and signs off on each payroll register as evidence of review of payroll, which includes the hours of temporary project employees. The quarterly review is prepared as a visual aid to note the YTD hours of service for these employees. For additional documentation, TCA’s Assistant Controller will begin signing off on her quarterly tracking spreadsheet.</li> <li>• Auto allowance: TCA will add verbiage to the employee handbook describing the auto allowance program. This will be incorporated in the employee handbook revised draft for Board approval.</li> </ul> <p><b>Responsible Party:</b> Paula Mertz, Assistant Controller, Kyle Nicholson, Controller, and Ed Raya, HR Director.</p> <p><b>Completion Date:</b> 1/31/2023 for quarterly review of hours of project employees. 6/30/2023 for Auto Allowance added to employee handbook.</p>

Observation	Action Plan / Responsible Party / Completion Date
<p><b>Risk:</b> There is a lack of an audit trail evidencing review of the spreadsheet which tracks hours worked by Extra Help and temporary employees.</p> <p>Pay transparency can be improved if the auto allowance pay item is formally documented in the employee handbook.</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.



## **Transportation Corridor Agencies Employer Audit**

**Report Date: February 14, 2023**

**Internal Audit Department**

**OCERS Internal Audit  
Transportation Corridor Agencies Employer Audit  
February 14, 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 Transportation Corridor Agencies (TCA) payroll transmittal data. This includes, but is not limited to the controls both TCA and OCERS management have in place over the payroll transmittals.

The scope of the audit included TCA's payroll data submitted to OCERS between January 2021 and October 2022 on a sample basis.

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

### **Conclusion / Executive Summary**

#### **Opinion: *Opportunities for Improvement***

Overall, Internal Audit identified opportunities to improve controls to ensure that payroll data is sent accurately and completely to OCERS. There were four Important Observation identified during the audit regarding a Member Affidavit, time sheet approval, service credit and pay rate reported into the pension administration system (PAS), an eligibility compliance spreadsheet, and documentation of a premium pay item.

Internal Audit sampled 60 payroll transactions from TCA's approximately 3,000 payroll transactions during our audit scope:

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

### **Background**

TCA is comprised of the two joint powers agencies - the San Joaquin Hills Transportation Corridor Agency and the Foothill/Eastern Transportation Corridor Agency - formed in

1986 to manage the planning, financing, construction, and operation of State Routes 73, 133, 241 and 261. TCA and its employees contributed approximately \$1.6 million and \$1.7 million to OCERS for the years ended December 31, 2021, and December 31, 2022, respectively. It has 61 active members.

### Important Observations

1. **For one member in our test sample, the Member Affidavit Form was incomplete regarding the member's previous public service.** During our test work of one member's Member Affidavit, we noted that the section pertaining to previous public service was left blank. The public service portion of the Member Affidavit document provides OCERS with the information needed to determine if a new member is eligible to establish reciprocity with other pension systems. The member identified was actually TCA's HR Director. He did not fill out the previous experience because he knew it would not be eligible for reciprocity. In response to our finding, TCA reminded the HR Director to ensure all member affidavits have this section completed, regardless of the employee's service credit reciprocity eligibility.
  
2. **For two members in our test sample, the employer incorrectly reported the payroll information to the OCERS pension administration system (PAS).** For one member, the employer incorrectly reported 53 service eligible hours to the OCERS Pension Administration System (PAS) instead of 80 hours as recorded on the timesheet and paystub for both pay periods 13 and 14 of 2022. The member's service credit was thus understated by 0.026 YOS. For a second member, the hourly rate was not reported correctly on the payroll transmission file (\$92.01 was reported instead of \$83.65). However, the member's earnable salary was reported correctly and therefore did not impact a Final Average Salary calculation. In response to our finding, TCA has adjusted the first member's reported hours for PP13 & PP14 to correctly reflect the hours worked and adjusted the pay rate for the second member. TCA has also reminded the staff and supervisor responsible for preparing and reviewing the transmittal to confirm all hours and pay information prior to submission. TCA is also working to automate the process of updating the OCERS transmittals with the data from our payroll reports to limit the potential for manual data entry mistakes.
  
3. **We noted a single instance in which a timesheet lacked supervisory signoff.** In a sampled timesheet, we noted that the supervisor did not formally sign off as having reviewed an employee's timesheet for pay period 25 of 2021. Management believes this was due to the employee transitioning from one role (and supervisor) to a new role (and new supervisor) during the middle of the pay period. In response to our finding, TCA reminded the new payroll Sr. Accounting Clerk and Accounting Supervisor responsible for review to confirm all timecards (including partial timecards under a different supervisor) include supervisor approval prior to payroll submission.

4. **Two process and review controls related to member eligibility and premium pay are not formally documented.** To help ensure compliance with OCERS Membership Eligibility Policy (policy), TCA’s payroll team maintains a tracking spreadsheet containing hours worked by Extra Help employees and temporary workers. The spreadsheet is updated quarterly by payroll staff and reviewed by the Assistant Controller. While a review of the spreadsheet was performed, there was no formal signoff by the reviewer. Secondly, Auto Allowance is a premium pay item currently paid at a rate of \$353.08 per pay period to six TCA employees found in our sample. However, TCA does not have formal documentation describing the auto allowance program in the employee handbook. In response to our observation, TCA’s Assistant Controller will begin signing off on her quarterly tracking spreadsheet. Secondly, TCA will add verbiage to the employee handbook describing the auto allowance program. This will be incorporated in the employee handbook revised draft for TCA’s Board approval.

**Copies to OCERS:**

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

**Copies to Employer:**

K. Nicholson  
P. Mertz  
E. Raya

Observations	Action Plan / Responsible Party / Completion Date
<p><b>Important Observations</b></p>	
<p><b>1. For one member in our test sample, the Member Affidavit Form was incomplete regarding the member’s previous public service.</b></p> <p>During our test work, Internal Audit reviewed Member Affidavits to confirm that the members’ entry ages and contribution basis dates were correctly input into the OCERS pension administration system (PAS). These are needed to help determine the member’s entry-age contribution rate. For one member’s Member Affidavit, we noted that the section pertaining to previous public service was left blank.</p> <p>The public service portion of the Member Affidavit document provides OCERS with the information needed to determine if a new member is eligible to establish reciprocity with other pension systems.</p> <p>Internal Audit performed testing of additional Member Affidavits of all other current TCA employees noting that the previous public service section was completed by the employee.</p> <p><b>Risk:</b> If OCERS is not made aware of prior public service on the Member Affidavit Form, an active member would potentially forego the benefits of establishing reciprocity with a reciprocal agency.</p>	<p><b>Action Plan:</b> TCA ensures all member affidavits are completed for previous public service. The instance identified was for the HR Director. He did not fill out the previous experience because he knew it would not be eligible for reciprocity. TCA reminded the HR Director to ensure all member affidavits have this section completed, regardless of the employee’s service credit reciprocity eligibility.</p> <p><b>Responsible Party:</b> Ed Raya, HR Director.</p> <p><b>Completion Date:</b> 12/28/2022</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>2. For two members in our test sample, the employer incorrectly reported the payroll information to the OCERS pension administration system (PAS).</b></p> <p>During our test work, Internal Audit reviewed member timesheets and paystubs to ensure that hours worked were correctly reported in the OCERS PAS. For one member, the employer incorrectly reported 53 service eligible hours to the OCERS PAS instead of 80 hours as recorded on the timesheet and paystub for pay period 14 of 2022. TCA later identified that the previous pay period 13 of 2022 also contained the same error (53 hours instead of 80). The member's service credit is thus understated by 0.026 YOS. The member is currently on active status.</p> <p>These were manual data entry mistakes. The Transportation Corridor Agencies payroll system is not configured to generate an automated payroll transmittal file due to cost reasons. Instead, payroll staff manually update bi-weekly payroll data submitted into the OCERS PAS. Manual data entry is inherently prone to such errors.</p> <p>Service eligible hours reported by the employer are used by the OCERS PAS to calculate a member's years of service credit, which is a component of the member's retirement benefit calculation.</p>	<p><b>Action Plan:</b> TCA has adjusted the employee's reported hours for PP13 &amp; PP14 to correctly reflect the hours worked. TCA noted our internal OCERS schedules properly reflected the number of hours worked, but they were incorrectly copied over to the OCERS transmittal. Additionally, TCA noted the internal schedule for the second employee properly reflected the hourly rate for the pay periods noted. TCA will adjust the employee's reported hourly rate for these periods. TCA reminded the staff and supervisor responsible for preparing and reviewing the transmittal to confirm all hours and information agree to our internal documentation prior to submission. TCA is also working to automate the process of updating the OCERS transmittals with the data from our payroll reports to limit the potential for manual data entry mistakes.</p> <p><b>Responsible Party:</b> Angie Hamblin, Sr. Accounting Clerk and Joshua Huang, Accounting Supervisor/Paula Mertz, Assistant Controller.</p> <p><b>Completion Date:</b> 2/15/2023</p>



Observations	Action Plan / Responsible Party / Completion Date
<p>In the second sample, the hourly rate for another member was not reported correctly on the payroll transmission file (\$92.01 was reported instead of \$83.65). However, the member's earnable salary was reported correctly and would therefore not impact a Final Average Salary calculation. The member had received a pay rate increase due to a temporary promotion. When the temporary promotion ended, the reported hourly rate was not updated.</p> <p><b>Risk:</b> The member's benefit calculation would be impacted if years of service reported in the OCERS PAS during the member's final average salary measuring period are incorrectly stated.</p>	
<p><b>3. We noted a single instance in which a timesheet lacked supervisory signoff.</b></p> <p>In a sampled timesheet, we noted that the supervisor did not formally sign off as having reviewed an employee's timesheet for pay period 25 of 2021. Management believes this was due to the employee transitioning from one role (and supervisor) to a new role (and new supervisor) during the middle of the pay period.</p> <p><b>Risk:</b> Lack of independent review could lead to inaccurate tracking of hours worked and leave hours used by OCERS in the calculation of member's Final Average Salary upon retirement.</p>	<p><b>Action Plan:</b> The Sr. Accounting Clerk responsible for ensuring timesheets were properly approved for the selected pay period and the supervisor of the selected employee are no longer with TCA. TCA reminded the new payroll Sr. Accounting Clerk and Accounting Supervisor responsible for review to confirm all timecards (including partial timecards under a different supervisor) include supervisor approval prior to payroll submission.</p> <p><b>Responsible Party:</b> Angie Hamblin, Sr. Accounting Clerk and Joshua Huang, Accounting Supervisor.</p> <p><b>Completion Date:</b> 12/28/2022</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>4. Two process and review controls impacting pension benefits are not formally documented.</b></p> <p>Internal controls are not formally documented, specifically for:</p> <ul style="list-style-type: none"> <li>• Quarterly review of total hours worked by Extra Help and temporary staff.</li> <li>• The auto allowance pay item is not formally described in the employee handbook.</li> </ul> <p>To help ensure compliance with OCERS Membership Eligibility Policy (policy), TCA’s payroll team maintains a tracking spreadsheet containing hours worked by Extra Help employees and temporary workers. (TCA does not hire retirees or hire part-time staff, whom are also subject to the policy.) The spreadsheet is updated quarterly by payroll staff and reviewed by the Assistant Controller. While a review of the spreadsheet was performed, there was no formal signoff by the reviewer.</p> <p>Auto allowance is a premium pay item currently paid at a rate of \$353.08 per pay period to six TCA employees found in our sample. We were provided evidence of TCA’s Board approval of the auto allowance paid to these employees. However, TCA does not have formal documentation describing the auto allowance program in the employee handbook.</p>	<p><b>Action Plan:</b></p> <ul style="list-style-type: none"> <li>• Quarterly review of total hours worked by Extra Help and temporary staff: TCA currently requires managers to monitor the hours of temporary project employees. The Controller reviews and signs off on each payroll register as evidence of review of payroll, which includes the hours of temporary project employees. The quarterly review is prepared as a visual aid to note the YTD hours of service for these employees. For additional documentation, TCA’s Assistant Controller will begin signing off on her quarterly tracking spreadsheet.</li> <li>• Auto allowance: TCA will add verbiage to the employee handbook describing the auto allowance program. This will be incorporated in the employee handbook revised draft for Board approval.</li> </ul> <p><b>Responsible Party:</b> Paula Mertz, Assistant Controller, Kyle Nicholson, Controller, and Ed Raya, HR Director.</p> <p><b>Completion Date:</b> 1/31/2023 for quarterly review of hours of project employees. 6/30/2023 for Auto Allowance added to employee handbook.</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>Risk:</b> There is a lack of an audit trail evidencing review of the spreadsheet which tracks hours worked by Extra Help and temporary employees.</p> <p>Pay transparency can be improved if the auto allowance pay item is formally documented in the employee handbook.</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

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** Brenda Shott, Assistant CEO Finance and Internal Operations  
**SUBJECT:** **TRIENNIAL REVIEW OF THE OPERATIONAL RISK POLICY**

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### **Recommendation**

Approve and recommend that the Board of Retirement adopt the proposed revisions to the Operational Risk Policy as presented.

### **Background/Discussion**

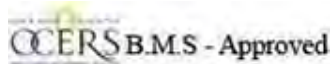
The Board of Retirement (including the Governance Committee) has formally adopted multiple policies and charters and has established a review schedule that requires review of every policy and charter every three years. The Operational Risk Policy (Policy) was adopted by the Board on November 16, 2015 and was last reviewed and revised on February 19, 2019. It will be scheduled for review and approval by the Board, after review by the Audit Committee.

### **Proposed Revisions**

Staff has reviewed the Policy and recommended non-substantive clarify language as noted in the amended Policy document.

A copy of the Policy with the proposed changes indicated in underlined/strikeout text is attached.

### Attachment



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Brenda Shott  
Assistant CEO, Finance and Internal Operations



# OCERS Board Policy Operational Risk Policy

## Background

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

## Policy Objectives

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

## Policy Guidelines

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

## Policy Review

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

## Policy History

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

## Secretary's Certificate

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

Steve Delaney  
Secretary of the Board

2/19/19

Date



## OCERS Board Policy Operational Risk Policy

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### Background

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

### Policy Objectives

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

### Policy Guidelines

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

### Policy Review

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

### Policy History

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

### Secretary's Certificate

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

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

Steve Delaney  
Secretary of the Board

\_\_\_\_\_ Date





## Memorandum

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** REVIEW OF OCERS's AUDIT COMMITTEE CHARTER

---

### Recommendation

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

### Background/Discussion

Attached for the Committee's triennial review is the Audit Committee Charter along with an overview of the Audit Committee Charter. The Audit Committee Charter was last updated in January of 2020.

In addition to formatting updates, Internal Audit recommends the following revisions to the Audit Committee Charter:

- Include resources to the items the Audit Committee would inquire of the Director of Internal Audit that may impede Internal Audit.

Submitted by:

**DK - Approved**

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David Kim  
Director of Internal Auditor



## OCERS Board Charter Audit Committee Charter

### Introduction

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

### Purpose

2. The Audit Committee provides oversight of OCERS's internal and external audit activities. The Audit Committee assists the Board in ensuring the independence of the internal audit functions and ensuring that appropriate action is taken on audit recommendations. The Audit Committee helps promote and enhance effective internal controls for OCERS operations, and oversees communication between external auditors, internal auditors, and management.

### Membership

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

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

### Meetings

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

### Responsibilities and Duties

5. The Audit Committee's key areas of responsibility are:
  - a. *Law and Ethics*: The Audit Committee will provide the policy and framework for compliance with laws and regulations, mechanisms for assessment of compliance, and communication with the Board on OCERS policies.
  - b. *Financial Reporting Process*: The Audit Committee will:



## OCERS Board Charter Audit Committee Charter

1. Monitor management's processes for the reporting of all financial information, including management's review with the external auditor regarding their scope, plan, duties, responsibilities, and the timing and engagement fee of the annual financial audit;
  2. Resolve disagreements between the internal auditor, external auditor, and /or management regarding financial reporting and internal control risks identified in the audit;
  3. Review the audited financial statements with the external auditor and senior management;
  4. Review management letters with [OCERS's](#) management;
  5. Review the findings or comments of regulatory agencies concerning financial statements or other information regarding OCERS;
  6. Review the external auditor's assessments of the appropriate application of accounting principles by OCERS management;
  7. Review all matters required to be disclosed by accounting standards, including significant changes in those standards; and
  8. Meet with senior management, at least annually, to discuss the effectiveness of the internal financial and operational control policies.
- c. *Oversight of the External Auditors:* The Audit Committee will:
1. Conduct the solicitation for the financial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;
  2. Conduct the solicitation for the actuarial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend~~ing~~ one or more finalists to the Board for appointment;
  3. Conduct the solicitation for, select, and appoint all external auditors (other than the financial auditor and the actuarial auditor) engaged for the purpose of issuing an independent audit report or performing other independent audits, reviews, or attest services;
  4. Oversee the work of all external auditors; and conduct regular monitoring and performance reviews of the actuarial auditor and the financial auditor at least biennially in accordance with the Board's Procurement and Contracting Policy; and
  5. Approve other audits, agreed upon procedures, and non-audit work to be conducted by external auditors.
- d. *Oversight of Internal Audit:* The Audit Committee will:
1. Approve all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;



## OCERS Board Charter Audit Committee Charter

2. Approve the compensation and salary adjustments ~~of~~for the Director of Internal Audit;
  3. Review the charters and policies assigned to ~~the~~ Audit Committee at least once every three years in accordance with the schedule set forth in the OCERS Charters and Policies Review Schedule and recommend the same for approval by the Board of Retirement;
  4. Review and approve the risk assessment and annual Internal Audit Plan prepared by the Director of Internal Audit;
  5. Receive and review internal and external audit reports and management responses;
  6. Review significant recommendations from audits during the year and management’s responses, and make appropriate recommendations to the Board; and
  7. Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope ~~or~~ budgetary, ~~or~~ resource limitations that impede the ability of the internal audit activity to carry out its responsibilities.
- e. *Internal Control and Risk Management:* The Audit Committee will review management responsibilities for:
1. The adequacy of OCERS’~~s~~ internal controls, including information systems;
  2. Material risks facing OCERS and management’s actions to minimize risk;
  3. Risks from external organizations such as service providers, vendors, investment managers, consultants, and plan sponsors; and
  4. Special investigations and whistleblower mechanisms. The Audit Committee can retain independent counsel, accountants, or other specialists to assist in the conduct of an investigation.

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### Reporting

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

### Charter Review

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

### Charter History

8. The Audit Committee Charter was adopted by the Board of Retirement on November 18, 2002, and amended on January 17, 2012, ~~July 20, 2015,~~ May 15, 2017, ~~and~~ January 13, 2020, ~~and~~ [February XX, 2023](#).

Audit Committee Charter  
 Adopted November 18, 2002  
 Last Revised [February XX, 2023](#)

3 of 4



OCERS Board Charter  
**Audit Committee Charter**

**Secretary's Certificate**

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

*Steve Delaney*

12/13XX/230

Steve Delaney, Secretary of the Board

Date



## OCERS Board Charter

# Audit Committee Charter

---

### Introduction

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

### Purpose

2. The Audit Committee provides oversight of OCERS's internal and external audit activities. The Audit Committee assists the Board in ensuring the independence of the internal audit functions and ensuring that appropriate action is taken on audit recommendations. The Audit Committee helps promote and enhance effective internal controls for OCERS operations, and oversees communication between external auditors, internal auditors, and management.

### Membership

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

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

### Meetings

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

### Responsibilities and Duties

5. The Audit Committee's key areas of responsibility are:
  - a. *Law and Ethics*: The Audit Committee will provide the policy and framework for compliance with laws and regulations, mechanisms for assessment of compliance, and communication with the Board on OCERS policies.
  - b. *Financial Reporting Process*: The Audit Committee will:



## OCERS Board Charter Audit Committee Charter

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1. Monitor management's processes for the reporting of all financial information, including management's review with the external auditor regarding their scope, plan, duties, responsibilities, and the timing and engagement fee of the annual financial audit;
  2. Resolve disagreements between the internal auditor, external auditor, and /or management regarding financial reporting and internal control risks identified in the audit;
  3. Review the audited financial statements with the external auditor and senior management;
  4. Review management letters with OCERS's management;
  5. Review the findings or comments of regulatory agencies concerning financial statements or other information regarding OCERS;
  6. Review the external auditor's assessments of the appropriate application of accounting principles by OCERS management;
  7. Review all matters required to be disclosed by accounting standards, including significant changes in those standards; and
  8. Meet with senior management, at least annually, to discuss the effectiveness of the internal financial and operational control policies.
- c. *Oversight of the External Auditors:* The Audit Committee will:
1. Conduct the solicitation for the financial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;
  2. Conduct the solicitation for the actuarial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommending one or more finalists to the Board for appointment;
  3. Conduct the solicitation for, select, and appoint all external auditors (other than the financial auditor and the actuarial auditor) engaged for the purpose of issuing an independent audit report or performing other independent audits, reviews, or attest services;
  4. Oversee the work of all external auditors and conduct regular monitoring and performance reviews of the actuarial auditor and the financial auditor at least biennially in accordance with the Board's Procurement and Contracting Policy; and
  5. Approve other audits, agreed upon procedures, and non-audit work to be conducted by external auditors.
- d. *Oversight of Internal Audit:* The Audit Committee will:
1. Approve all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;



## OCERS Board Charter Audit Committee Charter

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2. Approve the compensation and salary adjustments for the Director of Internal Audit;
  3. Review the charters and policies assigned to the Audit Committee at least once every three years in accordance with the schedule set forth in the OCERS Charters and Policies Review Schedule and recommend the same for approval by the Board of Retirement;
  4. Review and approve the risk assessment and annual Internal Audit Plan prepared by the Director of Internal Audit;
  5. Receive and review internal and external audit reports and management responses;
  6. Review significant recommendations from audits during the year and management's responses, and make appropriate recommendations to the Board; and
  7. Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of the internal audit activity to carry out its responsibilities.
- e. *Internal Control and Risk Management:* The Audit Committee will review management responsibilities for:
1. The adequacy of OCERS's internal controls, including information systems;
  2. Material risks facing OCERS and management's actions to minimize risk;
  3. Risks from external organizations such as service providers, vendors, investment managers, consultants, and plan sponsors; and
  4. Special investigations and whistleblower mechanisms. The Audit Committee can retain independent counsel, accountants, or other specialists to assist in the conduct of an investigation.

### Reporting

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

### Charter Review

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

### Charter History

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





## OCERS Board Charter Audit Committee Charter

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### Secretary's Certificate

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

*Steve Delaney*

2/XX/23

Steve Delaney, Secretary of the Board

Date



## Memorandum

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** REVIEW OF OCERS's INTERNAL AUDIT CHARTER

---

### Recommendation

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

### Background/Discussion

Attached for the Committee's triennial review is the Internal Audit Charter. The Internal Audit Charter was last updated in January of 2020.

In addition to formatting updates, Internal Audit recommends the following revisions to the Audit Committee Charter:

- Include "resources" to the items the Audit Committee would inquire of the Director of Internal Audit that may impede Internal Audit; and
- Include the following statement, "The Board of Retirement established an Audit Committee to assist in overseeing the audit function within OCERS".

Submitted by:

**DK - Approved**

\_\_\_\_\_  
David Kim  
Director of Internal Auditor



## OCERS Board Charter Internal Audit Charter

### Introduction

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

### Mission of the Internal Audit Department

1. The mission of the Internal Audit Department is to provide reliable, independent and objective evaluations and consulting services to the Audit Committee and OCERS's management relating to business and financial operations. Internal Audit assists the Board of Retirement and management to achieve their objectives by testing and reporting on the effectiveness of internal control systems, risk management, and governance processes.

### Independence of the Director of Internal Audit

2. The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner.
3. Internal Audit shall not participate in any management activity or management relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization, in accordance with the Institute of Internal Auditors' Code of Ethics.

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

### Organizational Reporting

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

Functionally reporting to the Audit Committee involves the Audit Committee:

- a. Reviewing and recommending changes to the Internal Audit Charter to the Board of Retirement;
- b. Approving the risk-based Internal Audit plan;
- c. Receiving communications from the Director of Internal Audit on the results of audit activities;



## OCERS Board Charter

# Internal Audit Charter

- d. Approving all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
- e. Approving the compensation and salary adjustments of the Director of Internal Audit; [and](#)
- f. Making appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, ~~or~~ budgetary, or resource limitations that impede the ability of Internal Audit to carry out its responsibilities.

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

- a. Budgeting and management accounting;
- b. Human resource administration, including personnel evaluations, leave request approval, and compensation;
- c. Internal communications and information flows; [and](#)
- d. Administration of the Internal Audit Department's policies and procedures.

### Objectives and Scope

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

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

- a. Reviewing the reliability and integrity of financial and business information systems, and the means used to identify, measure, classify, and report such information;
- b. Reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws, and regulations that are fundamental to the operations of OCERS and could have a significant impact on operations, financial reports, and disclosures;
- c. Reviewing the means of safeguarding assets and verifying the existence of such assets;
- d. Monitoring and evaluating the effectiveness of OCERS' ~~ss~~ [risk management](#) systems, including identifying internal and external risks;
- e. Auditing the accuracy of data transmitted to OCERS by external parties.
- f. Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit; [and](#)



## OCERS Board Charter Internal Audit Charter

- g. ~~Providing assessments and advice~~ for consulting and advisory services. ~~Internal Audit may provide assessments and advice~~ to identify risks and internal controls for projects.

### Authority and Responsibility

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

The responsibility of OCERS Internal Audit is to serve the Board of Retirement in a manner that is consistent with the International Professional Practices Framework of the Institute of Internal Auditors, as required by California Government Code 1236. In addition, when appropriate, OCERS Internal Audit follows professional standards promulgated by the Government Accountability Office, the American Institute of Certified Public Accountants, and the Information Systems Audit and Control Association.

OCERS Internal Audit is responsible for:

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



## OCERS Board Charter Internal Audit Charter

### Internal Audit Access to Personnel and Information

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

### Charter History

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

### Secretary's Certificate

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

21/13XX/230

Steve Delaney, Secretary of the Board

Date



## OCERS Board Charter Internal Audit Charter

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### Introduction

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

### Mission of the Internal Audit Department

1. The mission of the Internal Audit Department is to provide reliable, independent and objective evaluations and consulting services to the Audit Committee and OCERS's management relating to business and financial operations. Internal Audit assists the Board of Retirement and management to achieve their objectives by testing and reporting on the effectiveness of internal control systems, risk management, and governance processes.

### Independence of the Director of Internal Audit

2. The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner.
3. Internal Audit shall not participate in any management activity or management relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization in accordance with the Institute of Internal Auditors' Code of Ethics.

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

### Organizational Reporting

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

Functionally reporting to the Audit Committee involves the Audit Committee:

- a. Reviewing and recommending changes to the Internal Audit Charter to the Board of Retirement;
- b. Approving the risk-based Internal Audit plan;
- c. Receiving communications from the Director of Internal Audit on the results of audit activities;



## OCERS Board Charter Internal Audit Charter

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- d. Approving all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
- e. Approving the compensation and salary adjustments of the Director of Internal Audit; and
- f. Making appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of Internal Audit to carry out its responsibilities.

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

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

### Objectives and Scope

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

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

- a. Reviewing the reliability and integrity of financial and business information systems, and the means used to identify, measure, classify, and report such information;
- b. Reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws, and regulations that are fundamental to the operations of OCERS and could have a significant impact on operations, financial reports, and disclosures;
- c. Reviewing the means of safeguarding assets and verifying the existence of such assets;
- d. Monitoring and evaluating the effectiveness of OCERS's risk management systems, including identifying internal and external risks;
- e. Auditing the accuracy of data transmitted to OCERS by external parties.
- f. Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit; and





## OCERS Board Charter

# Internal Audit Charter

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

## Authority and Responsibility

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

The responsibility of OCERS Internal Audit is to serve the Board of Retirement in a manner that is consistent with the International Professional Practices Framework of the Institute of Internal Auditors, as required by California Government Code 1236. In addition, when appropriate, OCERS Internal Audit follows professional standards promulgated by the Government Accountability Office, the American Institute of Certified Public Accountants, and the Information Systems Audit and Control Association.

OCERS Internal Audit is responsible for:

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



## OCERS Board Charter Internal Audit Charter

### Internal Audit Access to Personnel and Information

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

### Charter History

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

### Secretary's Certificate

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

Steve Delaney, Secretary of the Board

2/XX/23

Date



## Memorandum

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** **AUDIT REPORT – AUDIT OF INFORMATION TECHNOLOGY AUTOMATED CONTROLS (ITAC)**

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### Recommendation

Receive and file.

### Background/Discussion

As per the 2022 Audit Plan, Internal Audit performed an audit of the Information Technology Automated Controls (ITAC) in the pension administration system (PAS).

There was one observation identified in this audit for Management to enhance the PAS design specification documents.

Please note, Internal Audit worked with the Audit Committee Chair to revise the format of the audit report, attached. A copy of the audit report in the previous format has also been attached as a reference.

### Submitted by:

**DK - Approved**

David Kim  
Director of Internal Audit



## **Audit of Information Technology Automated Controls (ITAC)**

**Report Date: February 14, 2023**

**Internal Audit Department**

**David Kim, Director of Internal Audit**

**Mark Adviento, Internal Auditor**

**OCERS Internal Audit**  
**Audit of Information Technology Automated Controls (ITAC)**  
**February 14, 2023**

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

### Audit Objective and Scope

The objective of this audit was to validate the accuracy of the pension administration system’s (PAS) design specification documents over the Final Average Salary calculation process, which is performed prior to management’s manual adjustment process.

The scope of the audit included the testing of the design and operating effectiveness of relevant IT automated controls (ITACs), focusing on a review of ITACs related to the accuracy of the Final Average Salary (FAS) calculation. These calculations included the following components that were also tested: benefit type, FAS, member’s retirement age factor, and years of service.. The time period covered was August 2020 through August 2021.

A sample of 30 members were selected for testing. Members were judgmentally selected in order to include recent retirements processed in 2020 and 2021 and to capture a variety of member characteristics. Characteristics included age, benefit type, and employer group. The sample included 14 different benefit types and an age range covering member retirees between age 37 and 75.

The audit was performed by RSM US LLP in collaboration with OCERS’ Internal Audit. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

### Conclusion / Executive Summary

**Opinion: Satisfactory**

Overall, ITACs within the PAS are properly setup and ensure accurate calculation of member’s retirement benefits. Internal Audit did provide recommendations to enhance the design specification documents which Management will act on as OCERS prepares for the next pension administration system implementation.

<p><b>Priority Observations</b></p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 10px auto; border-radius: 5px; display: flex; align-items: center; justify-content: center;">0</div> <p><b>Important Observations</b></p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 10px auto; border-radius: 5px; display: flex; align-items: center; justify-content: center;">1</div>	<p><b>Priority Observations</b></p> <p>None</p> <p><b>Important Observation</b></p> <ol style="list-style-type: none"> <li>1. An opportunity exists to enhance documentation of three specific areas described across six of the 19 pension administration system design specification documents reviewed by Internal Audit.</li> </ol>
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## **Background**

OCERS is currently providing retirement benefits for The County of Orange employees and other eligible members. There are almost 50,000 active, deferred and retired members, as of December 31, 2021. In 2016, OCERS implemented its current version of the PAS to facilitate the calculation and disbursement of retirement benefits. All member account data provided by members, employers, and others are input and maintained in the PAS.

As part of this implementation, ITACs were built into the PAS in order to assist OCERS in calculating, processing, and ensuring the quality and accuracy of each member's retirement benefit. The PAS automatically calculates and generates key components of the member's retirement benefits using member data input into the system. Components include benefit type, FAS, member's retirement age factor, and years of service. These automated controls and processes are documented by OCERS in design specification documents and user guides and reflect the current ITAC setup in the PAS. These documents and guides include specific formulas and steps built into the PAS to automatically calculate data and generate data outputs. While the specification documents did include important details for the implementation of the PAS, the documentation could be enhanced with additional detail.

The Audit of IT Automated Controls has received increased importance by OCERS to validate and obtain assurance around the accuracy of its retirement benefits calculations, specifically validating that the ITAC controls within the PAS related to these calculations are operating properly. Previous reviews by Internal Audit tested and reviewed the accuracy FAS calculations that were manually calculated by Member Services, but this is the first review that solely reviewed the PAS' calculations.

### **Copies to:**

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

J. Lamberson  
J. Sadoski  
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
Important Observation	
<p><b>1. An opportunity exists to enhance documentation of three specific areas described across six of the 19 pension administration system specification documents reviewed by Internal Audit.</b></p> <p>During our review, Internal Audit reviewed 19 design specification documents and noted that six specification documents should be updated to more accurately describe the calculations performed by the PAS for benefit calculations in three specific areas, as noted below.</p> <p>1. We noted that the documentation for the Part Account Detail Annualized Information report can be improved to provide additional detail on the calculation for Years of Service. This report includes the member’s historical earnable salary and years of service among other key demographic information. The documentation currently does not contain a detailed description of how the Years of Service calculations in the report are performed.</p> <p>2. Additionally, the PAS design specification documents did not consistently describe how the rounding for the years of service calculations should be performed. For Years of Service, the</p>	<p><b>Management Action Plan:</b> IT Management will work with our PAS vendor and Member Services to update the identified PAS Design Specification documents to include the detailed logic and calculations configured for our PAS.</p> <p><b>MAP Responsible Party:</b> Jenny Sadoski, Director of Information Technology</p> <p><b>Completion Date:</b> December 31, 2023</p>



Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>specification document states to “Round up to the 4th decimal place”. However, later in the specification document, and confirmed by testing, it was noted that the PAS rounding was not “up to” but traditionally rounded to the 4th decimal place.</p> <p>3. There is no clear definition of how the PAS is supposed to use start and end dates of premium pay items in the factor table. The factor table is used to apply the proration of a premium pay item, if applicable, in the FAS calculation. If a record of a pay item in the factor table has an end date associated with it, it is unclear whether that pay item is to be prorated or not prorated as part of the FAS calculation after the end date.</p> <p><b>Risk:</b> Incorrect and/or unclear documentation of certain system specifications can lead to OCERS staff, who reference the documentation, to improperly calculate and possibly override outputs in the PAS.</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 for integrity. Management is expected to address Priority Observations brought to its attention immediately.

#### **Important Observations:**

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

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

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

### **Internal Control Limitations**

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

**Audit Report Opinions:**

**Satisfactory:**

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

**Opportunities for Improvement:**

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

**Inadequate:**

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



**Audit of Information Technology Automated  
Controls (ITAC)**

**Report Date: February 14, 2023**

**Internal Audit Department**

**David Kim, Director of Internal Audit**

**Mark Adviento, Internal Auditor**

**OCERS Internal Audit**  
**Audit of Information Technology Automated Controls (ITAC)**  
**February 14, 2023**

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### **Audit Objective and Scope**

The objective of this audit was to validate the accuracy of the pension administration system's (PAS) design specification documents over the Final Average Salary calculation process, which is performed prior to management's manual adjustment process.

The scope of the audit included the testing of the design and operating effectiveness of relevant IT automated controls (ITACs), focusing on a review of ITACs related to the accuracy of the Final Average Salary (FAS) calculation. These calculations included the following components that were also tested: benefit type, FAS, member's retirement age factor, and years of service.. The time period covered was August 2020 through August 2021.

A sample of 30 members were selected for testing. Members were judgmentally selected in order to include recent retirements processed in 2020 and 2021 and to capture a variety of member characteristics. Characteristics included age, benefit type, and employer group. The sample included 14 different benefit types and an age range covering member retirees between age 37 and 75.

The audit was performed by RSM US LLP in collaboration with OCERS' Internal Audit. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

### **Conclusion / Executive Summary**

<b>Opinion: Satisfactory</b>
------------------------------

Overall, ITACs within the PAS are properly setup and ensure accurate calculation of member's retirement benefits. Internal Audit did identify an opportunity to enhance the design specification documents which Management will act on as OCERS prepares for the next pension administration system implementation.

### **Background**

OCERS is currently providing retirement benefits for The County of Orange employees and other eligible members. There are almost 50,000 active, deferred and retired members, as of December 31, 2021. In 2016, OCERS implemented its current version of the PAS to facilitate the calculation and disbursement of retirement benefits. All member account data provided by members, employers, and others are input and maintained in the PAS.

As part of this implementation, ITACs were built into the PAS in order to assist OCERS in calculating, processing, and ensuring the quality and accuracy of each member's retirement benefit. The PAS automatically calculates and generates key components of the member's retirement benefits using member data input into the system. Components include benefit type, FAS, member's retirement age factor, and years of service. These automated controls and processes are documented by OCERS in design specification documents and user guides and reflect the current ITAC setup in the PAS. These documents and guides include specific formulas and steps built into the PAS to automatically calculate data and generate data outputs. While the specification documents did include important details for the implementation of the PAS, the documentation could be enhanced with additional detail.

The Audit of IT Automated Controls has received increased importance by OCERS to validate and obtain assurance around the accuracy of its retirement benefits calculations, specifically validating that the ITAC controls within the PAS related to these calculations are operating properly. Previous reviews by Internal Audit tested and reviewed the accuracy FAS calculations that were manually calculated by Member Services, but this is the first review that solely reviewed the PAS' calculations.

### Important Observation

1. **An opportunity exists to enhance documentation of three specific areas described across six of the 19 pension administration system design specification documents reviewed by Internal Audit.** During our review, Internal Audit noted that out of the 19 design specification documents, six of the specification documents should be updated to more accurately describe the calculations performed by the PAS for benefit calculations. Specifically, the documentation did not consistently describe the calculations in a Part Account report, how the rounding from years of service calculations should be handled and pay item proration rules. In response to our observation, OCERS IT Management will work with the PAS vendor and Member Services to update the design specification documents.

### Copies to:

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

J. Lamberson  
J. Sadoski  
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
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### **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 for integrity. Management is expected to address Priority Observations brought to its attention immediately.

#### **Important Observations:**

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

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

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

### **Internal Control Limitations**

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

**Audit Report Opinions:**

**Satisfactory:**

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

**Opportunities for Improvement:**

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

**Inadequate:**

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



## Memorandum

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** Brenda Shott, Assistant CEO Finance & Internal Operations  
**SUBJECT:** OPERATIONAL RISK MANAGEMENT ANNUAL REPORT

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### 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

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3. All departments have been evaluated for Operational Risks. There is a total of 66 current risks that have been identified and recorded
4. Department Directors and their teams give each risk identified in their area of responsibility a total of three scores: Initial Score (based on conditions at the time the risk is identified), Current Score (based on current situation after considering existing mitigating factors and operational conditions) and Target Score (based on mitigating factors planned for the future and expected operational conditions). Each score is comprised of two components: Likelihood of risk occurring and the impact the risk would have should it occur. Both the likelihood and impact are given a numeric value between 1 and 5. The two scores are multiplied together to get the risk score for each of three scenarios.
5. The Contracts, Risk and Performance Administrator met with each Department to review the risks identified. During the review meetings, each risk was reviewed to determine if any changes to mitigating factors had occurred, new risks identified were evaluated (if any) and each risk score was reassessed and updated if appropriate.
6. The Operational Risk Committee met quarterly to review the results of the department meetings. The Committee has evaluated all of the risks identified in the program and deemed the scores assigned appropriate.
7. The initial risk score of the entire organization was 9.82 on a scale of 1 to 25
8. After current mitigating factors were considered, the overall Current Risk Score is 6.72 (Low).
9. The overall Target Risk Score is 3.56 (Low)
10. Page three (3) of this report includes a visual representation of the current and prior year scores.

Submitted by:

CCERS B.M.S. - Approved

Brenda Shott  
Assistant CEO, Internal Operations



# Memorandum

## All Departments – Risk Management Scorecard

### 2022 Scores



### 2021 Scores



### 2020 Scores





## Memorandum

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** **MANAGEMENT ACTION PLAN VERIFICATION REPORT**

---

### *Written Report*

#### **Background/Discussion**

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

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

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

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

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

Please note, as requested by the Audit Committee, the report has been updated to list first all Open MAPs by project, then followed by Closed MAPs by project.

Submitted by:

**DK - Approved**

---

David Kim  
Director of Internal Auditor



### Management Action Plan Status Report

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

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

REPORTING FOR: 2018, 2019, 2020, 2021, 2022, ARCHIVED	OPEN	Closed - No Further Action Required (YTD)	Closed - No Further Action Required (Prior Years)	Total
<b>Process Owner</b>				
EMPLOYER	0	0	13	13
EXECUTIVE	4	3	5	12
FINANCE	0	0	20	20
INFORMATION SECURITY	1	0	0	1
INFORMATION TECHNOLOGY	7	0	9	16
INVESTMENTS	0	0	10	10
MEMBER SERVICES	4	3	35	42
<b>Total Count:</b>	<b>16</b>	<b>6</b>	<b>92</b>	<b>114</b>





## Management Action Plan Status Report

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

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



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

**REPORT DATE:** 10/23/2018

OPEN

**Open Observations:** 1

**OBSERVATION #6 - V3 CONTRIBUTION RATE CONFIGURATIONS SOD - THERE IS NOT A PROPER SEGREGATION OF DUTIES WITHIN OCERS' IT DIVISION IN REGARDS TO THE CONFIGURATION OF CONTRIBUTION RATES IN V3.**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Due Date:</b>	03/31/2023
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Internal Audit has spoken with management about action plan and will verify when duties are transitioned. The duties have been segregated among different departments. IT is finalizing the procedural document to configure the contribution tables in V3.

**Project:** 6 - 1901 - Finance Contributions audit

**REPORT DATE:** 05/16/2019

OPEN

**Open Observations:** 1

**OBSERVATION #1 - A FORMAL PERIODIC REVIEW OF PROPER USER ACCESS TO OCERS APPLICATIONS AND NETWORK IS NOT DOCUMENTED BY THE APPROPRIATE MEMBERS OF THE BUSINESS.**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Due Date:</b>	02/28/2023
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Access review is underway. Formal policies are currently in working draft as of February 2021 to be formalized by Dec 2022. 9/16 - RPA is a possible long term solution. Mgmt is considering a short term solution using SharePoint



## Management Action Plan Status Report

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

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**Project:** 36 - 1943 2019 BCDR Audit

**REPORT DATE:** 10/17/2019

OPEN

**Open Observations:** 2

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

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Due Date:</b>	07/31/2023
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IT will develop testing templates and scenarios and will coordinate with management to perform testing for IT managed systems. 9/16/22 - Mgmt is currently developing test plans

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

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

**Project:** 39 - 1971-IT General Controls

**REPORT DATE:** 06/04/2020

OPEN

**Open Observations:** 2

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

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
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## Management Action Plan Status Report

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

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**Due Date:** 06/30/2023

**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.**

**Process Owner:** INFORMATION TECHNOLOGY

**Due Date:** 12/30/2023

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

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

**IA Follow-Up:** IT to discuss solutions with other vendors. IT will focus on Member data and related data from business processes (e.g. member payroll, death data). Focus on data flows either instead of or before data classifications, depending on the nature of the observation.

**Project:** 40 - 1945- FAS Pay Items Audit

**REPORT DATE:** 06/04/2020

OPEN

**Open Observations:** 1

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

**Process Owner:** MEMBER SERVICES

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

**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 Report

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

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**Project:** 42 - 2032 - Actuarial Extract Audit

**REPORT DATE:** 10/13/2020

OPEN

**Open Observations:** 2

**OBSERVATION #4 - 4. NUMERICAL THRESHOLDS UNDER WHICH FURTHER INVESTIGATION OF VALIDATION RESULTS ARE NO LONGER CONSIDERED NECESSARY ARE NOT FORMALLY DEFINED.**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Due Date:</b>	02/28/2023
<b>Action Plan:</b>	The IT Programming team with work with OCERS Management to develop acceptable thresholds to use when reviewing the actuarial validation results.
<b>IA Follow-Up:</b>	IT has developed threshold recommendations and will coordinate with business owners for final approval.

**OBSERVATION #5 - 5. MEMBER SERVICES DOES NOT HAVE POLICIES AND PROCEDURES RELATED TO THE USE OF THE PENSION ADMINISTRATION SYSTEM MEMBER DATA VALIDATION QUERIES.**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Due Date:</b>	04/28/2023
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	

**Project:** 33 - 2090 - Vulnerability and Patch Management

**REPORT DATE:** 03/22/2021

OPEN

**Open Observations:** 1

**OBSERVATION #1 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION**

<b>Process Owner:</b>	INFORMATION SECURITY
<b>Due Date:</b>	
<b>Action Plan:</b>	Details Removed - Discussed in Closed Session



## Management Action Plan Status Report

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

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**IA Follow-Up:**

**Project:** 56 - 2133 - Dependent Survivor Eligibility Audit

**REPORT DATE:** 10/04/2021

OPEN

**Open Observations:** 1

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

**Process Owner:** MEMBER SERVICES

**Due Date:** 09/29/2023

**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:**

**Project:** 60 - 2261 - Procurement Audit

**REPORT DATE:** 10/03/2022

OPEN

**Open Observations:** 4

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

**Process Owner:** EXECUTIVE

**Due Date:** 06/30/2023

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

**IA Follow-Up:**

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



## Management Action Plan Status Report

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

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<b>Process Owner:</b>	EXECUTIVE
<b>Due Date:</b>	06/30/2023
<b>Action Plan:</b>	A. Management will recommend changes to the Procurement and Contracting Policy to include a duty of the Contract Administer to ensure the appropriate signatures for contracts are obtained.  B. In an instance where the Procurement and Contracting Policy is not followed, Management will address these non-compliance issues through the Employee Evaluation and Discipline practices as noted in the Employees Handbook.
<b>IA Follow-Up:</b>	

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

<b>Process Owner:</b>	EXECUTIVE
<b>Due Date:</b>	06/30/2023
<b>Action Plan:</b>	Policy Issue: Management will work with the Legal Division to identify circumstances where a contract is required and make recommendations to update the Procurement and Contracting Policy as deemed appropriate.
<b>IA Follow-Up:</b>	

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

<b>Process Owner:</b>	EXECUTIVE
<b>Due Date:</b>	06/30/2023
<b>Action Plan:</b>	Policy Issue: A. Management will recommend changes to the Procurement and Contracting Policy regarding the approvals required for a contract whose value is unknown at the time of execution. B. Management will recommend changes to the Procurement and Contracting Policy to clarify proper approval of Named Service Providers C. Management will implement a process to track diverse and/or minority owned businesses in an RFP distribution sheet.
<b>IA Follow-Up:</b>	3rd Item - Diverse Vendor tracking action plan is complete

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

**REPORT DATE:** 10/03/2022

**Open Observations:** 1

OPEN



## Management Action Plan Status Report

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

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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Due Date:</b>	02/28/2023
<b>Action Plan:</b>	Provide additional training to the Team members when calculating a Sanitation District FAS and benefit. This would include reiterating that Quality Assurance will need to perform a completely separate reperformance of the FAS calculation. Work with the Employer, Sanitation District, to correct errors in the transmittal before OCERS can begin the process of calculating the FAS and benefit.
<b>IA Follow-Up:</b>	



## Management Action Plan Status Report

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

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

**REPORT DATE:** 12/04/2012

CLOSED

**Closed Observations:** 6

### OBSERVATION #1 - MANUAL FAS OVERRIDE

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	09/13/2022
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA to confirmed the new QA process reviews all manual FAS overrides with the new 100% accruacy process

### OBSERVATION #3 - BENEFIT SETUP CHECKLIST

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	05/21/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	06/05/2019
<b>Action Plan:</b>	Every attempt is being done to incorporate as many of the manual processes into V3 as possible so the application is automated.
<b>IA Follow-Up:</b>	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

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## Management Action Plan Status Report

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

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<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	05/21/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	09/16/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA to confirmed the FAS Review process contains steps to review the supporting documentation.

### OBSERVATION #9 - FAS AUDIT TRAIL

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/27/2020
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA confirmed an audit trail function exists in V3 noting the original and new FAS, change date and Changed by.

**Project:** 11 - Audit of OCERS' Practices and Procedures for the Recording and Reconciliation the Investments (2013)

**REPORT DATE:** 02/18/2013

CLOSED

**Closed Observations:** 6

### OBSERVATION #1 - AUTOMATED JOURNAL VOUCHER ENTRIES

**Process Owner:** FINANCE



## Management Action Plan Status Report

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

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**Completion Date:** 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.

### OBSERVATION #2 - UPDATE POLICY OVER MANAGER STATEMENT RECONCILIATIONS

**Process Owner:** FINANCE

**Completion Date:** 05/07/2019

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

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

### OBSERVATION #3 - UPDATE FINANCE MANUAL FOR MANAGER STATEMENT RECONCILIATIONS

**Process Owner:** FINANCE

**Completion Date:** 05/07/2019

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

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

### OBSERVATION #4 - FINANCE MANAGER SIGNOFF FOR RECONCILIATIONS

**Process Owner:** FINANCE

**Completion Date:** 05/03/2019

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

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



## Management Action Plan Status Report

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

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### OBSERVATION #5 - MANAGER REVIEW OF CIO INVESTMENT REPORT RECONCILIATION

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	05/07/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	05/03/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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:** 7 - Review of OCERS' Derivatives Investments (2014)

**REPORT DATE:** 07/10/2014

CLOSED

**Closed Observations:** 3

### OBSERVATION #1 - OCERS IS NOT IN COMPLIANCE WITH THE INVESTMENT POLICY STATEMENT REGARDING THE SPECULATIVE USE OF DERIVATIVES.

<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	09/25/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Internal Audit reviewed the minutes of the June 25, 2014 Investment Committee meeting and the updated Investment Policy Statement



## Management Action Plan Status Report

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

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

<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	08/10/2020
<b>Action Plan:</b>	<p>Currently, the quarterly Derivatives Report provides information relating to the separately managed accounts. The commingled fund investments do not provide similar level of transparency, therefore the quarterly report does not include commingled funds data.</p> <p>The Investments staff has created a template (undergoing internal review) which could be used as a tool to receive information relating to derivatives directly from the investment managers. Such a disclosure and declaration is outside the norm, so it is difficult to predict how many or if the investment managers will comply. As soon as the template is finalized, staff will send it out to gather responses from the various investment managers. Our current expectation is that OCERS will not be able to impose periodic reporting requirements of our own on certain managers, and that in some if not most cases, we will be compelled to accept data as it can be provided by them on their annual cycles. Efforts will be made to achieve more-frequent reporting, but at this time there can be no assurance that such efforts will be successful.</p> <p>The Investment Policy Statement, approved at the 6/25/14 Investment Committee meeting, was amended in part to include the following: "The compliance report for separate account managers will be reviewed with the Investment Committee on a quarterly basis. The CIO shall report to the Committee annually on the staff and consultants' surveillance of diversification and risk controls associated with [derivatives]."</p>
<b>IA Follow-Up:</b>	<p>Internal Audit reviewed the 2019 Security Report reviewed and approved by the Investment Department.</p> <p>The Investment Team provided an update to the action plan. The quarterly Derivatives Report had been discontinued for a number of years and is no longer reported to the Investment Committee. For the action plan, Investments reviews the derivative information in preparation of the CAFR, which is presented to the Audit Committee. Internal Audit to follow-up during the Investment teams review of the derivative information as part of the 2019 CAFR preparation.</p> <p>Updated 8/10/20</p> <p>Investments provided the "Derivatives List - 2019.xls" file which includes the securities inventory that Investments provides to Finance with the investment types and leveling of assets.</p>

### OBSERVATION #3 - COUNTERPARTY RISK REPORTING

<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	05/21/2020
<b>Action Plan:</b>	<p>Management has agreed to the recommendation: Counterparty risk, the risk that a financial institution will not honor the terms of a derivative contract due to poor financial health, is a key risk for derivatives.</p> <p>The Board is not getting complete information on the counterparty risks of all investment managers. Because many of OCERS' investment managers use the same institutions as counterparties, if a counterparty fails, it would affect several investment managers in the OCERS' portfolio simultaneously. Therefore, reporting on total counterparty risk to OCERS would be useful for accessing a concentration of risk with a single counterparty.</p> <p>OCERS' custodian bank, State Street, provides data on investment holdings and counterparty holdings that can be used to create a compilation of counterparties in the OCERS portfolio, though this will only include the OCERS' separately managed accounts.</p> <p>OCERS should request that State Street on a quarterly basis provide a report listing derivatives holdings by counterparty with amounts of currency forward contracts, swaps, and total fair value. The report should also include a credit rating agency's rating.</p> <p>This report should be included with the derivatives report to the Investment Committee.</p>
<b>IA Follow-Up:</b>	Internal Audit reviewed the 2019 Counterparty Risk Report reviewed and signed by the CIO.



## Management Action Plan Status Report

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

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

**REPORT DATE:** 08/06/2015

CLOSED

**Closed Observations:** 5

### OBSERVATION #1 - NO DUE DILIGENCE POLICY

<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	01/07/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	02/13/2020
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	02/13/2020
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Due Diligence would apply to all managers, not just under an RFP process. Internal Audit observed due diligence process during Investment Consulting engagement.

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

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### OBSERVATION #4 - MANAGER RFP STANDARDIZED QUESTIONING

<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	01/07/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	02/13/2020
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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:** 8 - Audit of OCERS' Private Equity Managers Abbott Capital and Pantheon (2016)

**REPORT DATE:** 03/21/2016

CLOSED

**Closed Observations:** 4

### OBSERVATION #1 - ESTIMATED MANAGEMENT FEES

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	04/29/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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.

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 Process Owner(s): ALL

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### OBSERVATION #2 - STATE STREET REPORTING OF MANAGER FEES

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	05/03/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	04/29/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Disclosure has been added to the CAFR and confirmed by IA.

### OBSERVATION #4 - CONSIDERATION OF ILPA BEST PRACTICES

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



## Management Action Plan Status Report

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

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

**REPORT DATE:** 06/24/2016

CLOSED

**Closed Observations:** 7

### OBSERVATION #1 - OVERPAYMENT TO DECEASED MEMBERS

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	12/21/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	12/21/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/07/2021
<b>Action Plan:</b>	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.

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 Process Owner(s): ALL

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

### OBSERVATION #4 - DEATH DATA VENDORS

**Process Owner:** MEMBER SERVICES

**Completion Date:**

**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 RFF process to compare the services of death audit vendors and obituary review service vendors. Quality of services, price, and data security controls of vendors should be compared.

**IA Follow-Up:** Management to discuss the approach for obtaining and reviewing vendor security report on an entity wide approach, with a completion date of 6/30/2023. This observation and action plan will be tracked under the ITGC audit

### OBSERVATION #5 - MEMBER BANKING INFORMATION WITHIN V3

**Process Owner:** MEMBER SERVICES

**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

**Process Owner:** MEMBER SERVICES

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



## Management Action Plan Status Report

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

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

### OBSERVATION #7 - DEBT COLLECTION VERSUS DEBT FORGIVENESS

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/17/2020
<b>Action Plan:</b>	<p>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.</p>
<b>IA Follow-Up:</b>	<p>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.</p>

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

**REPORT DATE:** 07/21/2016

CLOSED

**Closed Observations:** 2

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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/01/2020
<b>Action Plan:</b>	<p>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.</p>

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

**OBSERVATION #2 - V3 WORKFLOW PROCESS**

**Process Owner:** MEMBER SERVICES

**Completion Date:** 04/02/2020

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

**IA Follow-Up:** IA confirmed worksteps are completed and V3 enhancements were implemented.

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

**REPORT DATE:** 11/26/2016

CLOSED

**Closed Observations:** 2

**OBSERVATION #1 - WORK IN PROCESS REPORTING**

**Process Owner:** MEMBER SERVICES

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

**Action Plan:** OCERS' management agrees to initiate discussions with Vitech for best cost-benefit solutions to building work-in-process reporting to track the status of buybacks throughout its business processes to provide additional management oversight of staffing and resources; track compliance with business goals; and improve customer service response times to members.

**IA Follow-Up:** IA has verified that OCERS has implemented a work-in-process tracking database within SharePoint.

**OBSERVATION #2 - RECONFIGURE V3 DATA ENTRY SHEET**

**Process Owner:** MEMBER SERVICES

**Completion Date:** 06/04/2019

**Action Plan:** Management agreed to investigate the costs versus benefits of reconfiguring V3's SCP datasheet for faster data entry.

**IA Follow-Up:** IA verified that OCERS has implemented an automated data entry process for SCP calculations.



## Management Action Plan Status Report

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

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**Project:** 21 - Audit of OCERS' Bank Wire and ACH Transfer Process (2016)

**REPORT DATE:** 11/30/2016

CLOSED

**Closed Observations:** 5

### OBSERVATION #1 - FINANCE REVIEW OF NEW MANAGER FUNDINGS

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	04/23/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	05/03/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	05/03/2019
<b>Action Plan:</b>	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.

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**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

**Process Owner:** FINANCE

**Completion Date:** 04/23/2019

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

**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

**Process Owner:** FINANCE

**Completion Date:** 05/03/2019

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

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

**Project:** 14 - Audit of City of San Juan Capistrano Payroll Transmittals (2017)

**REPORT DATE:** 03/22/2017

CLOSED

**Closed Observations:** 4

### OBSERVATION #1 - MANUAL TRANSMITTAL FILE ADJUSTMENTS

**Process Owner:** EMPLOYER

**Completion Date:** 08/11/2020

**Action Plan:** Management agreed to the following recommendation: San San Juan Capistrano will submit manual payroll adjustments into V3 that contain the payroll records required by OCERS for every subsequent pay period until year-end.

**IA Follow-Up:** IA noted that SJC has submitted manual payroll adjustments into V3 required by OCERS.



## Management Action Plan Status Report

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

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### OBSERVATION #2 - CONTRIBUTION BASIS DATES

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	04/27/2020
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	08/11/2020
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA noted that SJC has submitted manual payroll adjustments for employees Away On Leave into V3, as required by OCERS.

### OBSERVATION #4 - INCORRECT AGE OF ENTRY

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	05/21/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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:** 24 - Audit of OCERS' Reciprocity Process (2017)

**REPORT DATE:** 08/02/2017

CLOSED

**Closed Observations:** 3



## Management Action Plan Status Report

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

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### OBSERVATION #1 - MEMBER EDUCATIONAL EFFORTS

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	05/21/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	06/05/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA verified that OCERS Member Services is now calculating OCFA's reciprocity refund calculations. The calculations are reviewed by management.

### OBSERVATION #3 - WRITE OFF

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	06/05/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA verified that Member Services has written off the amount as per OCERS Write-Off policy.

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

**REPORT DATE:** 10/23/2018

CLOSED

**Closed Observations:** 7



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

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### OBSERVATION #1 - CONTRIBUTIONS - VACATION EXCESS PAY

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/02/2019
<b>Action Plan:</b>	<p>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.</p> <p>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.</p>
<b>IA Follow-Up:</b>	<p>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.</p> <p>IA confirmed that OCFA and Legacy OCFA employees are paying contributions directly on VE (Vacation Excess) Pay.</p>

### OBSERVATION #1 - CONTRIBUTIONS - VACATION EXCESS PAY

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	04/02/2019
<b>Action Plan:</b>	<p>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.</p> <p>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.</p>
<b>IA Follow-Up:</b>	<p>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.</p> <p>IA confirmed that OCFA and Legacy OCFA employees are paying contributions directly on VE (Vacation Excess) Pay.</p>

### OBSERVATION #2 - CONTRIBUTIONS - ON CALL PAY

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/02/2019
<b>Action Plan:</b>	<p>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.</p> <p>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.</p>





## Management Action Plan Status Report

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

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**IA Follow-Up:** Internal Audit confirmed 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 #2 - CONTRIBUTIONS - ON CALL PAY

**Process Owner:** EMPLOYER

**Completion Date:** 04/02/2019

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

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

### OBSERVATION #3 - CONTRIBUTION DISCREPANCY TRACKING REPORT

**Process Owner:** INFORMATION TECHNOLOGY

**Completion Date:** 04/02/2019

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

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

### OBSERVATION #4 - OCFA'S MOU FOR EMPLOYER PAID PICKUPS OF LEGACY EMPLOYEE CONTRIBUTIONS DOES NOT REFLECT ACTUAL PAYROLL PROCESSES.

**Process Owner:** EMPLOYER

**Completion Date:** 04/02/2019

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

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

### OBSERVATION #5 - TRANSITION TO OCFA PAYROLL MANAGER



## Management Action Plan Status Report

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

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<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	04/02/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Internal audit confirmed that maintenance of the spreadsheets has transitioned to OCFA's payroll manager.

<b>Project:</b>	22 - Audit of Orange County Superior Court Payroll Transmittal (2018)
<b>REPORT DATE:</b>	11/08/2018
<b>Closed Observations:</b>	6

CLOSED

**OBSERVATION #1 - CRR PAY CERTIFICATION**

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	04/03/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA confirmed a notification had been distributed noting the requirements for CRR pay and CRR documentation for court reporters has been recorded.

**OBSERVATION #2 - QRR PAY CERTIFICATION**

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	04/03/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA confirmed a notification had been distributed noting the requirements for QRR pay and QRR documentation for court reporters has been recorded

**OBSERVATION #3 - SUPERIOR COURT DOES NOT MONITOR INDEPENDENT CONTRACTOR COURT REPORTERS WHO ARE OCERS' RETIREES FOR COMPLIANCE WITH CERL AND PEPR 960 HOUR RULE LIMIT.**

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## Management Action Plan Status Report

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

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<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	04/10/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA confirmed Superior Court is monitoring the hourly limit for retired members and the retired members have not exceeded 960 hours.

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

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	01/05/2022
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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**

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	04/23/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Internal Audit and management agreed that currently existing controls are sufficient to address the risk of missing pay periods. Internal Audit verified in V3 the automated messages that help the retirement specialist identify potential missing pay periods when retiring a member.

**OBSERVATION #6 - MEMBER AFFIDAVIT**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/03/2019



## Management Action Plan Status Report

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

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<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Confirmed missing Member Affidavit was received and Member Services has scheduled the Missing Member Affidavit to be run on a monthly basis.

<b>Project:</b>	29 - Audit of Orange County Transportations Authority (2018)	
<b>REPORT DATE:</b>	11/12/2018	<b>CLOSED</b>
<b>Closed Observations:</b>	1	
<b>OBSERVATION #1 - CONTRIBUTIONS ON PTO CASHOUTS</b>		
<b>Process Owner:</b>	MEMBER SERVICES	
<b>Completion Date:</b>	04/02/2019	
<b>Action Plan:</b>	<p>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 PEPRAs members. OCERS intends to present this policy to the OCERS Board for review and approval by 1st quarter of 2019.</p> <p>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.</p>	
<b>IA Follow-Up:</b>	Internal Audit confirmed the circular letters have been posted to the OCERS website.	

<b>Project:</b>	31 - Disability Payment Audit (2018)	
<b>REPORT DATE:</b>	01/28/2019	<b>CLOSED</b>
<b>Closed Observations:</b>	1	
<b>OBSERVATION #1 - DISABILITY PAYMENT CALCULATION</b>		
<b>Process Owner:</b>	MEMBER SERVICES	
<b>Completion Date:</b>	01/05/2022	

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## Management Action Plan Status Report

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

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<b>Action Plan:</b>	Member Services will be continuing to review with increased diligence or newly implementing to ensure accuracy of Disability benefits that are setup: <ul style="list-style-type: none"> <li>• 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)</li> <li>• 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)</li> <li>• Additional training will be provided to the RPS assigned to the disability department (this was a new position in 2018). These types of benefits are more specialized than regular retirement setups, and the Disability RPS will be trained to look for specific factors that affect the benefit, such as gaps in service, measuring period compression, manual calculations of FAS, recalculation issues.</li> </ul>
<b>IA Follow-Up:</b>	IA confirmed action plan has been implemented. A new Disability Process has been implemented along with the appropriate training.

**Project:** 36 - 1943 2019 BCDR Audit

**REPORT DATE:** 10/17/2019

CLOSED

**Closed Observations:** 6

**OBSERVATION #1 - OCERS BUSINESS CONTINUITY POLICY DOCUMENT HAS EXISTED SINCE 2015 BUT THE DOCUMENTATION OF THE APPROVALS WERE NOT FORMALIZED.**

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	12/13/2019
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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.**

<b>Process Owner:</b>	FINANCE
<b>Completion Date:</b>	02/26/2020
<b>Action Plan:</b>	We concur with the observation and will formalize the approval of the document.
<b>IA Follow-Up:</b>	IA confirmed the Business Continuity Standard Operating Procedure document has been formally approved by the CMT.

**OBSERVATION #4 - THE TABLETOP EXERCISE DID NOT FULLY VALIDATE THE ORGANIZATION'S PREPAREDNESS AT AN ENTITY OR DEPARTMENT LEVEL IN THE EVENT OF A DISASTER.**

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## Management Action Plan Status Report

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

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<b>Process Owner:</b>	EXECUTIVE
<b>Completion Date:</b>	12/06/2019
<b>Action Plan:</b>	<p>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.</p> <p>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.</p>
<b>IA Follow-Up:</b>	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.**

<b>Process Owner:</b>	EXECUTIVE
<b>Completion Date:</b>	12/13/2019
<b>Action Plan:</b>	<p>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.</p> <p>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.</p>
<b>IA Follow-Up:</b>	<p>IA was able to confirm:</p> <ul style="list-style-type: none"> <li>- the BCDR CMT Meeting email contained a reminder for the CMT to review/update their documents</li> <li>- the agenda did contain an item notifying CMT members to update their documents</li> <li>- a workstep was added to the on-boarding and off-boarding checklist</li> </ul>

**OBSERVATION #7 - 7. THE IDENTIFICATION OF ALTERNATIVE FACILITY LOCATIONS HAS NOT BEEN FORMALLY DOCUMENTED AND APPROVED IN THE BCDR SYSTEM.**

<b>Process Owner:</b>	EXECUTIVE
<b>Completion Date:</b>	12/13/2019
<b>Action Plan:</b>	<p>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.</p> <p>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.</p>



## Management Action Plan Status Report

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

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

**OBSERVATION #8 - 8. KEY MEMBERS OF THE CRISIS MANAGEMENT TEAM (CMT) ARE NOT CONSISTENTLY TAKING THE ASSIGNED ELECTRONIC RESOURCES WHEN TRAVELING FROM THE OFFICE.**

**Process Owner:** EXECUTIVE  
**Completion Date:** 12/06/2019  
**Action Plan:** The CMT Leader, OCERS CEO, will remind the CMT at the quarterly Business Continuity meetings of the importance of taking the necessary resources (laptops) when traveling away from the office.  
**IA Follow-Up:** IA confirmed the Q4 CMT agenda included a reminder to take the necessary resources when traveling.

**Project:** 44 - 1944 - Finance Benefits Audit

**REPORT DATE:** 01/13/2020

CLOSED

**Closed Observations:** 4

**OBSERVATION #1 - V3'S PRE DISBURSEMENT REGISTER REPORT CONTAINS PAYEE'S FULL SOCIAL SECURITY NUMBERS AND FULL NAMES.**

**Process Owner:** FINANCE  
**Completion Date:** 12/09/2019  
**Action Plan:** Build 8.14 will include the replacement of full Social Security Numbers with OCERS ID# (OID) and/or OIP# on the Pre-Disbursement Register Report and Disbursement Schedule.  
**IA Follow-Up:** IA confirmed the updated Disbursement Schedule Detail Report and Pre-Disbursement Register Report now display the OID numbers in place of SSNs.

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

**Process Owner:** FINANCE  
**Completion Date:** 03/14/2022  
**Action Plan:** Management will establish procedures to delete copies of the ACH text files from local hard drives after a copy of the file has been uploaded to Wells Fargo.  
 Finance will work with IT and Vitech to consider the cost/benefit of changing the ACH file process to directly upload an ACH file once it has been created in V3 and directly downloading the file to a secured network folder in the Finance directory.



## Management Action Plan Status Report

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

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

**OBSERVATION #3 - FINANCE PROCEDURES MANUAL RELATED TO BENEFIT AND LUMP SUM PAYMENTS (I.E. PAYROLL) DO NOT REFLECT ALL CURRENT PROCEDURES.**

**Process Owner:** FINANCE  
**Completion Date:** 10/05/2020  
**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.**

**Process Owner:** FINANCE  
**Completion Date:** 12/20/2019  
**Action Plan:** In the instance noted here, processes with material impact to operations and financials were performed during the unforeseen long-term leave of absence of one of the Finance Managers, but in the future, Management will document approval of decisions to postpone processes due to extenuating circumstances noting impact and materiality of postponement.  
**IA Follow-Up:** IA confirmed the Finance Risk and Control Matrix (RACM) was updated to include additional documentation requirement.

**Project:** 40 - 1945- FAS Pay Items Audit  
**REPORT DATE:** 06/04/2020  
**Closed Observations:** 2

CLOSED

**OBSERVATION #1 - A FORMAL RECONCILIATION WAS NOT PERFORMED TO ENSURE THE PAY ITEMS REPORTED TO THE BOARD ACCURATELY AND COMPLETELY CORRESPONDED WITH THE CONFIGURATION IN V3.**

**Process Owner:** MEMBER SERVICES  
**Completion Date:** 09/16/2021





### Management Action Plan Status Report

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

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**Action Plan:** Member Services 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.**

**Process Owner:** MEMBER SERVICES

**Completion Date:** 09/16/2020

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

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

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

**Project:** 39 - 1971-IT General Controls

**REPORT DATE:** 06/04/2020

**Closed Observations:** 2

CLOSED

**OBSERVATION #1 - ADMINISTRATOR ACCESS GRANTED TO THE FINANCIAL REPORTING AND INTRANET PORTAL APPLICATIONS PRESENT A HIGHER THAN NORMAL RISK DUE TO SEGREGATION OF DUTIES CONCERNS.**

**Process Owner:** INFORMATION TECHNOLOGY

**Completion Date:** 01/13/2022



## Management Action Plan Status Report

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

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**Action Plan:** 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.**

**Process Owner:** INFORMATION TECHNOLOGY

**Completion Date:** 06/12/2020

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

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

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

**REPORT DATE:** 06/04/2020

CLOSED

**Closed Observations:** 1

**OBSERVATION #2031 - AN EMPLOYEE IN OUR SAMPLE WAS NOT ENTITLED TO RECEIVE A PENSIONABLE PREMIUM PAY ITEM, RESULTING IN AN OVERPAYMENT OF THAT PENSIONABLE PREMIUM PAY ITEM (AND CONTRIBUTIONS PAID TO OCERS).**

**Process Owner:** EMPLOYER

**Completion Date:** 05/21/2020

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## Management Action Plan Status Report

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

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

**Project:** 42 - 2032 - Actuarial Extract Audit

**REPORT DATE:** 10/13/2020

CLOSED

**Closed Observations:** 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**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Completion Date:</b>	09/22/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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.**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Completion Date:</b>	03/11/2021
<b>Action Plan:</b>	The IT Programming team will formalize and document the process by which logical testing of our actuarial validation code will be performed.
<b>IA Follow-Up:</b>	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.**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Completion Date:</b>	03/11/2021

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## Management Action Plan Status Report

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

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**Action Plan:** The IT Programming team will formalize and document the process of how actuarial extract validation code changes will be approved, including how all approvals will be tracked and logged within our system.  
**IA Follow-Up:** IT Programming has formalized the code change validations process.

**OBSERVATION #6 - 6. A MINOR VARIANCE NOTED AND ADDRESSED DURING THE VALIDATION PROCESS WAS NOT ACCURATELY UPDATED IN THE DATA EXTRACT FILE SENT TO THE ACTUARY.**

**Process Owner:** INFORMATION TECHNOLOGY  
**Completion Date:** 03/11/2021  
**Action Plan:** The IT Programming team will enhance its process to incorporate all validation review updates and related data cleanup changes to ensure all updates are included in the final export to OCERS Actuary.  
**IA Follow-Up:** Data cleanup process has been updated and data validation has occurred.

**OBSERVATION #7 - 7. OCERS ACTUARIAL EXTRACT PROCESSING GUIDE DOES NOT DESCRIBE INFORMATIONAL QUERIES WHICH DO NOT REQUIRE INVESTIGATION UNLESS REQUESTED BY SEGAL.**

**Process Owner:** INFORMATION TECHNOLOGY  
**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:** 47 - 2020 - Continuous Audit of Final Average Salary Calculations (Q3/Q4 2020)

**REPORT DATE:** 03/22/2021

CLOSED

**Closed Observations:** 2

**OBSERVATION #1 - 1. INTERNAL AUDIT NOTED AN 8% ERROR RATE (SIX ERRORS) WITH THE 75 FAS CALCULATIONS SAMPLED FROM THE 3RD AND 4TH QUARTERS OF 2020.**

**Process Owner:** MEMBER SERVICES  
**Completion Date:**



## Management Action Plan Status Report

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

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**Action Plan:** Member Services has 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).**

**Process Owner:** MEMBER SERVICES

**Completion Date:** 04/02/2021

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

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

**Project:** 33 - 2090 - Vulnerability and Patch Management

**REPORT DATE:** 03/22/2021

CLOSED

**Closed Observations:** 1

**OBSERVATION #2 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION**

**Process Owner:** INFORMATION TECHNOLOGY

**Completion Date:** 05/27/2021

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

**IA Follow-Up:** Closed



## Management Action Plan Status Report

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

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

**REPORT DATE:** 06/04/2021

CLOSED

**Closed Observations:** 2

**OBSERVATION #1 - 1. INTERNAL AUDIT NOTED A 6.7% ERROR RATE (FOUR ERRORS) OUT OF THE 60 FAS CALCULATIONS SAMPLED FROM THE 2ND QUARTER OF 2021.**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	05/20/2021
<b>Action Plan:</b>	<p>Member Services Management team takes all errors very seriously. As discussed before, we reorganized our team and implemented a full Quality Assurance process to review all payroll transactions and perform recalculations on any member's account where we found an error. We are reviewing the root cause of all errors and we are providing ongoing training on the errors found each month. We are providing direct feedback to the specific team members who processed the original calculations where errors occurred. We are also reporting up to senior management weekly on the results of our efforts.</p> <p>As to the fourth error, we are working with ViTech, our V3 pension administration system vendor to develop a solution to this issue. We are also working with our team to review any accounts with similar employment history to ensure this error does not occur in the future until we can have the systematic issue fixed in V3. Upon our initial review of all member retirements that have been processed since the implementation of V3 (2016 forward), it is believed to impact approximately 11 members, but the investigation is ongoing. We will provide an update on the final number of members affected at the time of the June Audit Committee Meeting.</p> <p>Member Services is also providing training to the team on how to identify members with this potential issue to ensure additional members are not impacted in the future until the fix in V3 is made</p>
<b>IA Follow-Up:</b>	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).**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	05/20/2021
<b>Action Plan:</b>	<p>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.</p>
<b>IA Follow-Up:</b>	Internal Audit confirmed the documents have been uploaded and the feedback to the team members have been provided.



## Management Action Plan Status Report

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

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

**REPORT DATE:** 10/04/2021

CLOSED

**Closed Observations:** 1

**OBSERVATION #1 - 1. INTERNAL AUDIT NOTED AN 8% ERROR RATE (SIX ERRORS) WITH THE 75 FAS CALCULATIONS TESTED FROM THE 3RD QUARTER OF 2021.**

**Process Owner:** MEMBER SERVICES

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

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

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

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

**Project:** 56 - 2133 - Dependent Survivor Eligibility Audit

**REPORT DATE:** 10/04/2021

CLOSED

**Closed Observations:** 3

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

**Process Owner:** MEMBER SERVICES

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



## Management Action Plan Status Report

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

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<b>Action Plan:</b>	Member Services Management has worked with our IT partners to develop two reports that will alert us if we have a member that has a death date entered but does not have a survivorship processed. This will help us catch this type of oversight in the future. A process will be developed to monitor the reports/alerts and take appropriate action. Member Services will also research with ViTech to see if it would be possible to have an automated letter mailed out each month to a member's beneficiaries once a death date is entered and to conclude when a survivorship is processed to the beneficiaries. This will help ensure member beneficiaries are made aware of their possible benefit.  2 Reports are as follows: <ul style="list-style-type: none"> <li>• Deceased Retirees with No Associated Burial Benefit nor Survivorship benefit established.</li> <li>• Deceased Retirees with an Associated Burial Benefit but no Survivorship benefit established.</li> </ul>
<b>IA Follow-Up:</b>	Internal Audit confirmed the reports have been implemented

**OBSERVATION #2 - 2. UPON REVIEWING A SURVIVOR'S BENEFIT PAYMENT, WE NOTED ERRORS WITH THE DECEASED MEMBER'S BENEFIT PAYMENT HISTORY FROM 2002 TO THE MEMBER'S DEATH IN 2018.**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	01/26/2023
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Confirmed procedures were updated for Member Services to verify COLA and Pension amounts for survivor benefit payments.

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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	03/16/2022
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA confirmed the disability documents have been uploaded to V3 and a process was implemented to validate documents have been uploaded.

**Project:** 57 - 2231 - SSA Employer Audit

**REPORT DATE:** 03/30/2022

CLOSED

**Closed Observations:** 1

**OBSERVATION #1 - 1. THE JOB TITLE IN THE OCERS PENSION ADMINISTRATION SYSTEM (PAS) RECORDS FOR A SOCIAL SERVICES AGENCY RETIREE IN OUR SAMPLE DID NOT REFLECT THE RETIREE'S ACTUAL JOB TITLE.**

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## Management Action Plan Status Report

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

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<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	01/30/2023
<b>Action Plan:</b>	Member Services Employer Payroll (EP) Management Team will perform a one-time audit of the records between OCERS and all employers supported through the County (Not Just SSA). Once Complete, updates will be sent to OCERS IT to make the necessary changes. After IT makes the changes to the system, a member of the EP Team will verify that the changes were successfully implemented. Ongoing, accuracy validation of the data at the time a member retires is currently performed and is also part of our updated Quality Assurance Process initiated in 2021. As a result of our updated quality assurance program and the fact that we rarely receive new or changed Bargaining Units and Job Class, Management is recommending we continue to review the quality for these records at the time of retirement. We will perform another global reconciliation at the time we perform a migration from the current pension administration system to our new pension administration system in the coming years.
<b>IA Follow-Up:</b>	Internal Audit confirmed the reconciliation of job title and job codes between the County and OCERS PAS. The issue identified has been corrected.

<b>Project:</b>	58 - 2211 - Investment Manager Fee Report
<b>REPORT DATE:</b>	<b>03/30/2022</b>
<b>Closed Observations:</b>	1
<b>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</b>	
<b>Process Owner:</b>	INVESTMENTS
<b>Completion Date:</b>	09/12/2022
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Internal Audit reviewed the Fee Report Procedure and signoff for the 2021 Annual Fee Report presented at the August 2022 Investment Committee meeting.

CLOSED

<b>Project:</b>	59 - 2232 - Quarterly FAS Review (Q1 2022)
<b>REPORT DATE:</b>	<b>03/30/2022</b>
<b>Closed Observations:</b>	1
<b>OBSERVATION #1 - 1. INTERNAL AUDIT NOTED A 4.0% ERROR RATE (TWO ERRORS) WITH THE 50 FAS CALCULATIONS SAMPLED FROM THE 1ST QUARTER OF 2022</b>	
<b>Process Owner:</b>	MEMBER SERVICES

CLOSED

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## Management Action Plan Status Report

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

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<b>Completion Date:</b>	01/26/2023
<b>Action Plan:</b>	<p>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>
<b>IA Follow-Up:</b>	Internal Audit confirmed the training was performed and a JIRA ticket was created to identify the proration issue.

<b>Project:</b>	60 - 2261 - Procurement Audit
<b>REPORT DATE:</b>	10/03/2022
<b>Closed Observations:</b>	4

CLOSED

**OBSERVATION #2 - THE DUE DILIGENCE WAS NOT CONSISTENTLY PERFORMED OR DOCUMENTED BY THE CONTRACT ADMINISTRATOR, AS PER OCERS BUSINESS PRACTICES, FOR THREE VENDORS IN OUR SAMPLE:**

<b>Process Owner:</b>	EXECUTIVE
<b>Completion Date:</b>	01/30/2023
<b>Action Plan:</b>	A. Management will document and implement a process to ensure due diligence is performed prior to the execution of contracts and that will account for instances that might occur whereby a contract is signed before due diligence is completed.
<b>IA Follow-Up:</b>	IA confirmed a new due diligence process was implemented. Additional samples were tested.

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

<b>Process Owner:</b>	EXECUTIVE
<b>Completion Date:</b>	09/12/2022
<b>Action Plan:</b>	A. All contracts, including those that do not deviate from OCERS' form of contract, are now forwarded to the Legal Division for review. In addition, the Legal contract approval is being retained for future reference.
<b>IA Follow-Up:</b>	Internal Audit reviewed sample of Legal approval of final contracts

**OBSERVATION #5 - FOR TWO VENDORS IN OUR SAMPLE, THE CERTIFICATE OF INSURANCE (COI) PROVIDED BY THE VENDOR DID NOT MEET THE DOLLAR AMOUNT COVERAGE AS SPECIFICALLY STATED IN THE EXECUTED CONTRACT.**

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## Management Action Plan Status Report

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

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<b>Process Owner:</b>	EXECUTIVE
<b>Completion Date:</b>	01/30/2023
<b>Action Plan:</b>	A. Management will implement procedures to ensure Certificates of Insurance are in accordance with the vendor contracts. In those cases where the Insurance Certificate does not meet the contractual requirements, the contract stake holder and Legal Division will be consulted for additional action.
<b>IA Follow-Up:</b>	Internal Audit confirmed COIs were obtained for an additional sample.

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

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



## Memorandum

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**DATE:** February 14, 2023  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** STATUS UPDATE OF 2023 AUDIT PLAN

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### *Written Report*

#### **Background/Discussion**

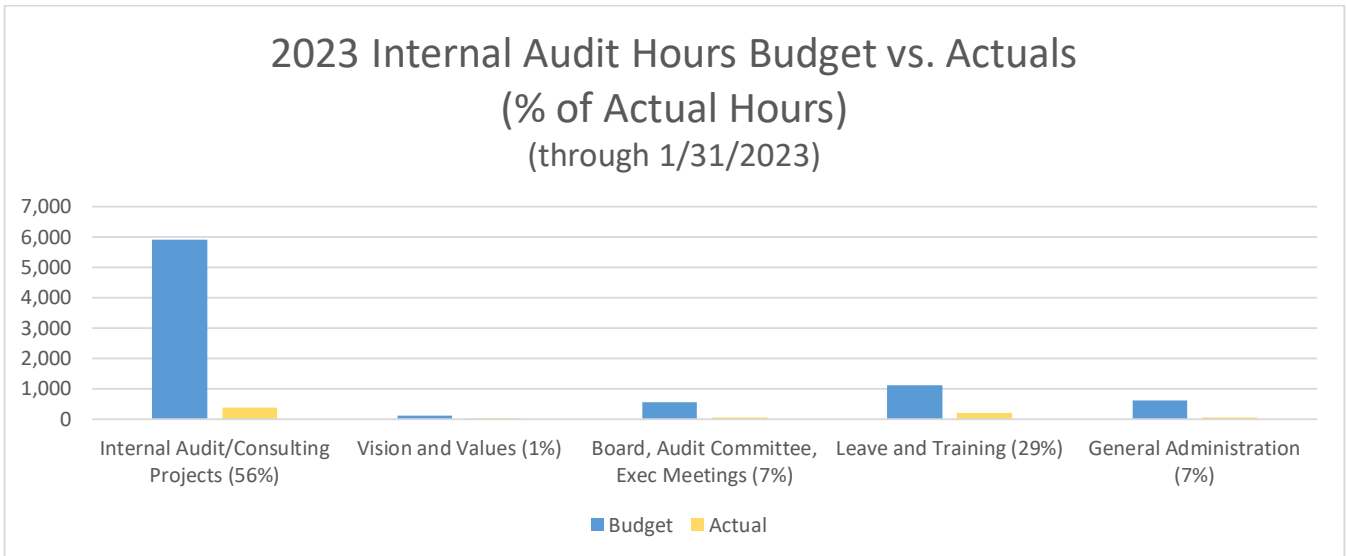
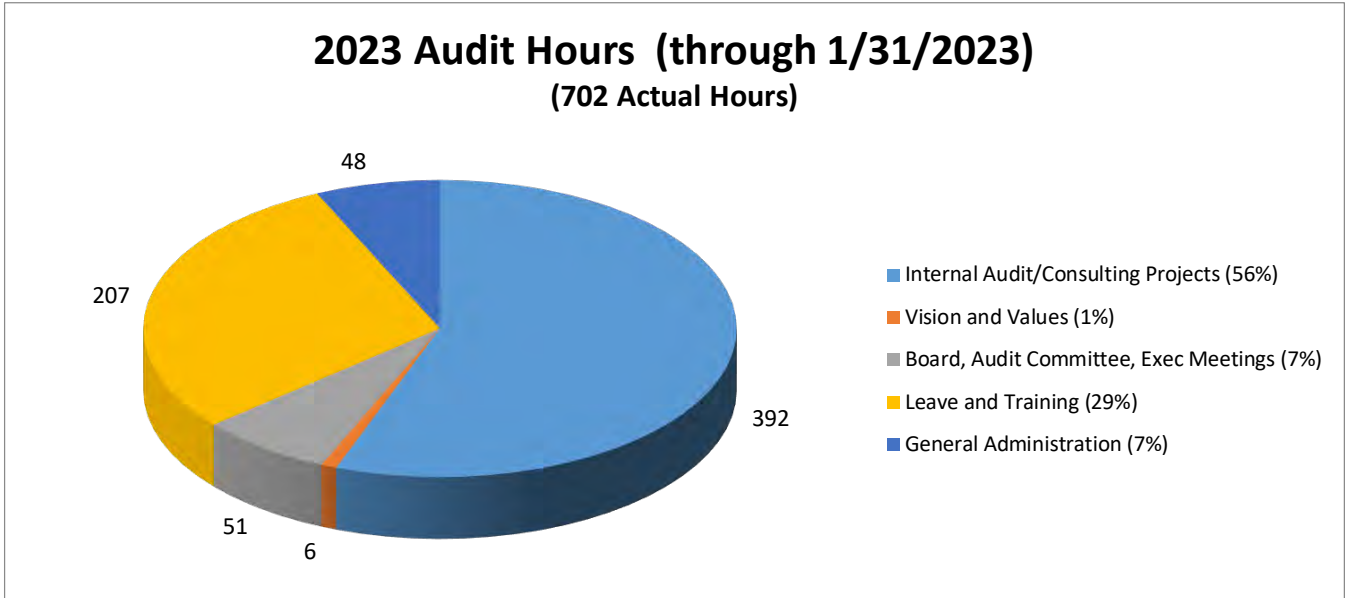
Attached is a comparison of budgeted 2023 audit plan hours versus the completed program actual hours, by project.

#### **Submitted by:**

DK - Approved

David Kim  
Director of Internal Audit

## 2023 Internal Audit Plan



**Orange County Employees Retirement System  
2023 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
<b>Internal Audit/Consulting/Planning/QAIP</b>		<b>5,920</b>	<b>384</b>	<b>5,542</b>	
<b>Internal Audits - Assurance</b>		<b>4,860</b>	<b>358</b>	<b>4,508</b>	
IT Automated Controls (carryover from 2022 audit plan)	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.	10	12	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.	30	34	0	Complete
Member Data Maintenance (Bank account changes)	Review the controls over member data to ensure unauthorized changes are not made to the members' information, specifically the member's bank account information.	340	10	330	First time audit
Hiring Practices	Review controls over the hiring process, from initial job requisition through start of employment.	340	0	340	First time audit
Governance - Asset Allocation/Rebalancing	Review of controls ensuring OCERS asset allocation/rebalancing activities are reviewed and fully reported to the Investment Committee as per Investment Policy Statement.	330	0	330	
Accounts Payable	Review of controls over the account payable process, from payment request through payment of invoice.	340	0	340	First time audit
Transmittal Processing	Review the Employer Payroll team's controls over the processing of payroll transmittals in V3.	340	0	340	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.	640	112	528	
Employer (In Home Support Services)	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.	330	0	330	
Employer (Children and Families Commission)	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.	330	82	248	First time audit - testing underway

**Orange County Employees Retirement System  
2023 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
Employer (OCFA)	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.	330	0	330	
Employer Audit (OC Superior Court)	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.	330	82	248	Testing underway
Employer Audit (OCTA)	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.	330	0	330	
IT/InfoSec 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).  Center of Internet Security (CIS) - evaluate Information Security's implementation of the CIS Controls, and provide recommendations on management's assessment of the department's implementation status and maturity level as appropriate.	100	0	100	
Continuous Audit - Final Average Salary (FAS) Calculation	Continuous audit of FAS calculations. Sample on quarterly basis for Q1 and Q3	480	0	480	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	260	26	234	Ongoing review of implemented MAPs from completed audits.
<b>Internal Audits - Consulting</b>		<b>240</b>	<b>12</b>	<b>228</b>	
Consulting/Ad-hoc projects	Open for any ad-hoc project TBD	240	12	228	Includes time to assist with Annual Employer Report and RPA initiative
<b>Internal Audits - Planning</b>		<b>500</b>	<b>0</b>	<b>500</b>	
Annual Audit Planning	Review and update Risk and Control Matrix.	200	0	200	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	300	0	300	
<b>Internal Audits - Quality Assurance and Improvement Program</b>		<b>320</b>	<b>14</b>	<b>306</b>	
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program and external peer review	220	14	206	Includes external peer auditor selection (RFP), QAIP data requests and response
	Use of hotline reporting system.	100	0	100	Potential for volume increase due to Alameda.

**Orange County Employees Retirement System  
2023 Internal Audit Plan**

Audit Activity	Description	Planned Hours	Actual Hours	Projected Remaining Hours	Comments
<b>Vision and Values</b>		<b>110</b>	<b>6</b>	<b>104</b>	
	Vision and Values - Continuous Improvement Program	50	2	48	Help with transition to Vision and Values Committee
	Vision and Values Committee (Internal OCERS Committee)	60	4	56	Internal committee to promote a positive culture at OCERS - Committee Vice Chair.
<b>Board, AC, OCERS Executive Meetings</b>		<b>618</b>	<b>52</b>	<b>566</b>	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	540	40	500	
	Weekly meetings with CEO	26	3	23	
	Monthly meeting with Audit Committee Chair	52	9	43	
<b>General admin time</b>		<b>624</b>	<b>52</b>	<b>572</b>	
	General admin time	624	52	572	7% of total hours.
<b>Leave (Holiday/Annual) and Training</b>		<b>1,158</b>	<b>210</b>	<b>948</b>	
	Holidays (12 days), Annual Leave (15 days)	918	182	736	
	Training and Continuing Education	240	28	212	
<b>Grand Total Hours</b>		<b>8,430</b>	<b>704</b>	<b>7,726</b>	