

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

**AUDIT COMMITTEE MEETING  
Wednesday, October 11, 2023  
9:30 A.M.**

**Members of the Committee**

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

Members of the public who wish to observe and/or participate in the meeting may do so (1) from the OCERS Boardroom or (2) via the Zoom app or telephone (information below) from any location.

OCERS Zoom Video/Teleconference information	
<p><b>Join Using Zoom App (Video &amp; Audio)</b></p> <p><a href="https://ocers.zoom.us/j/83909047594">https://ocers.zoom.us/j/83909047594</a></p> <p><b>Meeting ID: 839 0904 7594</b> <b>Passcode: 818715</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: 839 0904 7594</b> <b>Passcode: 818715</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.

**OPEN SESSION**

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

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

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

At this time, members of the public may comment on (1) matters not included on the agenda, provided that the matter is within the subject matter jurisdiction of the Committee; and (2) any matter appearing on the Consent Agenda.

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

**CONSENT AGENDA**

**C-1 AUDIT COMMITTEE MEETING MINUTES**

Audit Committee Meeting Minutes

June 1, 2023

**Recommendation:** Approve minutes.

**ACTION ITEMS**

**NOTE:** Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Committee’s discussion of the item. **Members of the public who wish to provide comment in connection with any matter listed in this agenda may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing \* 9, at the time the item is called. Persons attending the meeting in person and wishing to provide comment on a matter listed on the agenda should fill out a speaker card located at the back of the Boardroom and deposit it in the Recording Secretary’s box located near the back counter.**

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

**A-2 ORANGE COUNTY IN-HOME SUPPORTIVE SERVICES PUBLIC AUTHORITY EMPLOYER AUDIT**

*Presentation by Mark Adviento, Senior Internal Auditor*

**Recommendation:** Receive and file.

**A-3 ORANGE COUNTY FIRE AUTHORITY EMPLOYER AUDIT**

*Presentation by Mark Adviento, Senior Internal Auditor*

**Recommendation:** Receive and file

**A-4 AUDIT OF REMAINING SAMPLES ALAMEDA BENEFIT RECALCULATIONS**

*Presentation by David Kim, Director of Internal Auditor*

**Recommendation:** Receive and file

Orange County Employees Retirement System  
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**A-5 AUDIT OF OCERS HIRING PRACTICES**

*Presentation by David Kim, Director of Internal Auditor*

**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; Suzanne Jenike, Asst. CEO; Manuel Serpa, General Counsel; David Kim, Director of Internal Audit, Mark Adviento, Senior Internal Audit, and Jenny Davey, Internal Auditor.*

**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 MANAGEMENT ACTION PLAN VERIFICATION REPORT**

*Written Report*

**R-2 STATUS UPDATE OF 2023 AUDIT PLAN**

*Written Report*

**COMMITTEE MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

**ADJOURNMENT**

Orange County Employees Retirement System  
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**NOTICE OF NEXT MEETINGS**

**DISABILITY COMMITTEE MEETING**

**October 16, 2023**

**8:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

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

**SANTA ANA, CA 92701**

**REGULAR BOARD MEETING**

**October 16, 2023**

**9:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

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

**SANTA ANA, CA 92701**

**PERSONNEL COMMITTEE MEETING**

**October 26, 2023**

**1:00 P.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  
Thursday, June 1, 2023  
9:30 A.M.**

**MINUTES**

**OPEN SESSION**

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

Recording Secretary administered the Roll Call attendance.

Attendance was as follows:

Present: Richard Oates, Chair; Charles Packard, Vice Chair (via Zoom); Adele Tagaloa, Board Member; Shari Freidenrich, Ex-Officio Member

Also Present: Steve Delaney, Chief Executive Officer; Suzanne Jenike, Assistant CEO, External Operations; Brenda Shott, Assistant CEO, Internal Operations; Gina Ratto, General Counsel; David Kim, Director of Internal Audit; Jeff Lamberson, Director of Member Services; Matthew Eakin, Director of Information Security; Jon Gossard, Information Security Manager; Mark Adviento, Senior Internal Auditor; Jenny Davey, Internal Auditor; Esther Hong, Internal Auditor; Marielle Horst, Recording Secretary; Anthony Beltran, Audio Visual Technician

Guests: Kory Hoggan, Moss Adams; Matthew Bohdan, Troy Snyder, and Gabrielle Wafer, Plante Moran; Nick Olson and Susan Verghese, The Institute of Internal Auditors Quality Service

*The Committee recessed for break at 9:38 a.m.*

*The Committee reconvened from break at 9:40 a.m.*

**2. BOARD MEMBER STATEMENT REGARDING PARTICIPATION VIA ZOOM**

**MOTION** by Ms. Tagaloa, **seconded** by Mr. Oates to accept Mr. Packard's request to participate in the committee meeting via zoom under the Emergency Circumstances provision of the Brown Act.

The motion passed **unanimously**.

**3. PUBLIC COMMENT**

None

Orange County Employees Retirement System  
June 1, 2023  
Audit Committee Meeting

**CONSENT AGENDA**

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

Audit Committee Meeting Minutes April 5, 2023

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

The motion passed **unanimously**.

**ACTION ITEMS**

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

None

**A-2 2022 FINANCIAL STATEMENT AUDIT**

*Introduction by Brenda Shott, Assistant CEO of Finance and Internal Operations, and Tracy Bowman, Director of Finance, OCERS*

*Presentation by Kory Hoggan, Moss Adams*

**Recommendations:**

1. Approve OCERS’ audited financial statements for the year ended December 31, 2022;
2. Direct staff to finalize OCERS’ 2022 Annual Comprehensive Financial Report (Annual Report);
3. Approve the Governmental Accounting Standards Board (GASB) Statement 67 Actuarial Valuation as of December 31, 2022; and
4. Receive and file Moss Adams LLP’s “OCERS’ Report to the Audit Committee for the Year Ended December 31, 2022” and their “Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.”

Mr. Packard left at 10:47 a.m.

After discussion, **MOTION** by Ms. Freidenrich, **seconded** by Ms. Tagaloa to adopt staff’s recommendations with the recommended changes.

The motion passed **unanimously**.

**A-3 GASB 68 VALUATION AND AUDIT REPORT**

*Presentation by Brenda Shott, Assistant CEO of Finance and Internal Operations*

Orange County Employees Retirement System  
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**Recommendations:**

1. Approve OCERS' audited Schedule of Allocated Pension Amounts by Employer as of and for the Year Ended December 31, 2022; and
2. Approve the Governmental Accounting Standards Board (GASB) Statement 68 Actuarial Valuation as of December 31, 2022 for distribution to Employers.

**MOTION** by Ms. Freidenrich, **SECONDED** by Ms. Tagaloa to adopt staff's recommendation.

The motion passed **unanimously**.

*The Committee recessed for break at 10:52 a.m.*

*The Committee reconvened from break at 11:06 a.m.*

Recording Secretary administered the Roll Call attendance.

**A-4 EXTERNAL QUALITY ASSESSMENT FINALISTS INTERVIEWS**

*Introduction by David Kim, Director of Internal Audit*

*Presentations by Plante Moran; and The Institute of Internal Auditors Quality Services*

**Recommendation:** Staff recommends (1) selecting one of the two finalists chosen to make an oral presentation at the June 1, 2023 Audit Committee meeting to perform an external quality assessment (EQA) of OCERS' Internal Audit based on the firm's presentation, responsiveness to the Audit Committee's questions, and the written proposal submitted; and (2) after conducting such interviews, that the Audit Committee select and approve the finalist to award the contract, subject to satisfactory negotiation of terms.

Presentation by Matthew Bohdan, Troy Snyder, and Gabrielle Wafer of Plante Moran.

Mr. Packard returned at 11:17 a.m.

*The Committee recessed for break at 11:37 a.m.*

*The Committee reconvened from break at 11:45 a.m.*

Recording Secretary administered the Roll Call attendance.

Mr. Packard provided a statement regarding his Zoom attendance.

Presentation by Nick Olson and Susan Verghese of The Institute of Internal Auditors Quality Service.

Mr. Packard left at 12:00 p.m.

Mr. Packard returned at 12:05 p.m.

Orange County Employees Retirement System  
June 1, 2023  
Audit Committee Meeting

Mr. Packard left at 12:10 p.m.

*The Committee recessed for break at 12:14 p.m.*

*The Committee reconvened from break at 12:19 p.m.*

Recording Secretary administered the Roll Call attendance.

After discussion, **MOTION** by Ms. Freidenrich, **seconded** by Mr. Oates to select The Institute of Internal Auditors Quality Services to perform the External Quality Assessment and request they include at discount or no cost training for OCERS. In addition, if there is a change in Auditors, OCERS request the right to review the resumes.

The motion passed by majority, with Ms. Tagaloa voting in opposition.

**A-5 CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (Q1 2023)**

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

**Recommendation:** Receive and file

**MOTION** by Ms. Freidenrich, **seconded** by Ms. Tagaloa to adopt staff's recommendation.

The motion passed **unanimously.**

*The Committee recessed for lunch at 12:51 p.m.*

*The Committee reconvened from lunch at 1:31 p.m.*

Recording Secretary administered the Roll Call attendance.

**CLOSED SESSION ITEMS**

*The Committee adjourned to closed session at 1:31 p.m.*

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

Adjourn into Closed Session pursuant to Government Code section 54957 to consult with Steve Delaney, CEO, Brenda Shott, Asst. CEO; Suzanne Jenike, Asst. CEO; Gina M. Ratto, General Counsel; Noemi Zajzon, Information Technology Manager; David Kim, Director of Internal Audit; Mark Adviento, Senior Internal Auditor; Jenny Davey, Internal Auditor.

**Recommendation:** Take appropriate action.

Orange County Employees Retirement System  
June 1, 2023  
Audit Committee Meeting

**E-2 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

**Recommendation:** Take appropriate action.

**E-3 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; Suzanne Jenike, Asst. CEO; Gina M. Ratto, General Counsel; and David Kim, Director of Internal Audit.*

**Recommendation:** Take appropriate action.

Ms. Freidenrich left at 2:42 p.m.

*The Committee reconvened to open session at 3:05 p.m.*

**REPORT OF ACTIONS TAKEN IN CLOSED SESSION** *In the matter of E-1, Threat to Public Services or Facilities (Government Code Section 54957), the Committee voted unanimously to receive and file.*

**WRITTEN REPORTS**

**R-1 MANAGEMENT ACTION PLAN VERIFICATION REPORT**

*Written Report*

**R-2 STATUS UPDATE OF 2023 AUDIT PLAN**

*Written Report*

**COMMITTEE MEMBER COMMENTS**

None

**STAFF COMMENTS**

None

**CHIEF EXECUTIVE OFFICER**

None

**COUNSEL COMMENTS**

None

Orange County Employees Retirement System  
June 1, 2023  
Audit Committee Meeting

**ADJOURNMENT**

Chair Oates adjourned the meeting at 3:05 p.m.

Submitted by:

Submitted by:

Approved by:

\_\_\_\_\_  
David Kim  
Committee Liaison

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

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



## Memorandum

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**DATE:** October 11, 2023  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** **AUDIT REPORT – ORANGE COUNTY IN-HOME SUPPORTIVE SERVICES PUBLIC AUTHORITY EMPLOYER AUDIT**

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### Recommendation

Receive and file.

### Background/Discussion

As per the 2023 Audit Plan, Internal Audit performed an employer audit of the Orange County In-Home Supportive Services Public Authority (IHSS PA).

There were four observations identified in this audit:

1. IHSS PA is incorrectly adding non-pensionable overtime pay to pensionable salary in its bi-weekly payroll transmittal files.
2. For one active member, IHSS PA incorrectly reported Service Hours in the transmittal files for 12 consecutive pay periods from August 2022 to January 2023.
3. IHSS PA's Salary Increase Authorization forms do not have the employee's title code, title description, and pay grade.
4. For nine members in our test sample, the Member Affidavit Form was incomplete regarding the member's previous public service or missing a witness signature.

### Submitted by:



DK - Approved

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David Kim  
Director of Internal Audit



**Orange County In-Home Supportive Services  
Public Authority  
Employer Audit**

**Report Date: October 11, 2023**

**Internal Audit Department**

**OCERS Internal Audit**  
**Orange County In-Home Supportive Services**  
**Public Authority Employer Audit**  
**October 11, 2023**

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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 Orange County In-Home Supportive Services Public Authority (IHSS PA) payroll transmittal data. This includes, but is not limited to, the controls IHSS PA and OCERS management have in place over the payroll transmittals.

The scope of the audit included IHSS PA's payroll data submitted to OCERS between January 2022 and June 9, 2023 on a sample basis.

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

### Conclusion / Executive Summary

**Opinion: *Opportunities for Improvement***

Overall, Internal Audit identified opportunities to improve controls to ensure that payroll data is sent accurately and completely to OCERS. For further detail of the below observations please see page four.

<p><b>Priority Observations</b></p> <p style="text-align: center;"><b>0</b></p> <p><b>Important Observations</b></p> <p style="text-align: center;"><b>4</b></p>	<p><b>Priority Observations</b></p> <p><b>None</b></p> <p><b>Important Observations</b></p> <ol style="list-style-type: none"> <li>1. IHSS PA is incorrectly adding non-pensionable overtime pay to pensionable salary in its bi-weekly payroll transmittal files.</li> <li>2. For one active member, IHSS PA incorrectly reported Service Hours in the transmittal files for 12 consecutive pay periods from August 2022 to January 2023.</li> <li>3. IHSS PA's Salary Increase Authorization forms do not have the employee's title code, title description, and pay grade.</li> <li>4. For nine members in our test sample, the Member Affidavit Form was incomplete regarding the member's previous public service or missing a witness signature.</li> </ol>
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Internal Audit sampled 40 payroll transactions from IHSS PA's approximately 900 payroll transactions during our audit scope:

- Internal Audit reviewed, on a sample basis, IHSS PA's support documentation for the pensionable pay reported in its payroll transmittals to OCERS.
- Verified that base pay reported by IHSS PA through payroll transmittals matched IHSS PA human resource records and publicly available pay schedules for completeness and accuracy.
- Recalculated contributions collected from IHSS PA to ensure that contributions were paid according to Segal contribution rates as approved by the OCERS' Board.
- Reconciled IHSS PA employee headcount from the payroll system against OCERS annual actuarial extract of members.
- Reviewed Member Affidavits for completeness.
- Reviewed IHSS PA's controls in place to ensure its compliance with OCERS' Board Membership Eligibility Policy.

### **Background**

IHSS PA provides the elderly, blind, and individuals with disabilities assistance in finding a prescreened homecare provider who will enable them to live independently and remain safely in their homes.

IHSS PA and its employees contributed approximately \$0.3 million and \$0.3 million to OCERS for the years ended December 31, 2021, and December 31, 2022, respectively. It has 24 active members. An audit of IHSS PA was last presented to the Audit Committee on October 21, 2015.

#### **Copies to OCERS:**

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

#### **Copies to Employer:**

A. Hogue, Executive Director  
J. Poulos, Deputy Director

Observations	Action Plan / Responsible Party / Completion Date
<p><b>Important Observations</b></p>	
<p><b>1. IHSS PA is incorrectly adding non-pensionable overtime pay to pensionable salary in its bi-weekly payroll transmittal files.</b></p> <p>Per OCERS Board Compensation Earnable policy, true overtime (OT) pay, other than mandatorily scheduled overtime, is not considered pensionable.</p> <p>In three payroll transactions sampled, Orange County In-Home Supportive-Services Public Authority (IHSS PA) was including minor amounts of non-pensionable true OT in the transmittal file's pay period pensionable salary column and in the reported hours column. As a result, contributions were collected from the member on non-pensionable OT pay, reported as follows:</p> <ul style="list-style-type: none"> <li>• Active member #1 - \$7.11 of OT pay in PP4 of 2022, and \$1.74 of OT pay in PP1 of 2023</li> <li>• Active member #2 - \$3.28 of OT pay in PP1 of 2023</li> </ul> <p>Per OCERS business practice, non-pensionable OT is to be reported to OCERS as a separate pay item in the transmittal file and classified as non-pensionable.</p> <p><b>Risk:</b> Contributions were collected on non-pensionable OT in excess of required contributions collected from pensionable base salary.</p>	<p><b>Action Plan:</b> IHSS PA will work with OCERS Member Services to add non-pensionable overtime as a separately reported pay item in the transmittal files, as described in OCERS Board Pay Item Review policy.</p> <p><b>Responsible Party:</b> Aaron Hogue, Executive Director</p> <p><b>Completion Date:</b> September 29<sup>th</sup>, 2023</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>2. For one active member, IHSS PA incorrectly reported Service Hours in the transmittal files for 12 consecutive pay periods from August 2022 to January 2023.</b></p> <p>IHSS PA is one of two remaining OCERS employers that manually generate its bi-weekly payroll transmittal files. IHSS PA did not manually update the service hours after this member transitioned from a full-time to a part-time schedule.</p> <p>From pay period 19 of 2022 through pay period 4 of 2023, the IHSS payroll transmittal files incorrectly reported a full-time schedule of 80 service hours per pay period when the member worked a part-time schedule, averaging 25 hours worked per pay period.</p> <p>Manual data entry can lead to errors such as above.</p> <p><b>Risk:</b> Inaccurate hours worked reported in the payroll transmittal files could affect the member's final service credit calculation when calculating a benefit.</p>	<p><b>Action Plan:</b> IHSS PA will correct the member's transmittal records to reflect actual hours worked in the service hours column via payroll transmittal adjustment files.</p> <p><b>Responsible Party:</b> Aaron Hogue, Executive Director</p> <p><b>Completion Date:</b> September 29<sup>th</sup>, 2023</p>
<p><b>3. IHSS PA's Salary Increase Authorization forms do not have the employee's title code, title description, and pay grade.</b></p> <p>In May 2022, IHSS PA worked with the County of Orange to align its employees with the title codes, title descriptions,</p>	<p><b>Action Plan:</b> IHSS PA will amend its Salary Increase Authorization forms to evidence the title code, title description and pay grade consistent with The County of Orange's pay schematics.</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>and pay grades used by The County of Orange pay schematics.</p> <p>The IHSS PA's Salary Increase Authorization forms we reviewed contained information and signed authorizations that partially support the member's base rate of pay reported on the bi-weekly payroll transmittals.</p> <p>However, the sampled Salary Increase Authorization forms effective after the above date (35 in total) did not contain the member's title code, title description, and pay grade. The IHSS PA's Executive Director identified the member's title code, title description, and pay grade to verify the hourly rate of pay for the member.</p> <p><b>Risk:</b> The member's title code, title description and pay grade may not be consistent with The County of Orange's title and pay grade schematics without confirmation on the Salary Increase Authorization form.</p>	<p><b>Responsible Party:</b> Aaron Hogue, Executive Director</p> <p><b>Completion Date:</b> September 29<sup>th</sup>, 2023</p>
<p><b>4. For nine members in our test sample, the Member Affidavit Form was incomplete regarding the member's previous public service or missing a witness signature.</b></p> <p>During our test work, Internal Audit reviewed Member Affidavits to confirm they were completed by the member and employer.</p> <p>For seven of the forty (40) Member Affidavits we tested, the section pertaining to previous public service was not complete. The seven are active members who started with</p>	<p><b>Action Plan:</b></p> <p>IHSS PA will work with OCERS employer payroll team and determine if an amended Member Affidavit form should be sent to OCERS, or if another form of documentation should be sent to OCERS.</p> <p>IHSS PA will develop a process to confirm the forms are completed when onboarding a new employee.</p> <p><b>Responsible Party:</b> Aaron Hogue, Executive Director</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>IHSS PA between 2013 and 2021. 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>Two separate member affidavits were missing witness signature evidencing that the form was independently verified by IHSS PA management. Both are active members. One started with IHSS PA in 2005 and the other in 2010.</p> <p>Per §31526 of the CERL (County Employee Retirement Law), <i>“The filing of a sworn statement by every person who is or becomes a member, showing date of birth, nature and duration of employment with the county, compensation received, and other information as is required by the board.”</i></p> <p><b>Risk:</b> Incomplete member affidavits could affect a member’s ability to establish reciprocity benefits.</p>	<p><b>Completion Date:</b> September 29<sup>th</sup>, 2023</p>

### **Categories of Observations (Control Exceptions):**

#### **Priority Observations:**

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

#### **Important Observations:**

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

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

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

### **Internal Control Limitations**

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

**Audit Report Opinions:**

**Satisfactory:**

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

**Opportunities for Improvement:**

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

**Inadequate:**

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



## Memorandum

---

**DATE:** October 11, 2023  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** **AUDIT REPORT – ORANGE COUNTY FIRE AUTHORITY EMPLOYER AUDIT**

---

### Recommendation

Receive and file.

### Background/Discussion

As per the 2023 Audit Plan, Internal Audit performed an employer audit of the Orange County Fire Authority (OCFA).

There were three observations identified in this audit:

1. For one member in our test sample, the Member Affidavit Form was incomplete regarding the member's previous public service.
2. Two Personnel Action Form (PAF) approvals did not have an approval signature from the Department Head, only approval from Human Resources.
3. Membership eligibility review occurs but is not formally documented.

### Submitted by:



**DK - Approved**

---

David Kim  
Director of Internal Audit



**Orange County Fire Authority  
Employer Audit**

**Report Date: October 11, 2023**

**Internal Audit Department**

**OCERS Internal Audit**  
**Orange County Fire Authority Employer Audit**  
**October 11, 2023**

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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 Orange County Fire Authority (OCFA) payroll transmittal data. This includes, but is not limited to, the controls OCFA and OCERS management have in place over the payroll transmittals.

The scope of the audit included OCFA’s payroll data submitted to OCERS between January 2021 and December 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. For further detail of the below observations please see page four.

<p><b>Priority Observations</b></p> <div style="border: 1px solid blue; background-color: #0056b3; color: white; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 10px auto;">0</div> <p><b>Important Observations</b></p> <div style="border: 1px solid blue; background-color: #0056b3; color: white; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 10px auto;">3</div>	<p><b>Priority Observations</b></p> <p><b>None</b></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. Two Personnel Action Form (PAF) approvals did not have an approval signature from the Department Head, only approval from Human Resources.</li> <li>3. Membership eligibility review occurs but is not formally documented.</li> </ol>
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Internal Audit sampled 60 payroll transactions from OCFA’s approximately 78,000 payroll transactions during our audit scope:

- Internal Audit reviewed, on a sample basis, OCFA’s supporting documentation for the pensionable pay reported in its payroll transmittals to OCERS.

- Verified that base pay reported by OCFA through payroll transmittals matched Fire Authority human resource records and publicly available pay schedules for completeness and accuracy.
- For premium pay items, verified the information reported in the transmittals against OCFA's supporting documentation evidencing that the employee was entitled to that premium pay, such as certification pay.
- Recalculated contributions collected from OCFA to ensure that contributions were paid according to Segal contribution rates as approved by the OCERS' Board.
- Reconciled OCFA employee headcount from the payroll system against OCERS annual actuarial extract of members.
- Reviewed Member Affidavits for completeness.
- Reviewed OCFA's controls in place to ensure its compliance with OCERS' Board Membership Eligibility Policy.

### **Background**

OCFA is one of OCERS' five largest Employers. OCFA was formed on March 1, 1995, transitioning from the Orange County Fire Department to a Joint Powers Authority (JPA). OCFA is an independent special district that services twenty-three member cities and the unincorporated areas of Orange County. Emergency response services are provided to nearly 2 million residents in a 587 square mile area of Orange County.

OCFA and its employees contributed approximately \$125.2 million and \$117.8 million to OCERS for the years ended December 31, 2021, and December 31, 2022, respectively. It has over 1,500 current active members.

An audit of OCFA was last presented to the Audit Committee on December 11, 2018. There were six observations related to pensionable pay items, contribution calculations, OCFA MOU language, and relevant IT functions within OCERS. Management of both OCFA and OCERS agreed with the observations and have since implemented MAPS (management action plans) to address them. Internal Audit has also since worked to verify completion of these MAPS.

**Copies to OCERS:**

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

**Copies to Employer:**

L. Zeller, Deputy Chief of Administration and Support  
R. Cortez, Assistant Chief, Business Services  
S. Penrod, Human Resources Manager  
R. Reijerse, Interim Payroll Manager

Observations	Action Plan / Responsible Party / Completion Date
<b>Important Observations</b>	
<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 they were completed in full by the member and employer. For one out of the sixty (60) Member Affidavits we tested, the section pertaining to previous public service was not complete. The member is currently active and joined Fire Authority in 2016.</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>Per §31526 of the CERL (County Employee Retirement Law), <i>“The filing of a sworn statement by every person who is or becomes a member, showing date of birth, nature and duration of employment with the county, compensation received, and other information as is required by the board.”</i></p> <p><b>Risk:</b> Incomplete member affidavits could affect a member’s ability to establish reciprocity benefits.</p>	<p><b>Action Plan:</b></p> <p>The member has checked the appropriate box to indicate no prior public service. The amended form has been provided to OCERS Internal Audit team to provide to Member Services.</p> <p><b>Responsible Party:</b></p> <p>Sam Penrod, Human Resources Manager – Benefits Section</p> <p><b>Completion Date:</b></p> <p>September 12, 2023</p>
<p><b>2. Two Personnel Action Form (PAF) approvals did not have an approval signature from the Department Head, only approval from Human Resources.</b></p>	<p><b>Action Plan:</b></p> <p>The PAF is designed to cover all of the personnel actions that occur within the agency. While the form has multiple signature lines, not every signature line is required to authorize a given</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>The two sampled PAFs were related to promotions and merit increases. These were approved by Human Resources via signature. OCFA's PAF form has designated approval signature lines for Human Resources, the Department Head, and the Section Manager (or Chief), suggesting multiple approvals.</p> <p>Per OCFA, HR's approval of the PAF is considered sufficient and complete. However, dual signature approval over such personnel changes is considered an operational best practice.</p> <p><b>Risk:</b> Dual approval reduces the risk of incorrect or unapproved changes to an employee's rate of pay or change in title.</p>	<p>action (e.g., a COLA increase, changing Org numbers (which occurs frequently based on reassignments to different stations). An Assistant Chief or Deputy Chief can be the single signatory in those instances. In the case of a COLA increase, a PAF, while not required, is done to simply document the increase and would not need multiple signatures. Multiple signatures are required for Merit Increases, Initial Hire, and Reductions. However, if it's a HR employee then a single signature from the Assistant Chief of Human Resources or Deputy Chief of Administration and Support would suffice, which is the case with one of the two sampled PAFs.</p> <p><b>Responsible Party:</b> Sam Penrod, Human Resources Manager - Benefits</p> <p><b>Completion Date:</b> September 12, 2023</p>
<p><b>3. Membership eligibility review occurs but is not formally documented.</b></p> <p>To help ensure compliance with OCERS Membership Eligibility Policy, the Senior HR Analyst oversees and reviews the Extra-Help Work Summary report on a bi-weekly basis and forwards it to the HR Manager if any exceptions arise. This report contains hours worked by Extra Help, rehired retirees, and part-time employees. While a review of the report was performed, there was no formal signoff by the reviewer.</p>	<p><b>Action Plan:</b> The Human Resources Manager over Benefits will review and sign the biweekly Extra-Help report submitted by Finance. HR Benefits and Payroll personnel have communicated regarding this new process going forward.</p> <p><b>Responsible Party:</b> Sam Penrod, Human Resources Manager - Benefits</p> <p><b>Completion Date:</b> September 11, 2023</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>Risk:</b> There is a lack of an audit trail evidencing review of the Extra-Help Work Summary report which tracks hours worked by Extra-Help, rehired retirees, and part-time employees.</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:** October 11, 2023  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** **AUDIT REPORT – AUDIT OF REMAINING SAMPLES ALAMEDA BENEFIT RECALCULATIONS**

---

### Recommendation

Receive and file.

### Background/Discussion

The OCERS Audit Committee directed Internal Audit to review the Alameda recalculations on a sample basis. The directed audit approach was to sample a total of 66 FAS recalculations, approximately 10% of the 662 total recalculations. The Audit Committee directed Internal Audit to split the sample of 66 by first testing the recalculations of the 30 retirees with the highest impacted change and present the results to the Audit Committee before proceeding further with testing. The initial audit of these 30 retirees was presented to the Audit Committee on April 5, 2023. There were three Important Observations, one of which showed two errors from the 30 FAS recalculations tested, for a 6.7% error rate. At the April 5, 2023 meeting, the Audit Committee directed Internal Audit to test the remaining 36 samples as presented in this report.

There was one important observation identified in this audit of the remaining Alameda recalculation samples:

1. Internal Audit noted 13% of the Alameda contribution refund re-calculations were incorrect due to a recent change in the pension attribute for a specific pay item. This does not impact FAS.

### Submitted by:



**DK - Approved**

---

David Kim  
Director of Internal Audit



**Audit of Remaining Samples of Alameda  
Recalculations**

**Report Date: October 11, 2023**

**Internal Audit Department**

**OCERS Internal Audit**  
**Audit of Remaining Samples of Alameda Recalculations**  
**October 11, 2023**

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**Audit Objective and Scope**

The objective of this audit was to provide an independent review of Final Average Salary (FAS) calculations recalculated by OCERS’ Member Services because of the Board of Retirement’s adoption of the Alameda Supreme Court decision.

Internal Audit reviewed the FAS calculations for the 36 retirees whose original benefit payments were most impacted by the Alameda Supreme Court decision.

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***

During our review, Internal Audit did not note any reportable FAS calculation errors with our test sample for a 100% accuracy rate. There is one observation related to the calculation of contribution refunds to members affected by Alameda, but does not impact the FAS calculation. For further detail of the below observation please see page three.

<p><b>Priority Observations</b></p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 5px auto; border-radius: 5px; display: flex; align-items: center; justify-content: center;">0</div> <p><b>Important Observations</b></p> <div style="background-color: #4a7ebb; color: white; text-align: center; width: 40px; height: 40px; margin: 5px auto; border-radius: 5px; display: flex; align-items: center; justify-content: center;">1</div>	<p><b>Priority Observations</b> None</p> <p><b>Important Observation</b></p> <ol style="list-style-type: none"> <li>1. <b>Internal Audit noted 13% of the Alameda contribution refund re-calculations were incorrect due to a recent change in the pension attribute for a specific pay item. This does not impact FAS.</b></li> </ol>
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Based on direction from the Audit Committee at the April 5, 2023, meeting, Internal Audit completed a subsequent audit of 36 additional samples. The 36 samples tested had an Alameda impact of between \$60 and \$700 to the original benefit. The following testing was performed:

- Verified that Alameda related pay items were accurately and completely removed.

- Independently reperformed FAS recalculations which included the Alameda adjustment and reviewed the documentation used by Member Services to support their calculations.
- Reviewed Member Service’s recalculation of net benefit overpayments.

### **Background**

On July 30, 2020, the California Supreme Court issued a unanimous decision (Alameda decision) regarding the pensionable designation of certain pay items (Alameda pay items). OCERS Board later adopted this decision and directed staff to recalculate benefits for affected members and recover benefit overpayments from employers and retirees. OCERS Audit Committee also directed Internal Audit to review these recalculations on a sample basis.

OCERS has estimated that a total of \$7.3 million in benefits had been overpaid to 662 retirees. To date, OCERS Member Services has recalculated benefits for 145 retirees, with an additional 95 pending Member Services’ quality review process.

For the 2023 audit plan, the OCERS Audit Committee originally directed Internal Audit to review the Alameda recalculations on a sample basis. The directed audit approach was to sample a total of 66 FAS recalculations, approximately 10% of the 662 total recalculations. The Audit Committee directed Internal Audit to split the sample of 66 by first testing the recalculations of the 30 retirees with the highest impacted change and present the results to the Audit Committee before proceeding further with testing. The initial audit of these 30 retirees was presented to the Audit Committee on April 5, 2023. There were three Important Observations, one of which showed two errors from the 30 FAS recalculations tested, for a 6.7% error rate. At the April 5, 2023 meeting, the Audit Committee directed Internal Audit to test the remaining 36 samples as presented in this report.

#### **Copies to:**

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

J. Lamberson  
S. Ardeleanu  
J. Tallase  
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
Important Observation	
<p><b>1. Internal Audit noted 13% of the Alameda contribution refund re-calculations were incorrect due to a recent change in the pension attribute for a specific pay item. This does not impact FAS.</b></p> <p>As a result of the Board’s adoption of the Alameda decision, Attorney Special Duty (ASD) pay was classified as non-pensionable and the initial contribution refunds and benefit payment re-calculations reflected this.</p> <p>Included in ASD pay were hours spent by the attorneys on parole hearing preparation (PHP). However, OCERS, upon further analysis and discussion with The County about PHP, has concluded that PHP is outside the scope of the Alameda decision and pensionable per OCERS Compensation Earnable Policy.</p> <p>OCERS then worked with The County of Orange to manually compile attorney hours worked on PHP to again recalculate contribution refunds and benefit payments to reflect PHP as pensionable.</p> <p>However, for the first five out of 40 members (13% of our sample) requiring an adjustment for PHP pay, Member Services incorrectly did not include “reverse pickup” contribution rates when calculating the contribution refund.</p>	<p><b>Management Action Plan:</b></p> <p>Member Services Management team reviewed the process for performing the recalculation of the Contribution Refunds as it pertains to the PHP pay item. As Internal Audit confirmed with the subsequent months’ members affected by PHP, our process was corrected to include these amounts (reverse pickup rate) in our subsequent calculations. Member Services has also provided Internal Audit with the files containing the corrected contribution refund calculations for the five members noted. These revised contribution and interest amounts were used in total to offset the member’s overpayment and thus did not get paid directly to the members as a refund.</p> <p>We have also worked with the county to create a new pay item for PHP pay item in the PAS as a result to ensure future benefits automatically include the pay in the retirement benefits.</p> <p><b>Management Action Plan Responsible Party:</b> Jeff Lamberson, Director of Member Services</p> <p><b>Completion Date:</b> Completed</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>As a result of the above error, written notification to these five members of the <i>total</i> net Alameda amounts owed to OCERS were understated by one-time minor amounts:</p> <p>Member #1 - \$9.52                      Member #2 - \$14.81                      Member #3 - \$35.02                      Member #4 - \$67.02                      Member #5 - \$176.95</p> <p>The errors were confined to the April 2023 payroll and subsequent samples were not impacted by this error. This error did not affect the members' revised benefits due to Alameda.</p> <p><b>Risk:</b> An oversight when reviewing PHP adjustments to the original contribution calculations can lead to the incorrect allocation of the amount due from the retiree.</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 Observations”.

**Inadequate:**

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



## Memorandum

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**DATE:** October 11, 2023  
**TO:** Members of the Audit Committee  
**FROM:** D. Kim, Director of Internal Audit  
**SUBJECT:** **AUDIT REPORT – AUDIT OF OCERS HIRING PRACTICES**

---

### Recommendation

Receive and file.

### Background/Discussion

As per the 2023 Audit Plan, Internal Audit performed an audit of the controls over the hiring process, from initial job requisition through start of employment. This was the first audit of this process by Internal Audit.

There were five observations identified in this audit:

1. Human Resources (HR) does not have formal procedural documentation for the hiring and recruiting process.
2. OCERS' internal Employment Offer Worksheet is not formally documented with the rationale for hiring a candidate.
3. OCERS is using the standard County background check instead of OCERS' more extensive 3rd party background check for all new County employees who will gain access to confidential member data within the Pension Administration System (PAS).
4. Human Resources is maintaining terminated employee personnel records beyond that allowed per OCERS Board Records Management Policy.
5. For one sample, documentation of a candidate's reference verification was missing the HR Analyst's signature and date.

### Submitted by:



**DK - Approved**

---

David Kim  
Director of Internal Audit



## **Audit of OCERS Hiring Process**

**Report Date: October 11, 2023**

**Internal Audit Department**

**OCERS Internal Audit**  
**Audit of OCERS Hiring Process**  
**October 11, 2023**

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### Audit Objective and Scope

The objective of this audit was to provide an independent review of the design and operating effectiveness of controls over the hiring process, from initial job requisition through start of employment. This was the first audit of this process by Internal Audit.

The scope of the audit included documentation of OCERS new hires during all of 2021 and 2022 on a sample basis, as well as staffing plans presented to OCERS Board of Retirement during this time.

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 the design and operating effectiveness of controls over the hiring process.

<p><b>Priority Observations</b></p> <div style="background-color: #4a7ebb; color: white; padding: 5px; text-align: center; width: 40px; margin: 5px auto;">0</div> <p><b>Important Observations</b></p> <div style="background-color: #4a7ebb; color: white; padding: 5px; text-align: center; width: 40px; margin: 5px auto;">5</div>	<p><b>Priority Observations</b></p> <p>None</p> <p><b>Important Observations</b></p> <ol style="list-style-type: none"> <li>1. Human Resources (HR) does not have formal procedural documentation for the hiring and recruiting process.</li> <li>2. OCERS’ internal Employment Offer Worksheet is not formally documented with the rationale for hiring a candidate.</li> <li>3. OCERS is using the standard County background check instead of OCERS’ more extensive 3<sup>rd</sup> party background check for all new County employees who will gain access to confidential member data within the Pension Administration System (PAS).</li> <li>4. Human Resources is maintaining terminated employee personnel records beyond that allowed per OCERS Board Records Management Policy.</li> <li>5. For one sample, documentation of a candidate’s reference verification was missing the HR Analyst’s signature and date.</li> </ol>
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Internal Audit sampled 8 out of a total of 32 hirings of both County of Orange and OCERS direct employees during our audit scope:

- Reviewed hiring practices to determine if they were supported by current written policies and procedures.
- Reviewed OCERS staffing plans to determine if they were linked to OCERS strategic mission, included a forecast of projected staffing needs, and approved by the Board of Retirement.
- Reviewed job postings for compliance with applicable federal and state employment laws.
- Verified that Human Resources (HR) has a process for screening applicants for minimum requirements and that standardized scoring tools were used to further narrow down candidate pools for the hiring manager.
- Verified that background checks were performed and cleared for new hires before hire date.
- Verified evidence of authorized approval for the hiring of the new employee (including position level and salary).
- Verified that new hires completed a formal employee on-boarding process that obtained necessary employment forms and documents from the employee; discussed OCERS mission and organizational structure; reviewed OCERS employment policies and procedures; and setup the employee's physical and online access.

### **Background**

OCERS has undergone an increase in employee headcount from 89 at the end of 2021 to 112 as of June 2023. During our audit scope of 2021 and 2022, the OCERS Board of Retirement authorized the creation of 16 new positions. Furthermore, employee turnover had averaged 4.9% during 2021 and 15.2% during 2022, and combined with the new positions, resulted in a total of 32 new hires, both County and OCERS Direct, placed by the Human Resources Department during our audit scope.

OCERS hiring process includes several steps such as creating job requisitions and postings, minimum qualification screenings, subject matter expert scoring, candidate testing, interview scheduling, conducting background and reference checks, salary equity analysis, as well as obtaining approvals from various hiring managers and the CEO to prepare formal offer letters. New employee onboarding procedures includes a first day orientation on site, a separate County of Orange orientation to review employment benefits, and a formal group orientation taught by HR's Learning and Organizational Development Department.

For the year 2022, the Human Resources Department processed 2,180 job applications, facilitated pre-employment testing for 346 candidates, and organized 250 candidate interviews. OCERS employed an HR Analyst dedicated to the recruitment and hiring process and during our audit scope a separate HR Analyst stepped in to assist. More recently in 2023, OCERS has hired a third HR Analyst tasked with recruitment to help OCERS meet its 2023 goal of filling 14 new positions.

In addition to the above hiring and recruitment process, the Director of HR and the HR Department work with Senior Executives to support Board related matters, such as OCERS Personnel Committee.

**Copies to OCERS:**

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

C. Hockless  
Audit Committee Members

Observations	Action Plan / Responsible Party / Completion Date
<p><b>Important Observations</b></p>	
<p><b>1. Human Resources (HR) does not have formal procedural documentation for the hiring and recruiting process.</b></p> <p>OCERS hiring and recruitment process includes several steps such as creating job requisitions and postings, minimum qualification screenings, subject matter expert scoring, candidate testing, interview scheduling, conducting background and reference checks, salary equity analysis, as well as obtaining approvals from various hiring managers and the CEO to prepare formal offer letters. OCERS HR must also use The County of Orange <i>Recruitment Rules and Policies</i> for County employed positions within OCERS.</p> <p>After the employee is hired, HR also performs the onboarding process to provide an orientation and obtain necessary documents from the new hire.</p> <p>Although we were provided with a flowchart of the recruiting process, OCERS does not have formal internal procedural documentation of the above.</p> <p><b>Risk:</b> Not having formal procedural documentation can lead to non-compliance with employment law, inconsistent business practices, and key person risk if staff familiar with the hiring process were to leave OCERS.</p>	<p><b>Action Plan:</b> The Human Resources department will develop procedures for the hiring and recruitment practices.</p> <p><b>Responsible Party:</b> Cynthia Hockless, HR Director</p> <p><b>Completion Date:</b> December 31, 2024</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>2. OCERS's internal Employment Offer Worksheet is not formally documented with the rationale for hiring a candidate.</b></p> <p>OCERS's internal Employment Offer Worksheet document contains the name of the job candidate to be hired, job title, anticipated start date, salary range analysis, and recommended starting salary. The document is authorized with signatures of the hiring manager(s) and CEO. The authorized document is among the last items required before a formal employment offer letter is sent to the candidate.</p> <p>Before the CEO signs the document, OCERS business practice is to hold a meeting between the CEO and the hiring manager(s) to discuss why the candidate should be hired. As per the CEO charter, the CEO approves all personnel decisions concerning OCERS staff.</p> <p>However, during our review, we noted that a written summary as to why the candidate should be hired is not consistently created and attached as support for the Employment Offer Worksheet.</p> <p><b>Risk:</b> There is no audit trail evidencing the rationale for the final decision to hire the employee, as per the CEO charter.</p>	<p><b>Action Plan:</b> The HR department has added language that supports the CEO's approval criteria to the Employment Offer Worksheet. Hiring managers will now be required to acknowledge they have met the CEO's approval requirements.</p> <p>Additionally, the CEO will acknowledge that he has met with the hiring manager and approves extending an offer of employment to the selected candidate.</p> <p><b>Responsible Party:</b> Cynthia Hockless, HR Director</p> <p><b>Completion Date:</b> August 24, 2023</p>
<p><b>3. OCERS is using the standard County background check instead of OCERS' more extensive 3<sup>rd</sup> party background check for all new County employees who</b></p>	<p><b>Action Plan:</b> The HR department will schedule a meeting with the County to discuss next steps needed to institute more extensive background checks.</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>will gain access to confidential member data within the Pension Administration System (PAS).</b></p> <p>All Member Services positions, positions within the Information Technology Department, and some positions within the Finance Department have access to confidential member data within the PAS.</p> <p>However, almost all the above positions (56 employees to date) are County of Orange employees and, upon hire, are only subject to a fingerprint scan to run a criminal background check performed by a 3<sup>rd</sup> party. These positions are not subject to the more extensive background check performed on new hires for OCERS direct employee positions.</p> <p>For OCERS direct employees, OCERS uses a separate 3<sup>rd</sup> party vendor to not only perform a criminal background check, but to verify past employment and education, run a credit check, and perform a social security number trace.</p> <p>Upon discussion with The County of Orange, Internal Audit learned that certain County agencies perform more extensive background checks depending upon the nature of the positions and data that is accessed by County employees. Furthermore, OCERS would need to have a discussion with The County of Orange legal counsel and OCEA to justify the use of more extensive background checks.</p>	<p><b>Responsible Party:</b> Cynthia Hockless, HR Director</p> <p><b>Completion Date:</b> December 31, 2024</p>

Observations	Action Plan / Responsible Party / Completion Date
<p>Current Memorandum of Understandings (MOUs) with the labor groups do not explicitly prohibit the use of these background checks.</p> <p><b>Risk:</b> There is additional risk if not all employees who will gain access to member confidential data such as social security numbers, bank account numbers, passport and driver's license images, birth dates, and addresses undergo a more stringent background check consistent with background checks performed by financial institutions as well as newly hired OCERS direct employees.</p>	
<p><b>4. Human Resources is maintaining terminated employee personnel records beyond that allowed per OCERS Board Records Management Policy.</b></p> <p>The OCERS Records Management Policy was recently created and adopted by the Board in November of 2021. The Policy establishes timeframes for the retention and destruction of OCERS' records, either digital or physical. The timeframes range from one year past date of hire up to four years past the termination date, depending on the type of documentation.</p> <p>However, Human Resources is maintaining all personnel records, including the recruitment records we reviewed as part of this audit, going back on a 12-year rolling cycle for terminated employees. No CEO approval was obtained to allow for such an exception, as is allowed by the Policy.</p>	<p><b>Action Plan:</b> A request to increase the retention period for personnel files from 4 to 7 years will be made to the Governance Committee at their next review of the Records Management policy. All personnel files outside of the 7-year window were destroyed.</p> <p><b>Responsible Party:</b> Cynthia Hockless, Director of Human Resources</p> <p><b>Completion Date:</b> December 31, 2024</p>

Observations	Action Plan / Responsible Party / Completion Date
<p><b>Risk:</b> As stated within the Records Management Policy, holding employee personnel records beyond the records retention schedule is costly, lessens OCERS efficiency for responding to public records requests, and makes it more difficult to find the records needed for OCERS business needs.</p>	
<p><b>5. For one sample, documentation of a candidate's reference verification was missing the HR Analyst's signature and date.</b></p> <p>For one sample, an HR template used to document two reference checks was not signed and dated by the HR Analyst, as required on the form, to indicate the reference check was performed before the hire date.</p> <p><b>Risk:</b> There is no audit trail that the reference check was conducted successfully before the candidate's hire date, as required within the employment offer letter.</p>	<p><b>Action Plan:</b></p> <p>Phone records demonstrated the reference was completed timely however the form was not signed and dated for one sample.</p> <p>In the third quarter of 2022, the HR department implemented Survey Monkey to automate the employment &amp; reference verification process. Employers and references are emailed a link and asked to complete the survey by a specific date. The survey requires the verifier to provide their name and job title and includes a time stamp to confirm the verification was completed prior to the new employee's start date.</p> <p><b>Responsible Party:</b></p> <p>Cynthia Hockless, HR Director</p> <p><b>Completion Date:</b></p> <p>August 24, 2023</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:** October 11, 2023  
**TO:** Members of the Audit Committee  
**FROM:** David Kim, Director of Internal Audit  
**SUBJECT:** MANAGEMENT ACTION PLAN VERIFICATION REPORT

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### *Written Report*

#### **Background/Discussion**

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

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

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

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

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

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

#### **Submitted by:**



**DK - Approved**

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David Kim  
Director of Internal Audit



### Management Action Plan Status Report

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

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REPORTING FOR: 2018, 2019, 2020, 2021, 2022, 2023, ARCHIVED	OPEN	Closed - No Further Action Required (YTD)	Closed - No Further Action Required (Prior Years)	Total
<b>Process Owner</b>				
EMPLOYER	1	8	5	14
EXECUTIVE	1	6	1	8
FINANCE	0	0	3	3
INFORMATION SECURITY	1	0	0	1
INFORMATION TECHNOLOGY	7	1	8	16
INVESTMENTS	0	0	9	9
MEMBER SERVICES	6	9	23	38
<b>Total Count:</b>	<b>16</b>	<b>24</b>	<b>49</b>	<b>89</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:** 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>	03/29/2024
<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>	10/31/2023
<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>	12/29/2023
<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>	12/29/2023
<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:** 1

**OBSERVATION #3 - OCERS DOES NOT MAINTAIN DATA FLOW DIAGRAMS OR OTHER DOCUMENTATION OF INFORMATION FLOW BOTH INTERNALLY AND TO EXTERNAL PARTIES.**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
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 Executed By: OCERS\dkim

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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>Due Date:</b>	12/30/2023
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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.

<b>Project:</b>	42 - 2032 - Actuarial Extract Audit	
<b>REPORT DATE:</b>	<b>10/13/2020</b>	<a href="#">OPEN</a>
<b>Open Observations:</b>	1	

**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>	09/29/2023
<b>Action Plan:</b>	The IT Programming team will 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.

<b>Project:</b>	33 - 2090 - Vulnerability and Patch Management	
<b>REPORT DATE:</b>	<b>03/22/2021</b>	<a href="#">OPEN</a>
<b>Open Observations:</b>	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:** 12/29/2023

**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:** 1

**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:** 09/29/2023

**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:**



## 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:** 66 - 2171 - IT Automated Controls

**REPORT DATE:** 02/14/2023

OPEN

**Open Observations:** 1

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

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Due Date:</b>	12/31/2023
<b>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.
<b>IA Follow-Up:</b>	

**Project:** 63 - 2235 - The Toll Roads Employer Audit

**REPORT DATE:** 02/14/2023

OPEN

**Open Observations:** 1

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

<b>Process Owner:</b>	EMPLOYER
<b>Due Date:</b>	06/30/2023
<b>Action Plan:</b>	<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>
<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:** 67 - 2202 - Alameda Audit

**REPORT DATE:** 04/05/2023

OPEN

**Open Observations:** 1

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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Due Date:</b>	07/15/2023
<b>Action Plan:</b>	Member Services followed a standing practice for this observation. OCERS current practice is to accept pay items that have already been prorated by the employer as reported in the transmittal. We will however ensure our current practice is documented in our procedure. We will also review our procedures to determine if it can be simplified even further to eliminate any manual proration of pay items passed to us from the employer.
<b>IA Follow-Up:</b>	

**Project:** 68 - 2334 - Member Data Maintenance\_Bank Account Changes

**REPORT DATE:** 06/01/2023

OPEN

**Open Observations:** 4

**OBSERVATION #2 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Due Date:</b>	
<b>Action Plan:</b>	Details Removed - Discussed in Closed Session
<b>IA Follow-Up:</b>	

**OBSERVATION #3 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Due Date:</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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**Action Plan:** Details Removed - Discussed in Closed Session

**IA Follow-Up:**

**OBSERVATION #4 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION**

**Process Owner:** MEMBER SERVICES

**Due Date:**

**Action Plan:** Details Removed - Discussed in Closed Session

**IA Follow-Up:**

**OBSERVATION #5 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION**

**Process Owner:** MEMBER SERVICES

**Due Date:**

**Action Plan:** Details Removed - Discussed in Closed Session

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

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

CLOSED

**Closed Observations:** 3

### 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 #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.



## Management Action Plan Status Report

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

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

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

CLOSED

**Closed Observations:** 2

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

<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



## 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>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.

**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>	<p>Management has agreed to the recommendation: The CIO and his staff should create written procedures that specifically document the steps necessary to conduct adequate due diligence. We concur with the recommendation that written procedures are desirable, and staff is working on the development of a document that would fulfill this objective.</p>
<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>	<p>Management has agreed to the recommendation: For non-traditional pension fund managers that have not undergone an operational due diligence review from the OCERS' investment consultants, OCERS should consider the following on a case-by-case basis or at the CIO's discretion. A criteria or threshold (e.g., a dollar amount of an investment) should be set by the CIO to trigger when such a review will occur.</p> <p>Management agrees that a "deeper dive" could be appropriate for certain non-traditional managers, but only if a majority of the Board considers such measures to be necessary, cost-beneficial or justifiable on a risk-vs-cost basis. Cost-sharing strategies and outsourcing-versus-internal capacity should be explored and considered, along with a prioritization protocol.</p>
<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.

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

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### 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.

### 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.



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

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

CLOSED

**Closed Observations:** 1

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

<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.

**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

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 Process Owner(s): ALL

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<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.
<b>IA Follow-Up:</b>	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

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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	09/23/2021



## 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:** 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

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

**Management Response**

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

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

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

**Process Owner:** MEMBER SERVICES

**Completion Date:** 04/17/2020

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

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



## 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:** 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>	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.
<b>IA Follow-Up:</b>	IA reviewed the FAS recalculations performed by Member Services.

### OBSERVATION #2 - V3 WORKFLOW PROCESS

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/02/2020
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA confirmed worksteps are completed and V3 enhancements were implemented.

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

**REPORT DATE:** 11/29/2016

CLOSED

**Closed Observations:** 1

### OBSERVATION #1 - WORK IN PROCESS REPORTING

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

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 Process Owner(s): ALL

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**Action Plan:** OCERS' management agrees to initiate discussions with Vitech for best cost-benefit solutions to building work-in-process reporting to track the status of buybacks throughout its business processes to provide additional management oversight of staffing and resources; track compliance with business goals; and improve customer service response times to members.

**IA Follow-Up:** IA has verified that OCERS has implemented a work-in-process tracking database within SharePoint.

**Project:** 14 - Audit of City of San Juan Capistrano Payroll Transmittals (2017)

**REPORT DATE:** 03/22/2017

CLOSED

**Closed Observations:** 3

### OBSERVATION #1 - MANUAL TRANSMITTAL FILE ADJUSTMENTS

**Process Owner:** EMPLOYER

**Completion Date:** 08/11/2020

**Action Plan:** Management agreed to the following recommendation: San Juan Capistrano will submit manual payroll adjustments into V3 that contain the payroll records required by OCERS for every subsequent pay period until year-end.

**IA Follow-Up:** IA noted that SJC has submitted manual payroll adjustments into V3 required by OCERS.

### OBSERVATION #2 - CONTRIBUTION BASIS DATES

**Process Owner:** EMPLOYER

**Completion Date:** 04/27/2020

**Action Plan:** San Juan Capistrano's V3 transmittal file should reflect the correct reciprocal start date or the correct enrollment date with OCERS in the transmittal file field labeled "Reported Contribution Basis Date" in order to prevent these payroll exceptions from occurring again in V3. San Juan Capistrano concurs with this recommendation, which has been addressed based on information provided by OCERS' Member Services to SJC's Payroll Accountant.

**IA Follow-Up:** IA examined a recent V3 payroll transmittal exception report for PP#2, 2020 and noted there were no exceptions related to reported contribution basis dates.

### OBSERVATION #3 - EARNABLE SALARY RECORDS

**Process Owner:** EMPLOYER

**Completion Date:** 08/11/2020

**Action Plan:** San Juan Capistrano will submit manual payroll adjustments into V3 that contain earnable salary payroll records required by OCERS during each pay period that the employee is out on leave of absence.

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 Process Owner(s): ALL

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**IA Follow-Up:** IA noted that SJG has submitted manual payroll adjustments for employees Away On Leave into V3, as required by OCERS.

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

**REPORT DATE:** 11/08/2018

CLOSED

**Closed Observations:** 1

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

**Process Owner:** EMPLOYER

**Completion Date:** 01/05/2022

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

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

**Project:** 31 - Disability Payment Audit (2018)

**REPORT DATE:** 01/28/2019

CLOSED

**Closed Observations:** 1

**OBSERVATION #1 - DISABILITY PAYMENT CALCULATION**

**Process Owner:** MEMBER SERVICES

**Completion Date:** 01/05/2022

**Action Plan:** Member Services will be continuing to review with increased diligence or newly implementing to ensure accuracy of Disability benefits that are setup:

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



## 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 action plan has been implemented. A new Disability Process has been implemented along with the appropriate training.

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

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

CLOSED

**Closed Observations:** 1

**OBSERVATION #2 - THE BUSINESS CONTINUITY PROGRAM STANDARD OPERATING PROCEDURES DOCUMENT HAS EXISTED SINCE 2015 BUT THE DOCUMENTATION OF THE APPROVALS BY THE CRISIS MANAGEMENT TEAM WERE NOT FORMALIZED.**

**Process Owner:** FINANCE

**Completion Date:** 02/26/2020

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

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

**Project:** 44 - 1944 - Finance Benefits Audit

**REPORT DATE:** 01/13/2020

CLOSED

**Closed Observations:** 2

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

**Process Owner:** FINANCE

**Completion Date:** 03/14/2022

**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.

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

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

CLOSED

**Closed Observations:** 3

**OBSERVATION #1 - A FORMAL RECONCILIATION WAS NOT PERFORMED TO ENSURE THE PAY ITEMS REPORTED TO THE BOARD ACCURATELY AND COMPLETELY CORRESPONDED WITH THE CONFIGURATION IN V3.**

**Process Owner:** MEMBER SERVICES  
**Completion Date:** 09/16/2021  
**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



## Management Action Plan Status Report

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

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

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

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

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

**Process Owner:** MEMBER SERVICES

**Completion Date:** 03/14/2023

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

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

**IA Follow-Up:** IA confirmed a process and supporting documentation was implemented.

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

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

CLOSED

**Closed Observations:** 3

**OBSERVATION #1 - ADMINISTRATOR ACCESS GRANTED TO THE FINANCIAL REPORTING AND INTRANET PORTAL APPLICATIONS PRESENT A HIGHER THAN NORMAL RISK DUE TO SEGREGATION OF DUTIES CONCERNS.**

**Process Owner:** INFORMATION TECHNOLOGY

**Completion Date:** 01/13/2022



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

**Process Owner:** INFORMATION TECHNOLOGY

**Completion Date:** 08/23/2023

**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 #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.



## 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:** 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).**

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	05/21/2020
<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:** 6

**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.**

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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>	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
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IT Programming has formalized the code change validations process.

**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>Completion Date:</b>	05/15/2023
<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>	Internal Audit confirmed a Member Services procedural document was created.

**OBSERVATION #6 - 6. A MINOR VARIANCE NOTED AND ADDRESSED DURING THE VALIDATION PROCESS WAS NOT ACCURATELY UPDATED IN THE DATA EXTRACT FILE SENT TO THE ACTUARY.**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Completion Date:</b>	03/11/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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.**

<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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<b>Completion Date:</b>	03/11/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	IA confirmed the Actuarial Extract Processing guide has been updated with the informational queries description.

<b>Project:</b>	47 - 2020 - Continuous Audit of Final Average Salary Calculations (Q3/Q4 2020)
<b>REPORT DATE:</b>	<b>03/22/2021</b>
<b>Closed Observations:</b>	2

CLOSED

**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.**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	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).**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	04/02/2021
<b>Action Plan:</b>	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.
<b>IA Follow-Up:</b>	Internal Audit noted the checklist was included in the new FAS tool.



## Management Action Plan Status Report

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

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

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

CLOSED

**Closed Observations:** 1

**OBSERVATION #2 - DETAILS REMOVED - DISCUSSED IN CLOSED SESSION**

<b>Process Owner:</b>	INFORMATION TECHNOLOGY
<b>Completion Date:</b>	05/27/2021
<b>Action Plan:</b>	Details Removed - Discussed in Closed Session
<b>IA Follow-Up:</b>	Closed

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

**REPORT DATE:** 06/04/2021

CLOSED

**Closed Observations:** 2

**OBSERVATION #1 - 1. INTERNAL AUDIT NOTED A 6.7% ERROR RATE (FOUR ERRORS) OUT OF THE 60 FAS CALCULATIONS SAMPLED FROM THE 2ND QUARTER OF 2021.**

<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.



## Management Action Plan Status Report

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

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**OBSERVATION #2 - 2. 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>	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.
<b>IA Follow-Up:</b>	Internal Audit confirmed the documents have been uploaded and the feedback to the team members have been provided.

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

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

CLOSED

**Closed Observations:** 1

**OBSERVATION #1 - 1. INTERNAL AUDIT NOTED AN 8% ERROR RATE (SIX ERRORS) WITH THE 75 FAS CALCULATIONS TESTED FROM THE 3RD QUARTER OF 2021.**

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	10/01/2021
<b>Action Plan:</b>	<p>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.</p> <p>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.</p>
<b>IA Follow-Up:</b>	Member Services shared the updated version of the FAS excel tool.



## Management Action Plan Status Report

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

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

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

CLOSED

**Closed Observations:** 3

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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	01/05/2022
<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.

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## Management Action Plan Status Report

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

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

**Project:** 57 - 2231 - SSA Employer Audit

**REPORT DATE:** 03/30/2022

CLOSED

**Closed Observations:** 1

**OBSERVATION #1 - 1. THE JOB TITLE IN THE OCERS PENSION ADMINISTRATION SYSTEM (PAS) RECORDS FOR A SOCIAL SERVICES AGENCY RETIREE IN OUR SAMPLE DID NOT REFLECT THE RETIREE'S ACTUAL JOB TITLE.**

**Process Owner:** MEMBER SERVICES

**Completion Date:** 01/30/2023

**Action Plan:** Member Services Employer Payroll (EP) Management Team will perform a one-time audit of the records between OCERS and all employers supported through the County (Not Just SSA). Once Complete, updates will be sent to OCERS IT to make the necessary changes. After IT makes the changes to the system, a member of the EP Team will verify that the changes were successfully implemented. Ongoing, accuracy validation of the data at the time a member retires is currently performed and is also part of our updated Quality Assurance Process initiated in 2021. As a result of our updated quality assurance program and the fact that we rarely receive new or changed Bargaining Units and Job Class, Management is recommending we continue to review the quality for these records at the time of retirement. We will perform another global reconciliation at the time we perform a migration from the current pension administration system to our new pension administration system in the coming years.

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

**Project:** 58 - 2211 - Investment Manager Fee Report

**REPORT DATE:** 03/30/2022

CLOSED

**Closed Observations:** 1

**OBSERVATION #1 - EVIDENCE OF MANAGEMENT REVIEW OVER THE PREPARATION OF THE FEE REPORT AND THE UNDERLYING EXCEL SCHEDULE USED TO HELP COMPILE THE REPORT IS NOT FORMALIZED AND RETAINED**

**Process Owner:** INVESTMENTS

**Completion Date:** 09/12/2022

**Action Plan:** We acknowledge and concur with the observation. We believe that documenting the process will strengthen Investment Division's procedures while also providing a strong audit trail.



## Management Action Plan Status Report

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

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**IA Follow-Up:** Internal Audit reviewed the Fee Report Procedure and signoff for the 2021 Annual Fee Report presented at the August 2022 Investment Committee meeting.

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

**REPORT DATE:** 03/30/2022

CLOSED

**Closed Observations:** 1

**OBSERVATION #1 - 1. INTERNAL AUDIT NOTED A 4.0% ERROR RATE (TWO ERRORS) WITH THE 50 FAS CALCULATIONS SAMPLED FROM THE 1ST QUARTER OF 2022**

**Process Owner:** MEMBER SERVICES

**Completion Date:** 01/26/2023

**Action Plan:** Member Services (M.S.) Management team investigated the first error reported by Internal Audit for this quarter, and we determined that the original data came to OCERS from CalPERS in an Excel spreadsheet that contained improper formatting for the salary records. M.S. management has engaged the leadership team at CalPERS for the department that prepares this information to inform them of the formatting error. We have also reviewed additional member accounts for which we had received salary information from CalPERS to determine if any other accounts had a similar issue. All of the other accounts we reviewed contained spreadsheets that contained merged fields similar to this account, but they were formatted properly and correctly reported final average salary. We are also training our staff to be aware of the possibility of formatting errors from any outside agency using Excel to report data to OCERS.

Regarding the second account with an error, M.S. Management team is working with ViTech to determine the reason for the error and fix the PAS software to ensure it is following the configuration settings properly. We are also working to query the PAS software to see if there are any other accounts that may have been affected in a similar way to this account.

**IA Follow-Up:** Internal Audit confirmed the training was performed and a JIRA ticket was created to identify the proration issue.

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

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

CLOSED

**Closed Observations:** 1

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

**Process Owner:** MEMBER SERVICES

**Completion Date:** 03/17/2023



## 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:** Provide additional training to the Team members when calculating a Sanitation District FAS and benefit. This would include reiterating that Quality Assurance will need to perform a completely separate reperformance of the FAS calculation. Work with the Employer, Sanitation District, to correct errors in the transmittal before OCERS can begin the process of calculating the FAS and benefit.

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

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

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

CLOSED

**Closed Observations:** 7

**OBSERVATION #2 - THE DUE DILIGENCE WAS NOT CONSISTENTLY PERFORMED OR DOCUMENTED BY THE CONTRACT ADMINISTRATOR, AS PER OCERS BUSINESS PRACTICES, FOR THREE VENDORS IN OUR SAMPLE:**

**Process Owner:** EXECUTIVE

**Completion Date:** 01/30/2023

**Action Plan:** A. Management will document and implement a process to ensure due diligence is performed prior to the execution of contracts and that will account for instances that might occur whereby a contract is signed before due diligence is completed.

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

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

**Process Owner:** EXECUTIVE

**Completion Date:** 04/20/2023

**Action Plan:** A. Management will recommend changes to the Procurement and Contracting Policy to include a duty of the Contract Administer to ensure the appropriate signatures for contracts are obtained.  
 B. In an instance where the Procurement and Contracting Policy is not followed, Management will address these non-compliance issues through the Employee Evaluation and Discipline practices as noted in the Employees Handbook.

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

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

**Process Owner:** EXECUTIVE

**Completion Date:** 09/12/2022

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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:** A. All contracts, including those that do not deviate from OCERS' form of contract, are now forwarded to the Legal Division for review. In addition, the Legal contract approval is being retained for future reference.

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

**OBSERVATION #5 - FOR TWO VENDORS IN OUR SAMPLE, THE CERTIFICATE OF INSURANCE (COI) PROVIDED BY THE VENDOR DID NOT MEET THE DOLLAR AMOUNT COVERAGE AS SPECIFICALLY STATED IN THE EXECUTED CONTRACT.**

**Process Owner:** EXECUTIVE

**Completion Date:** 01/30/2023

**Action Plan:** A. Management will implement procedures to ensure Certificates of Insurance are in accordance with the vendor contracts. In those cases where the Insurance Certificate does not meet the contractual requirements, the contract stake holder and Legal Division will be consulted for additional action.

**IA Follow-Up:** Internal Audit confirmed COIs were obtained for an additional sample.

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

**Process Owner:** EXECUTIVE

**Completion Date:** 04/20/2023

**Action Plan:** Policy Issue: Management will work with the Legal Division to identify circumstances where a contract is required and make recommendations to update the Procurement and Contracting Policy as deemed appropriate.

**IA Follow-Up:** IA confirmed the Policy was updated to define when a written contract was required.

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

**Process Owner:** EXECUTIVE

**Completion Date:** 01/24/2023

**Action Plan:** Management has approval to hire an additional Team Member in this department. Review procedures will be created and implemented at that time.

**IA Follow-Up:** New Senior Manager hired. Internal Audit reviewed the Data Entry review schedule provided by management.

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

**Process Owner:** EXECUTIVE

**Completion Date:** 04/20/2023



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

**Project:** 63 - 2235 - The Toll Roads Employer Audit

**REPORT DATE:** 02/14/2023

CLOSED

**Closed Observations:** 3

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

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	03/22/2023
<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.
<b>IA Follow-Up:</b>	IA confirmed the HR Director was made aware to ensure all sections are completed in a member's affidavit.

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

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

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

<b>Process Owner:</b>	EMPLOYER
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Executed: 9/19/2023 11:06:51 AM  
 Executed By: OCERS\dkim

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## 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."*

<b>Completion Date:</b>	03/22/2023
<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.
<b>IA Follow-Up:</b>	IA confirmed communication was made to the Sr. Accounting Clerk and Accounting Supervisor responsible for ensuring timesheets are approved.

<b>Project:</b>	67 - 2202 - Alameda Audit
<b>REPORT DATE:</b>	<b>04/05/2023</b>
<b>Closed Observations:</b>	2

CLOSED

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

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

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

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

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 Executed By: OCERS\dkim

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## Management Action Plan Status Report

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

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**Project:** 65 - 2332 - OC Superior Court

**REPORT DATE:** 04/05/2023

CLOSED

**Closed Observations:** 2

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

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

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

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	04/17/2023
<b>Action Plan:</b>	<p>The Court will complete the following:</p> <ul style="list-style-type: none"> <li>• Send the two OCERS Member Affidavits that are missing from OCERS Records to employerpayroll@ocers.org</li> <li>• OCERS Member Services instructed the Court to obtain emails from the three members with missing information answering the following: "Are you a member of any other public retirement system in the state of California?"</li> </ul> <p>If yes, please list other public retirement systems along with dates of service.                      If no please respond to confirm you do not have any other public service in California"</p> <p>Emails to be sent by the Court HR to the employees to obtain their responses</p> <ul style="list-style-type: none"> <li>• OCERS Member Services instructed the Court to obtain emails from the two members with outdated forms answering the following: "Are you a member of any other public retirement system in the state of California?"</li> </ul> <p>If yes, please list other public retirement systems along with dates of service.                      If no please respond to confirm you do not have any other public service in California"</p> <p>Emails to be sent by the Court HR to the employees to obtain their responses</p>
<b>IA Follow-Up:</b>	IA Confirmed the necessary information was provided to 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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**Project:** 64 - 2331 - Children and Families Commission

**REPORT DATE:** 04/05/2023

CLOSED

**Closed Observations:** 3

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

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	05/02/2023
<b>Action Plan:</b>	The CFCOC Assistant to CEO will add the required termination form to the off-boarding process when an employee terminates. Once completed, the CFCOC Director of Finance will review for accuracy and submit to OCERS.
<b>IA Follow-Up:</b>	IA confirmed the status was updated for the four members.

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

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	08/01/2023
<b>Action Plan:</b>	All future Member Affidavit forms will be reviewed for accuracy and completeness by the CFCOC Assistant to CEO at time of onboarding new staff. A final review of the form will be performed by CFCOC Director of Finance before being submitted to OCERS.  CFCOC will either amend or correct affidavits currently on file that are incomplete depending on direction from OCERS.
<b>IA Follow-Up:</b>	IA confirmed updated member affidavit forms.

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

<b>Process Owner:</b>	EMPLOYER
<b>Completion Date:</b>	05/04/2023
<b>Action Plan:</b>	CFCOC staff will work with Commission Counsel and develop internal guidelines.
<b>IA Follow-Up:</b>	IA confirmed internal guidelines were developed.



## 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:** 68 - 2334 - Member Data Maintenance\_Bank Account Changes

**REPORT DATE:** 06/01/2023

CLOSED

**Closed Observations:** 1

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

<b>Process Owner:</b>	MEMBER SERVICES
<b>Completion Date:</b>	06/01/2023
<b>Action Plan:</b>	Details Removed - Discussed in Closed Session
<b>IA Follow-Up:</b>	Internal Audit confirmed management action plan has been implemented.



## Memorandum

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**DATE:** October 11, 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:

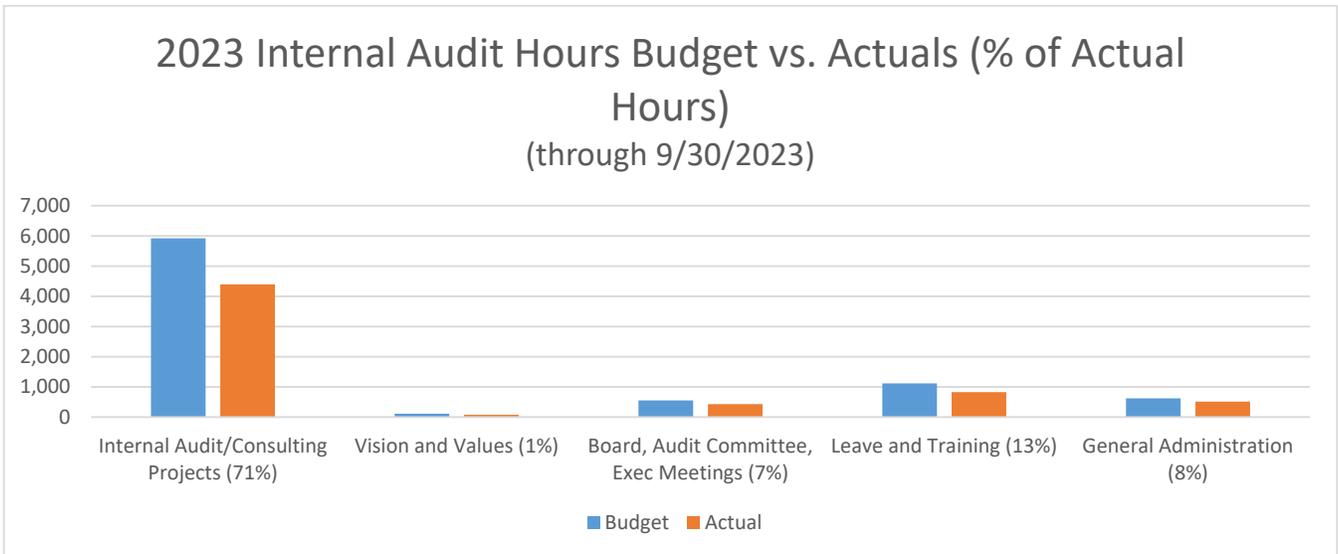
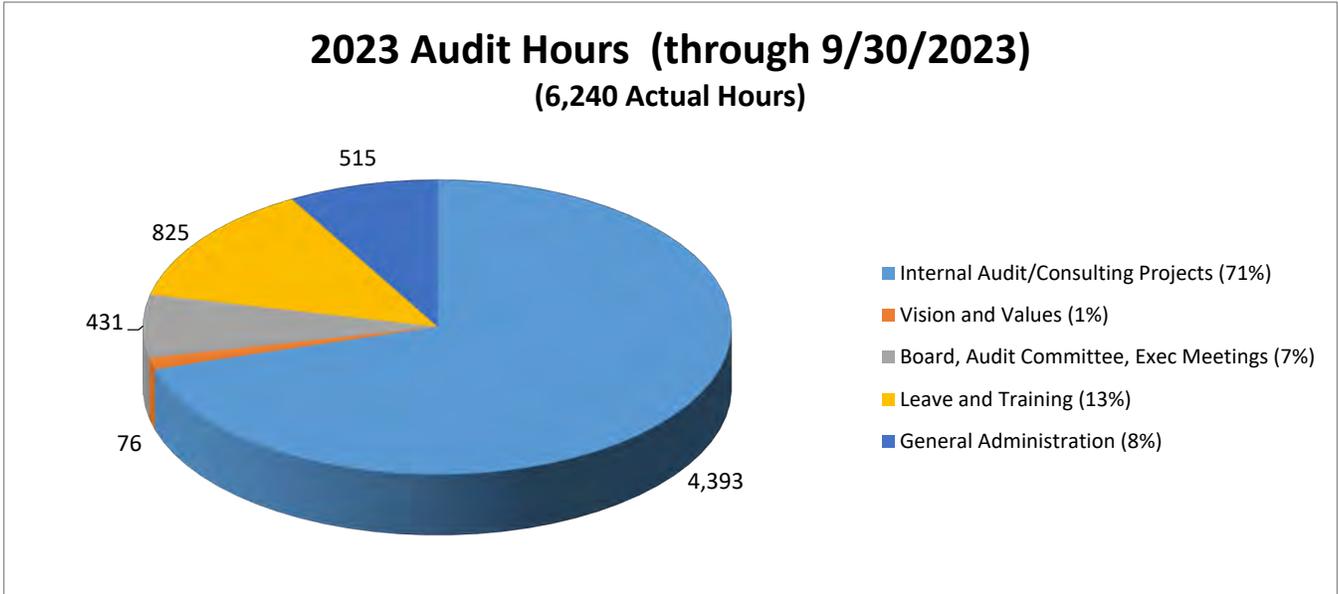


**DK - Approved**

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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>4,393</b>	<b>1,649</b>	
<b>Internal Audits - Assurance</b>		<b>4,860</b>	<b>3,752</b>	<b>1,190</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	14	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.	30	34	0	Complete Last audited in 2013
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	364	0	First time audit - Complete
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	330	0	Complete Last audited in 2018
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	330	0	First time audit - Complete
Hiring Practices	Review controls over the hiring process, from initial job requisition through start of employment.	340	350	0	First time audit - Complete
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	350	0	Complete Last audited in 2018
Accounts Payable	Review of controls over the account payable process, from payment request through payment of invoice.	340	150	190	First time audit
Transmittal Processing	Review the Employer Payroll team's controls over the processing of payroll transmittals in V3.	340	150	190	First time audit
Employer (In Home Support Services)	Review employer's supporting documentation to verify accuracy and completeness of payroll data transmitted to OCERS pension administration	330	330	0	Complete Last audited in 2015
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	
Employer Audit (OCTA)	Review employer's supporting documentation to verify accuracy and completeness of payroll data transmitted to OCERS pension administration	330	0	330	Last audited in 2015
Continuous Audit - Final Average Salary (FAS) Calculation	Continuous audit of FAS calculations. Sample on quarterly basis for Q1 and Q3	480	436	44	Q1 testing complete Q3 sample testing underway

**Orange County Employees Retirement System  
2023 Internal Audit Plan**

<b>Audit Activity</b>	<b>Description</b>	<b>Planned Hours</b>	<b>Actual Hours</b>	<b>Projected Remaining Hours</b>	<b>Comments</b>
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	660	0	Initial testing of 30 samples complete. Additional 36 samples testing complete.
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	50	50	
Internal Audit - Management Action Plan Follow-up	Action Plan Follow-up - Perform MAP follow-ups with management.	260	204	56	Ongoing review of implemented MAPs from completed audits.
<b>Internal Audits - Consulting</b>		<b>240</b>	<b>280</b>	<b>0</b>	
Consulting/Ad-hoc projects	Open for any ad-hoc project TBD	240	280	0	Investment Incentive review, training for annual employer report, RPA first use case for Initial FAS Calculation
<b>Internal Audits - Planning</b>		<b>500</b>	<b>225</b>	<b>275</b>	
Annual Audit Planning	Review and update Risk and Control Matrix.	200	85	115	
	Annual preparation of the Audit Plan, updates to the current Audit Plan.	300	140	160	
<b>Internal Audits - Quality Assurance and Improvement Program</b>		<b>320</b>	<b>136</b>	<b>184</b>	
Quality Assurance and Improvement Program	IA Quality Review- self assessment - QAIP program and external peer review	220	120	100	Includes external peer auditor selection (RFP), QAIP data requests and response
	Use of hotline reporting system.	100	16	84	Potential for volume increase due to Alameda.
<b>Vision and Values</b>		<b>110</b>	<b>76</b>	<b>34</b>	
	Vision and Values - Continuous Improvement Program	50	30	20	Help with transition to Vision and Values Committee
	Vision and Values Committee (Internal OCERS Committee)	60	46	14	Internal committee to promote a positive culture at OCERS - Committee Vice Chair.
<b>Board, AC, OCERS Executive Meetings</b>		<b>552</b>	<b>431</b>	<b>121</b>	
	Board meetings, Audit Committee, Personnel Committee, Governance Committee, Executive meeting	470	368	102	
	Weekly meetings with CEO	26	20	6	
	Monthly meeting with Audit Committee Chair	56	43	13	
<b>General admin time</b>		<b>620</b>	<b>515</b>	<b>105</b>	
	General admin time	620	515	105	8% of total hours.
<b>Leave (Holiday/Annual) and Training</b>		<b>1,118</b>	<b>825</b>	<b>354</b>	
	Holidays (12 days), Annual Leave (15 days)	918	565	354	
	Training and Continuing Education	200	261	0	
<b>Grand Total Hours</b>		<b>8,320</b>	<b>6,240</b>	<b>2,260</b>	