

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

**AUDIT COMMITTEE MEETING
MONDAY, OCTOBER 12, 2026
1:00 P.M.**

Members of the Committee

Adele Lopez Tagaloa, Chair
Shari Freidenrich, Vice Chair
Richard Oates, Board Member
Charles Packard, Board Member

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	
Join Using Zoom App (Video & Audio) Join Zoom Meeting https://ocers.zoom.us/j/81784303114 Meeting ID: 817 8430 3114 Passcode: 282242 Go to https://www.zoom.us/download to download Zoom app before meeting Go to https://zoom.us to connect online using any browser.	Join by Telephone (Audio Only) Dial by your location +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) Meeting ID: 817 8430 3114 Passcode: 282242
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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

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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 8, 2026

Recommendation: Approve the 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 AUDIT REPORT – CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS

Presentation by Linda Young

Recommendations: Receive and File.

A-3 AUDIT REPORT – INVESTMENT ACCOUNTING AND VALUATION

Presentation by Linda Young

Recommendations: Receive and File.

A-4 REVISED 2026 AUDIT PLAN

Presentation by Linda Young

Recommendations: Approve the Revised 2026 Audit Plan.

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INFORMATION ITEM

- I-1 MEMBER SERVICES QUALITY ASSURANCE REPORT JANUARY – OCTOBER 2026**
Presentation by Mark Adviento, Director of Employer Services and Quality Assurance, and Jeff Lamberson, Director of Member Services
- I-2 INTERNAL AUDIT UPDATE**
Presentation by Linda Young

CLOSED SESSION

- E-1 THREAT TO CRITICAL INFRASTRUCTURE INFORMATION RELATING TO CYBERSECURITY**
(Government Code Section § 54957)
Consultation with OCERS Chief Information Security Officer

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

COMMITTEE MEMBER COMMENTS

CHIEF EXECUTIVE OFFICER/COUNSEL/STAFF COMMENTS

ADJOURNMENT

NOTICE OF NEXT MEETINGS

**DISABILITY COMMITTEE MEETING
OCTOBER 19, 2026
8:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701**

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**REGULAR BOARD MEETING
OCTOBER 19, 2026
9:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
2223 E. WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701**

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

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

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

**AUDIT COMMITTEE MEETING
MONDAY, JUNE 8, 2026
9:00 A.M.**

MINUTES

OPEN SESSION

Chair Lopez Tagaloa called the meeting to order at 9:01 a.m.

Recording Secretary administered the Roll Call attendance.

Attendance was as follows:

Present: Adele Lopez Tagaloa, Chair; Shari Freidenrich, Vice Chair; Richard Oates, Board Member; and Charles Packard, Board Member

Also Present: Brenda Shott, Deputy CEO; Manuel Serpa, General Counsel; Will Tsao, Assistant CEO; External Operations; Mark Adviento, Director of Member Services; Jennifer Reyes, Director of Finance; Markell Kuper, Interim Director of Internal Audit (via Zoom); Alex McDowell, Sr. Internal Auditor; Esther Hong, Compliance Officer; Kristine De Los Santos, Finance Manager; Jenny Davey, Internal Auditor; Anthony Beltran, Audio Visual Technician; Marielle Horst, Recording Secretary.

Guests: Aaron Hamilton and Kory Hoggan, Baker Tilly

PUBLIC COMMENT

None.

CONSENT AGENDA

C-1 APPROVE AUDIT COMMITTEE MEETING MINUTES

Audit Committee Meeting Minutes

March 26, 2026
April 30, 2026
May 18, 2026

MOTION was made by Mr. Packard, **seconded** by Mr. Oates, to approve the Consent Items.

The motion passed **unanimously**.

Orange County Employees Retirement System
June 8, 2026
Audit Committee Meeting

ACTION ITEMS

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

None.

A-2 2025 FINANCIAL STATEMENT AUDIT

Introduction by Brenda Shott, Deputy CEO, and Jennifer Reyes, Director of Finance

Presentation by Jennifer Reyes, Director of Finance, OCERS, and Kory Hoggan and Aaron Hamilton, Baker Tilly

Recommendations: Recommend to the Board of Retirement the following:

1. Approve OCERS' audited financial statements for the year ended December 31, 2025
2. Direct staff to finalize OCERS' 2025 Annual Comprehensive Financial Report (Annual Report)
3. Approve the Governmental Accounting Standards Board (GASB) Statement 67 Actuarial Valuation as of December 31, 2025
4. Receive and file Baker Tilly US, LLP's (Baker Tilly) "OCERS' Report to the Audit Committee for the Year Ended December 31, 2025" 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."

Ms. Shott expressed her appreciation to the team for their efforts in completing the Annual Comprehensive Financial Report (ACFR). Ms. Reyes then presented the ACFR, noting that this year's theme is "80 Years of Strength and Service." She provided a summary of information in the Management Discussion and Analysis Section of the report. She also highlighted that last year's report received multiple awards, including the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting, the Public Pension Coordinating Council's Public Pension Standards Award for Funding and Administration, and the Silver 2026 American Advertising Federation Award.

Mr. Hoggan presented the External Audit Report, noting that there were no exceptions, findings, or recommendations. He attributed the successful outcome to the team's high level of expertise, attention to detail, and strong understanding of risk, which contributed significantly to the quality of the audit.

Ms. Freidenrich and Ms. Lopez Tagaloa thanked the staff for their hard work.

MOTION was made by Ms. Freidenrich, **seconded** by Mr. Oates, to approve staff's recommendations.

The motion passed **unanimously**.

A-3 GASB 68 VALUATION AND AUDIT REPORT

Presentation by Brenda Shott, Deputy CEO; Jennifer Reyes, Director of Finance

Recommendations: Recommend to the Board of Retirement the following:

Orange County Employees Retirement System
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1. Approve OCERS' audited Schedule of Allocated Pension Amounts by Employer as of and for the Year Ended December 31, 2025
2. Approve the Governmental Accounting Standards Board (GASB) Statement 68 Actuarial Valuation as of December 31, 2025 for distribution to employers

Ms. Reyes presented the GASB 68 Valuation and Audit Report, for which Baker Tilly issued an unmodified opinion.

MOTION was made by Ms. Freidenrich, **seconded** by Mr. Packard, to approve staff's recommendations.

The motion passed **unanimously**.

A-4 AUDIT REPORT – ORANGE COUNTY DISTRICT ATTORNEY'S OFFICE EMPLOYER AUDIT

Recommendation: Receive and File

Mr. McDowell presented the Audit Report for the District Attorney's Office, noting two observations. The first observation involved an incomplete premium pay item authorization form, which was promptly corrected. The second observation involved unreported terminations, which were also addressed and corrected immediately.

The Committee expressed its appreciation to staff for their work on the audit.

MOTION was made by Mr. Packard, **seconded** by Ms. Freidenrich, to approve the staff's recommendation.

The motion passed **unanimously**.

INFORMATION ITEMS

I-1 UPDATE ON THE OCERS COMPLIANCE PROGRAM

Presentation by Esther Hong, Compliance Officer

Ms. Hong presented the compliance program updates. Currently, the compliance department is working on governance around AI, Procedure Life Cycle, Operational Risk Management, and an internal newsletter to educate staff on compliance issues. Overall, the compliance department is robust and continuing to move forward.

Mr. Oates and Ms. Freidenrich thanked Ms. Hong for her work. Ms. Lopez Tagaloa suggested that the Compliance newsletter be shared with SACRS.

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

Orange County Employees Retirement System
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Written Report

R-2 STATUS UPDATE OF 2026 AUDIT PLAN

Written Report

R-3 FORM 700 COMPLIANCE UPDATE

Written Report

Mr. Oates pulled R-3 for discussion regarding the process change. Mr. Serpa confirmed all forms were filed on time.

COMMITTEE MEMBER

Chair Lopez Tagaloa inquired about the timeline for the onboarding of the new Director of Internal Audit and requested the schedule.

CHIEF EXECUTIVE OFFICER COMMENTS

None.

STAFF COMMENTS

None.

ADJOURNMENT

Chair Lopez Tagaloa adjourned the meeting at 10:23 a.m.

Submitted by:

Approved by:

Steve Delaney,
Secretary to the Board

Adele Lopez Tagaloa,
Chairperson



Memorandum

DATE: October 12, 2026
TO: Members of the Audit Committee
FROM: Linda Young, Director of Internal Audit
SUBJECT: **AUDIT REPORT – CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS**

Recommendation

Receive and file.

Background/Discussion

Internal Audit performed an employer audit of Final Average Salary calculations from the period of July 1, 2025 through December 31, 2025.

There were no observations identified in this report.

Submitted by:



LY - Approved

Linda Young
Director of Internal Audit



CONTINUOUS AUDIT OF FINAL AVERAGE SALARY CALCULATIONS (2026)

Internal Audit Department Audit Report

Report Date: October 12, 2026

OCERS Internal Audit
Continuous Audit of Final Average Salary Calculations
October 12, 2026

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Audit Objective, Scope, and Methodology

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

A total of 262 new service retirement benefits were set up by Member Services for the 2nd half of 2025. Internal Audit independently tested 30 FAS calculations from July to December 2025, and performed the following:

- Recalculated the members' preliminary FAS calculations
- Recalculated Member Service's manual calculations of other pensionable pay item amounts (typically pensionable paid time off, or PTO) manually added to the preliminary FAS
- Reviewed the documentation used by Member Services to support their calculations including Memorandums of Understanding, employer payroll support, timecards, etc.
- Verified FAS calculations underwent quality assurance review
- Verified FAS calculation totals matched with the FAS used in V3

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

Conclusion/Executive Summary

Opinion: <i>Satisfactory</i>

During our review, Internal Audit did not note any reportable FAS calculation errors with our test sample for a 100% accuracy rate.

Priority Observations 	Priority Observations None
Important Observations 	Important Observations None

Background

To finalize each retiree's final average salary, Member Services uses a FAS calculation Excel workbook. In the workbook, Member Services inputs and reviews a preliminary (base) FAS amount calculated by the pension administration system. After reviewing the base FAS for accuracy, Member Services staff adds manually calculated pensionable pay amounts not captured or calculated by the pension administration system to the total.

To calculate these additional manual amounts, the Retirement Program Specialist (RPS) must reference a variety of external data sources provided by employers, such as hourly rate history, timesheet data, and relevant Employer MOUs. A Member Services Quality Assurance team member then reviews the final FAS calculated by the RPS before the benefit calculation is processed in the pension administration system.

A \$10 reportable threshold for benefit errors was approved at the December 2022 Audit Committee Meeting. Errors below the threshold are not included in the FAS error rate reported to the Committee, but OCERS Management will continue to correct all errors, regardless of the amount. A summary of the errors below the reportable threshold are included as an appendix in this report.

The table below has been included to illustrate the error rates over time from when the continuous audit first began to this audit:

Error Rates Prior to establishment of \$10 Reportable Threshold				
Quarter	Benefit Applications	Tested by Internal Audit	IA Error Count	IA Error Rate
Q3/2021	75	75	6	8.0%*
Q4/2021	154	134	2	1.5%*
Q1/2022	196	50	2	4.0%*
Q2/2022	607	41	1	2.4%*
Q3/2022	151	40	0	0.0%
Error Rate using the \$10 Reportable Threshold				
Q1/2023	102	40	0	0.0%
Q3/2023	128	40	2	5.0%
Q3/2024	118	30	0	0.0%
Q3&4/2025	262	30	0	0.0%

*Each of these quarters contained at least one month with 100% accuracy

Distribution to: Audit Committee Members
 S. Delaney, Chief Executive Officer
 M. Murphy, Chief Investment Officer
 M. Serpa, Chief Legal Counsel
 B. Shott, Deputy CEO
 W. Tsao, Assistant CEO External Operations
 M. Adviento, Director of Employer Services and Quality Assurance
 J. Lamberson, Director of Member Services

Appendix

FAS Calculation Errors Below the \$10 Reportable Threshold Summary			
Sample	Monthly Benefit Payment Error	Nature of FAS Error	Systemic?
1	Current monthly benefit: \$1,553.42 Overpaid by \$0.17	Manual processing error: "FAS used" amount in V3/timing error during retirement processing.	No
2	Current monthly benefit: \$1,415.88 Overpaid by \$1.28	Manual processing error: Holiday Comp added to the FAS for a part-time member.	No
3	Current monthly benefit: \$8,393.85 Underpaid by \$9.35	Manual processing error: Vacation balance added to the FAS.	No
4	Current monthly benefit: \$10,960.17 Underpaid by \$0.88	Manual processing error: Other pay item added to the FAS.	No

Categories of Observations (Control Exceptions)

Priority Observations:

These are observations 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 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 up to three to six months after the date of the audit report.

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.



Internal Audit Update

October 12, 2026

Presented by Linda Young, Director of Internal Audit



Action Items Agenda

- 1 A-2: Audit Report: Continuous Audit of Final Average Salary Calculations**
 - 2 A-3: Audit Report: Investment Accounting and Valuation**
 - 3 A-4: Revised 2026 Audit Plan**
- 

A-2: Continuous Audit of Final Average Salary Calculations

Objective

Provide independent assurance that Employer Services and Quality Assurance calculates Final Average Salaries accurately and consistently for new retirement benefits.

Scope

July through December 2025.
30 calculations tested from a population of 262 new service retirement benefits.

Focus Areas

Assessed whether Quality Assurance Reviews were performed and fully reperformed the FAS Calculation process — preliminary calculation, manual pay adjustments, agreement to underlying support (e.g. payroll support, MOUs, timecards) and final system entry.

0

Priority observations

0

Important observations

SATISFACTORY

Overall opinion

0

Reportable errors > \$10

Four minor errors were below the Audit Committee-approved \$10 reporting threshold. Management will follow up and correct all errors regardless of amount.



A-3: Investment Accounting and Valuation

Objective

Assess whether the Finance Department has adequate policies and procedures to comply with OCERS policies and GASB requirements, and whether internal controls provide reasonable assurance that investment activity is recorded completely and accurately.

Scope

Current processes and transactional information for the year ended December 31, 2025.
\$27.1 billion portfolio (93% of total assets) managed by 200+ investment managers as of December 31, 2025.
Last audit performed in 2020 — no observations noted.

Focus Areas

Policies and procedures; internal controls over recording investment activity; custodian oversight (State Street SOC 1 review); financial statement disclosure; journal entry support; segregation of duties; IT access rights to significant IT systems.

0

Priority observations

0

Important observations

SATISFACTORY

Overall opinion

\$27.1B

Investment Valuation

Internal controls were designed appropriately and operating effectively to mitigate risks surrounding investment accounting operations.
Baker Tilly US, LLP issued an unmodified opinion on the financial statements (reported at the June 8, 2026 Audit Committee meeting).



A-4: Revised 2026 Audit Plan

As of October 5, 2026

Employer Audit – Orange County District Attorney	Completed & Presented on 6/8/26
Final Average Salary Benefit Calculation	Completed
Investment Accounting and Valuation	Completed
Employer Audit – City of San Juan Capistrano	In Progress (~65%)
Disability Process	In Progress (~75%)
Robotic Process Automation	In Progress (~75%)
Public Equity Consultant – Meketa	Not Started (Complete in 2027)
Death Match Process	Not Started (Complete in 2027)
Pension Administration System Project	Deferred

3 completed • 3 in progress • 2 not started (complete in 2027) • 1 deferred



I-2: Internal Audit Update

A discussion on materiality, our path forward, the risk assessment plan, and Internal Audit activities.

- 1 Discussion Topic: Concept of Materiality and Reporting**
 - 2 Next Steps: IIA Standards and Topical Requirements**
 - 3 Next Steps: Risk Assessment Plan**
 - 4 Other Internal Audit Activities**
- 

I-2: Discussion Topic: Materiality and Reporting

1 Observation

During an employer audit, 2 members were misclassified in OCERS system of record as “deferred” when the correct status was “active.”

2 Root Cause

Root cause analysis traced the difference to a payroll system update at the employer.

3 Risk Response

Because of the cause, there was a risk the issue could be systemic, so we performed 100% testwork over the member population.

4 Expanded Result

Testwork over the full population identified only the original 2 misclassifications — the issue was isolated, not systemic.

Overall conclusion: the classification difference was isolated and, after impact assessment, inconsequential to members and to the business.



I-2: Impact Assessment and Committee Input

Impact to the Member

None. No member was disadvantaged and no benefit or service credit was affected by the classification difference.

Impact to Our Finances

None. Members continued to make contributions at the appropriate amount.

Impact to Decision Making

Segal uses this data to set actuarial assumptions. Two member classifications out of 55,000 members would have virtually no impact — corroborated with the actuaries.

Communication to Management: We communicated the observation to Management and are recommending that Management perform timely exception report reviews so classification differences are identified sooner.

Question for the Audit Committee

Is this a situation the Audit Committee would want Internal Audit to include in an audit report? Or, is documenting it in the workpapers and communicating it to Management the appropriate level of visibility for isolated, inconsequential exceptions?



I-2: Next Steps: New IIA Standards Plan

Our roadmap to demonstrate conformance with the 2024 Global Internal Audit Standards.

Now – In Progress

Internal Gap Assessment

Conducting a gap assessment of policies, procedures, and engagement documentation against the new Standards.

Updating internal processes and documentation based on the results of that gap assessment.

Fall / Winter 2027

Independent Gap Assessment

Plan to engage an external party to conduct a formal gap assessment.

We will make any necessary modifications as a result of that assessment.

Prior to December 2028

External QAIP Review

Complete an external quality assurance and improvement program (QAIP) review.

Goal: Documented conformance with the 2024 Global Internal Audit Standards, validated independently and confirmed through an external QAIP review before December 2028.



I-2: Next Steps: IIA Topical Requirements

Topical Requirement	Issued	Effective Date	Req'ts
Cybersecurity	February 5, 2025	February 5, 2026	17
Third-Party	September 15, 2025	September 15, 2026	17
Organizational Behavior	December 15, 2025	December 15, 2026	15
Organizational Resilience	April 30, 2026	April 30, 2027	20
Anti-Corruption	To be issued Q4 2026	To be determined	—
Talent Management	Consultation Jan. 2027	To be determined	—

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Requirements Issued to Date

Cybersecurity and Third-Party are effective; Organizational Behavior and Resilience are forthcoming. Applicability must be documented at the individual engagement level, and the rationale for any exclusion must be retained.



I-2: Next Steps: Risk Assessment Plan

- 1 Update the risk universe** Reflect current organizational priorities, emerging risks, and observations from the 2026 plan.
- 2 Engage key stakeholders** Validate risk rankings with executive leadership and department heads so coverage aligns with strategic objectives.
- 3 Survey the Audit Committee** The Director of Internal Audit will send a survey to the Audit Committee so members have an opportunity to provide input on the areas they would like reviewed.
- 4 Incorporate 2026 results** Use completed 2026 audits to refine risk ratings and priorities.
- 5 Benchmark peer coverage** Incorporate industry trends and audit topics from peer pension systems and the County of Orange to benchmark our coverage and identify areas warranting review.
- 6 Present the 2027 Audit Plan** Bring the draft plan, based on the results of the risk assessment procedures, to the Audit Committee for review and approval.



I-2: Internal Audit Activities

1 Executive Alignment

Weekly meeting with the Chief Executive Officer.
Participation in executive management meetings to stay current on business priorities and emerging risks.

2 Coordinated Assurance

Working collaboratively with the Compliance Officer as the compliance function is built out.
Sharing perspectives and coordinating coverage while preserving Internal Audit independence.

3 Disciplined Follow-Through

Timely follow-up of Management Action Plans.
Clear ownership, agreed due dates, and visible status reporting on open items.

4 Least-Disruptive Delivery

Coordinating audit timing and information requests around operational demands.
Goal of being as minimally disruptive to the business as possible while maintaining audit rigor

5 Departmental Key Performance Indicators

Establishing quantitative and qualitative key performance indicators to measure the effectiveness and efficiency of the Internal Audit Department, including:

- **Project management tool** to assess whether audits are on track for timely completion.
- **Weekly audit-hours control** to monitor hours and identify overruns and audit issues timely — providing more accurate budget-to-actual numbers and a clearer view of audit status.
- **Auditee feedback surveys** bringing back to gather qualitative feedback on audits and identify opportunities for improvement.



Comments & Questions



Thank you!

Internal Audit





Memorandum

DATE: October 12, 2026
TO: Members of the Audit Committee
FROM: Linda Young, Director of Internal Audit
SUBJECT: **AUDIT REPORT – INVESTMENT ACCOUNTING AND VALUATION AUDIT**

Recommendation

Receive and file.

Background/Discussion

Internal Audit performed an audit of the Finance Department focusing on processes, procedures, and controls related to investment accounting operations. The audit covered current processes and procedures as well as transactional information for the year ended December 31, 2025.

There were no observations identified in this report.

Submitted by:



LY - Approved

Linda Young
Director of Internal Audit



INVESTMENT ACCOUNTING AND VALUATION AUDIT

Internal Audit Department Audit Report

Report Date: October 12, 2026

OCERS Internal Audit
Investment Accounting and Valuation Audit
October 12, 2026
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Audit Objective, Scope, and Methodology

We conducted an audit of the Finance Department focusing on processes, procedures, and controls related to investment accounting operations. The audit covered current processes and procedures as well as transactional information for the year ended December 31, 2025.

The objective of the audit was to:

- Assess whether the Finance Department has adequate policies, guidelines and procedures in place to management operations and ensure compliance with OCERS policies and Government Accounting Standards Board (GASB) requirements.
- Assess whether there are internal controls in place to provide reasonable assurance that investment activity is recorded completely and accurately.
- Assess whether there is sufficient and appropriate oversight of the custodian's financial internal control environment (e.g. evaluation of System and Organization Controls (SOC) 1 reports).
- Assess whether investment activity is appropriately disclosed in the annual financial statements.
- Assess whether operating processes facilitate compliance with Government Accounting Standards Board (GASB) requirements.
- Assess whether journal entries are sufficiently and appropriately supported.
- Assess whether there is appropriate segregation of duties.
- Assess whether access rights to significant IT systems are appropriate.

This audit was last performed in 2020, and there were no observations noted.

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

Opinion: *Satisfactory*

During our review, Internal Audit did not note any observations. Based on our procedures performed, it appeared that the Finance Department's internal controls were designed appropriately and operating effectively to sufficiently mitigate risks surrounding investment accounting operations.

Priority Observations 	Priority Observations None
Important Observations 	Important Observations None

Background

OCERS's investment portfolio was worth \$27.1 billion as of December 31, 2025, and made up 93% of total assets presented in the Statement of Fiduciary Net Position. The portfolio is managed by more than 200 investment managers and is diversified across public and private investments, including equities, income strategies, real assets and other asset classes.

The investment accounting process includes the following Finance Department staff: one Director, one Finance Manager, one Staff Analyst, and one Accountant/Auditor II. The department follows the Generally Accepted Accounting Principles (GAAP) set by the Government Accounting Standards Board (GASB) and has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting and the Public Pension Coordinating Council's Public Pension Standards Award for Funding and Administration.

State Street Bank and Trust Co. (SSB) is OCERS's custodian bank and reports monthly investment activity to the Finance Department for recording to the General Ledger (GL). The Finance Department performs monthly and quarterly reconciliations to the custodian's reported activity to ensure it agrees with the GL, investment managers' statement values, and the Change in Market Value Investment report. At year-end, SSB provides Finance and OCERS's external auditor with SOC 1 reports (System and Organization Controls for Service Organizations: Internal Control over Financial Reporting) which are certified by SSB's external auditor, Ernst & Young, LLP. The

Director of Finance reviews these reports for any significant deficiencies in SSB's internal control environment over financial reporting.

SSB owns and operates the electronic cash flow module (eCFM) OCERS utilizes to send and receive investment funds. The Finance Department uses a cloud-based financial management and accounting software to manage operations. User access and privileges to these applications is restricted to necessary personnel and undergoes reviews by Information Technology.

In addition to this audit, Baker Tilly US, LLP completed an independent audit of OCERS's financial statements and related disclosures and issued an unmodified opinion, which was reported at the June 8, 2026, Audit Committee meeting. The objectives of their financial statement audit were to identify and assess the risks of material misstatements of the financial statements, obtain an understanding of internal control relevant to the audit, and evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management.

Distribution to: Audit Committee Members
 S. Delaney, Chief Executive Officer
 M. Murphy, Chief Investment Officer
 M. Serpa, General Counsel
 B. Shott, Deputy CEO
 W. Tsao, Assistant CEO, External Operations
 J. Reyes, Director of Finance

Categories of Observations (Control Exceptions)

Priority Observations:

These are observations 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 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 up to three to six months after the date of the audit report.

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 12, 2026
TO: Members of the Audit Committee
FROM: Linda Young, Director of Internal Audit
SUBJECT: REVISED 2026 AUDIT PLAN

Recommendation

Approve the Revised 2026 Audit Plan.

Background/Discussion

Internal Audit is requesting the Audit Committee's approval of a Revised 2026 Audit Plan. As of this report, three of the nine planned audits have been completed, and three are in progress. The status of each audit as of October 5, 2026, is shown below.

Employer Audit – Orange County District Attorney	Completed & Presented on 6/8/26
Final Average Salary Benefit Calculation	Completed
Investment Accounting and Valuation	Completed
Employer Audit – City of San Juan Capistrano	In Progress (~65%)
Disability Process	In Progress (~75%)
Robotic Process Automation	In Progress (~75%)
Public Equity Consultant - Meketa	Not Started (Complete in 2027)
Death Match Process	Not Started (Complete in 2027)
Pension Administration System Project	Deferred

Summary of Proposed Changes

Internal Audit is proposing two changes to the 2026 Audit Plan, affecting three of the nine planned audits. The remaining six audits will be completed during the year ended December 31, 2026.

Audit	Original 2026 Plan	Proposed Change	Rationale
Pension Administration System (PAS) Project Review	Ongoing throughout 2026	Defer to a future period	Project just entered the design phase; there is currently nothing to audit.
Public Equity Consultant – Meketa	2nd half of 2026	Complete in 2027	Internal Audit workload re-allocation and focus on IIA Standards conformance.
Death Match Process	2nd half of 2026	Complete in 2027	Internal Audit workload re-allocation and focus on IIA Standards conformance.

Change 1: Defer the Pension Administration System (PAS) Project Audit

Proposed change

- Defer the PAS Project audit to a future period.

Scope approved in the original 2026 Audit Plan

- System Development Life Cycle review of the processes, controls, and documentation used to plan, create, test, and deploy the PAS system.
- Goal is to ensure that the PAS is developed securely, efficiently, within budget, and in compliance with internal policies, procedures, and best practices.

Change 2: Postpone the Public Equity Consultant – Meketa and Death Match Process Audits to 2027

Proposed change

- Complete the Public Equity Consultant – Meketa audit and the Death Match Process audit in 2027.

Scope approved in the original 2026 Audit Plan

- **Public Equity Consultant – Meketa:**
 - Review OCERS' public equity consultant, Meketa's, operating controls that monitor the completeness and accuracy of OCERS' public equity investment transactions, fees, and Investment Committee (IC) reporting.
 - Scope will include OCERS' Investment Division controls related to the review of Meketa's IC meeting materials for reasonableness.
 - First time audit.
- **Death Match Process:**
 - Audit of Member Services' controls over the entire Death Match process with a focus on the implementation of the recommendations made during the Death Match Review in 2025.
 - Last audited in 2016. A review of the process was performed in 2025.

Presentation

The Director of Internal Audit will present the Revised 2026 Audit Plan and the rationale for these changes and will be available to answer questions from the Committee.

Submitted by:



LY - Approved

Linda Young
Director of Internal Audit



Memorandum

DATE: October 12, 2026

TO: Members of the Audit Committee

FROM: Mark Adviento, CPA, Director of Employer Services and Quality Assurance
Jeff Lamberson, Director of Member Services

SUBJECT: **MEMBER SERVICES QUALITY ASSURANCE REPORT JANUARY – SEPTEMBER 2026**

BACKGROUND

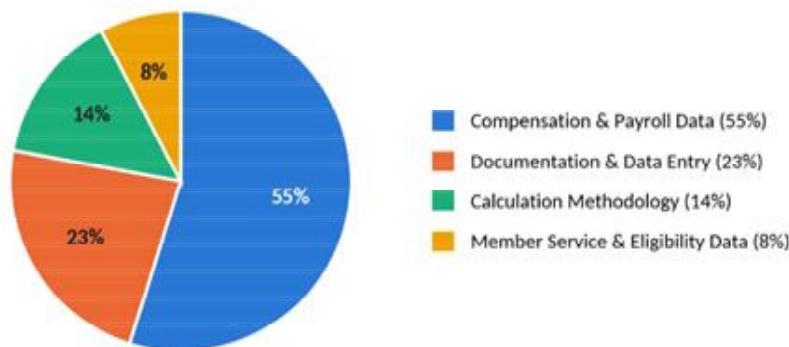
In 2024, the Audit Committee directed Internal Audit to reduce Final Average Salary (FAS) audits to one annual review and requested that Member Services provide Quality Assurance reporting on its FAS process. Since Internal Audit began reviewing FAS calculations in 2020, Member Services has continued to strengthen its procedures, quality controls, documentation, training, and automated solutions to improve calculation accuracy.

A key improvement implemented by Management in response to the FAS audits was the creation of a Quality Assurance (QA) Team in 2022 to review all FAS calculations before being placed onto retirement payroll. The QA team's review of FAS calculations is an important factor supporting the 100% accuracy results reported in the Internal Audit review presented earlier in this meeting.

JANUARY - SEPTEMBER 2026 QA REVIEW RESULTS

The QA Team reviewed all Final Average Salary calculations processed during the reporting period. The types of corrections identified during the review period are summarized below. **All corrections identified by the QA Team were resolved by Member Services before any retirement benefits were first paid.**

FAS Corrections Identified by QA



2026 IMPROVEMENTS

Robotic Process Automation

The robotic process automation solutions implemented by Member Services in prior years continued to support operations throughout 2026. These automated processes reduce manual data entry, perform validation checks and reconciliations, improve consistency, and help ensure accurate information is entered into the pension administration system. The continued use of these tools supports both operational efficiency and quality assurance objectives.

Artificial Intelligence Proof of Concept

Member Services worked with Slalom to complete a proof of concept exploring the use of artificial intelligence to apply complex retirement business rules during the benefit calculation process. The proof of concept demonstrated the potential for AI to assist staff with applying MOU provisions and other complex calculation rules. Potential benefits include more consistent rule application, less manual research, and greater automation of portions of the benefit calculation process. Based on the results, OCERS is evaluating opportunities to continue this work in 2027.

Employer Data Partnership Project Completed

The Employer Data Partnership Project was completed in 2026 after achieving its primary objectives of improving payroll reporting and strengthening employer data governance. Key accomplishments included more standardized reporting of pensionable vacation and holiday compensation, enhanced Payroll Exception Reports, publication of the Employer Handbook, and Board adoption of the Employer Data Policy. Together, these improvements strengthened data quality and support future automation and PAS readiness.

Member Services Master Repository Project Completed

The Member Services Master Repository Project was completed in 2026. The project included development of process flows, business rules, procedural documentation, and Final Average Salary calculation documentation. This work established a more comprehensive knowledge repository to support staff training, operational consistency, quality assurance activities, and future Pension Administration System implementation efforts.

Quality Assurance Team Overview

In addition to this report, staff will provide a brief overview of the Quality Assurance function, including the review process, its role in supporting benefit calculation accuracy, and continuous improvement efforts.

Submitted by:



MA-Approved

Mark Adviento, CPA
Director, Employer Services and QA



JL-Approved

Jeff Lamberson
Director, Member Services

OCERS Audit Committee

Employer Services and Quality Assurance Department

Results and Continuous Improvement

Quality Assurance Team

Gabriel Pel

Quality Support Services Manager

Rick Serrano

Quality Assurance Supervisor

Presented to the OCERS Audit Committee | October 12, 2026

100% Accuracy — The Result of Quality Assurance (QA)

Final Average Salary (FAS) Internal Audit resulted in 100% accuracy.



**FAS calculation
accuracy**

Internal Audit of Final Average Salary Calculations, 2026

- ✓ Quality Assurance reviews every benefit before first payment.
- 🕒 OCERS Quality Assurance Team was established in 2022
- 🛡️ Thorough Quality control protects benefit calculation accuracy.

Quality Assurance — Behind the Accuracy

Overview of past audit results

20 of 30

months of FAS calculations audited by Internal Audit

100% accurate

Zero errors identified in those months — benefits were right before the first payment went out.

Across the past 9 audits performed by Internal Audit since Q3 2021

About the Quality Assurance Team

QA findings improve OCERS processes and inform policy



Benefit review

Verify each benefit before first payment.



Trends & feedback

Use QA results and trends to guide staff development.



Legal & policy

Bring questions to Legal and improve procedures.

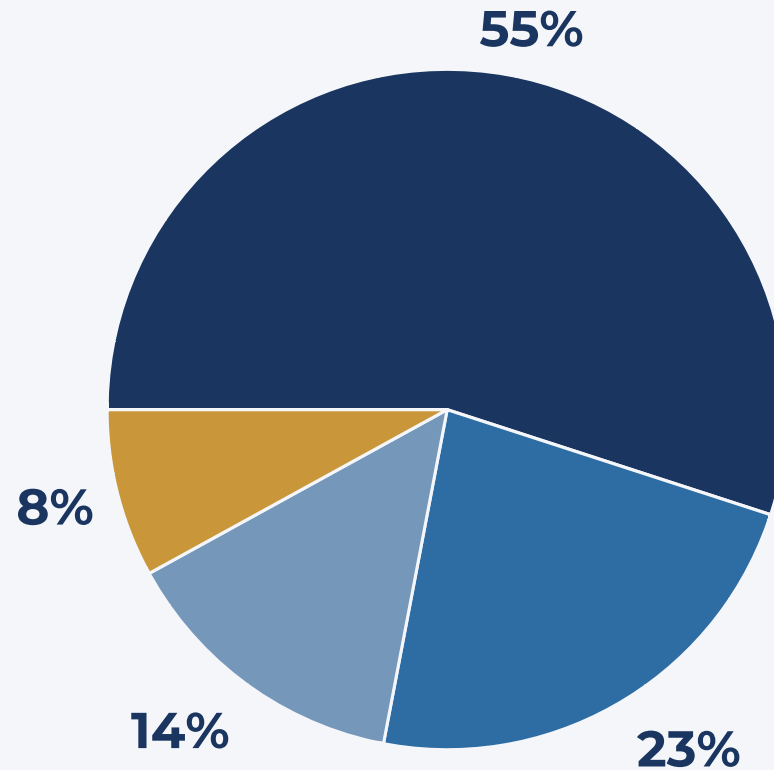


Cross-unit collaboration

Partner across the benefit lifecycle.

Quality Assurance findings from January to September 2026

- Compensation & Payroll Data
- Documentation & Data Entry
- Calculation Methodology
- Member Services & Eligibility Data



QA-Driven OCERS Improvements

Compensation & Payroll Data

QA collaborated with management to implement a new Holiday Compensation Policy.

Calculation

QA led CalPERS Reciprocal FAS Calculation training for Member Services.

Documentation &

Data Entry

QA leads retirement benefit calculations walk through in Member Experience Induction Program.

Member Services &

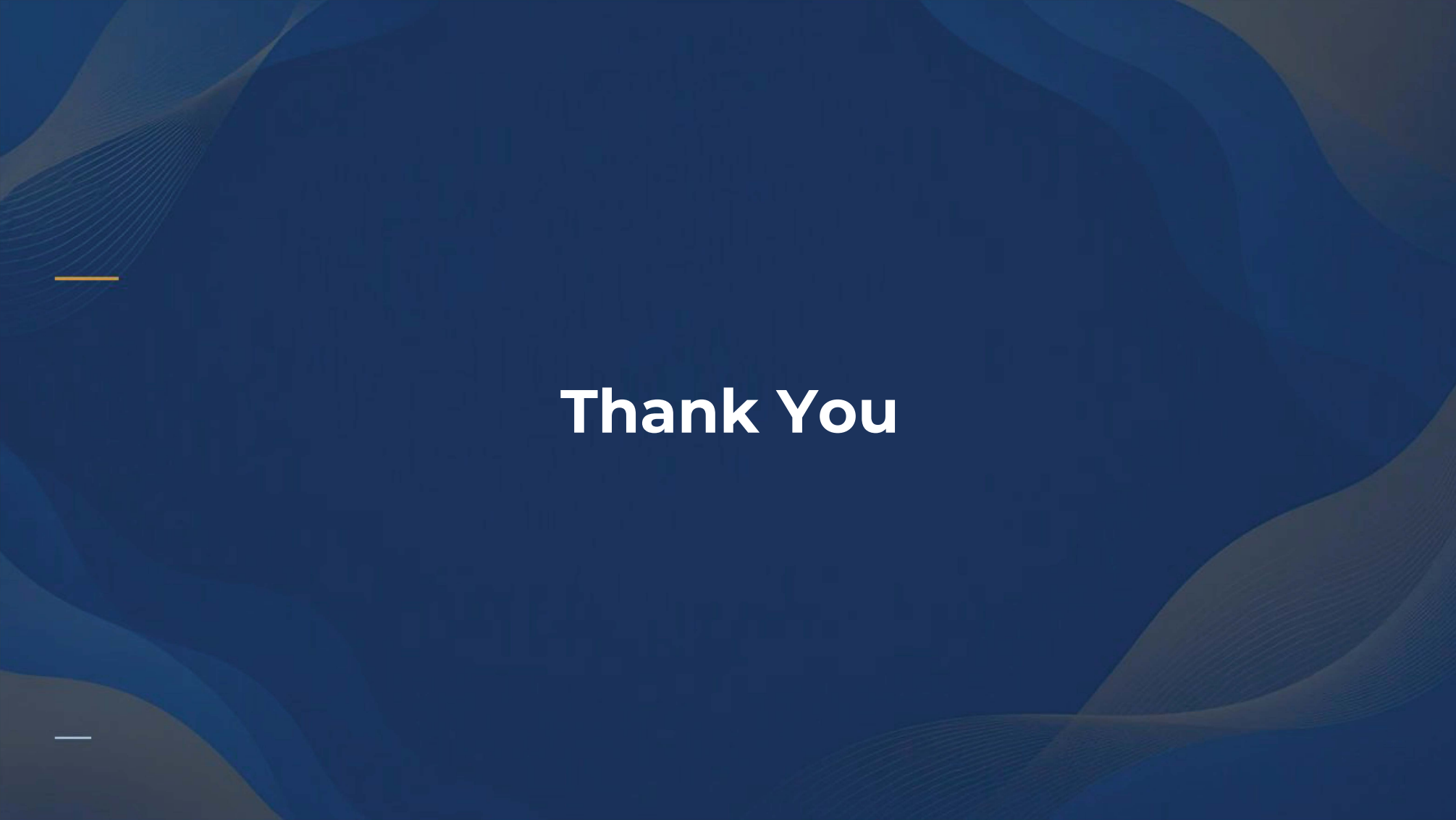
Eligibility Data

Employer Services and QA work with OCERS employers to add Holiday Compensation data to transmittals.

QA findings guide policy, training and employer data improvements

***Other ways
Quality
Assurance
provides value
at OCERS***

- 01** Question current processes to identify improvements
- 02** Review current documentation for compliance with CERL Statutes
- 03** Help Management shape process and policy updates



Thank You



Memorandum

DATE: October 12, 2026
TO: Members of the Audit Committee
FROM: Linda Young, Director of Internal Audit
SUBJECT: INTERNAL AUDIT UPDATE

Background

The purpose of this memorandum is to update the Audit Committee on Internal Audit activities. The Director of Internal Audit will provide the Committee with an overview of this material and will be available to answer questions. This update covers the following topics:

1. Discussion Topic: Concept of Materiality and Reporting
2. Next Steps: IIA Standards and Topical Requirements
3. Next Steps: Risk Assessment Plan
4. Other Internal Audit Activities

1. Discussion Topic: Concept of Materiality and Reporting

Internal Audit is seeking the Audit Committee's perspective on the concept of materiality and what should be included in audit reports presented to the Committee. As an internal audit function, Internal Audit's reporting to the Committee should reflect the Committee's preferences and risk profile.

To frame the discussion, the Internal Audit Director will provide an example of a current observation from an employer audit.

Summary of the Observation

Observation	During an employer audit, two members were misclassified in OCERS' system of record as "deferred" when the correct status was "active."
Root Cause	Root cause analysis traced the difference to a payroll system update at the employer.
Risk Response	Because of the nature of the root cause, there was a risk the issue could be systemic. Internal Audit therefore performed 100% testwork over the member population.
Expanded Result	Testwork over the full population identified only the original two misclassifications. The issue was isolated, not systemic.

Impact Assessment

Impact to the Member	None. No member was disadvantaged, and no benefit or service credit was affected by the classification difference.
Impact to Finances	None. Members continued to make contributions at the appropriate amount.
Impact to Decision Making	Segal uses this data to set actuarial assumptions. Two member classifications out of 55,000 members would have virtually no impact, which was corroborated with the actuaries.

Overall conclusion: The classification difference was isolated and, after impact assessment, inconsequential to members and to the business.

Communication to Management: Internal Audit communicated the observation to Management and recommended that Management perform timely exception report reviews so that classification differences are identified sooner.

Question for the Audit Committee

Is this a situation the Audit Committee would want Internal Audit to include in an audit report? Or is documenting it in the workpapers and communicating it to Management the appropriate level of visibility for isolated, inconsequential exceptions?

2. Next Steps: IIA Standards and Topical Requirements

New IIA Standards Plan

The Institute of Internal Auditors (IIA) issued the Global Internal Audit Standards in 2024, which came into effect in 2025. Internal Audit functions are required to undergo an external assessment at least every five years, and OCERS' last assessment was performed in December 2023. Below is Internal Audit's roadmap to demonstrate conformance with the new Standards.

Timing	Phase	Activities
Now – In Progress	Internal Gap Assessment	Conducting a gap assessment of policies, procedures, and engagement documentation against the new Standards, and updating internal processes and documentation based on the results. Current improvements include documentation requirements, reviews and approvals, and Internal Audit's internal Quality Assurance and Improvement Program (QAIP).
Fall / Winter 2027	Independent Gap Assessment	Engage an external party to conduct a formal gap assessment and make any necessary modifications as a result of that assessment.
Prior to December 2028	External QAIP Review	Complete an external QAIP review once a sufficient number of audits have been performed under the new Standards for the reviewers to reasonably conclude.

IIA Topical Requirements

The new IIA Standards introduced Topical Requirements which are required to be assessed for applicability for all individual engagements. If applicable, Internal Audit must perform the specified procedures. The rationale for any exclusion must be documented and retained. Internal Audit will work to ensure compliance with the topical requirements.

Topical Requirement	Issued	Effective Date	Requirements
Cybersecurity	February 5, 2025	February 5, 2026	17
Third-Party	September 15, 2025	September 15, 2026	17
Organizational Behavior	December 15, 2025	December 15, 2026	15
Organizational Resilience	April 30, 2026	April 30, 2027	20
Anti-Corruption	To be issued Q4 2026	To be determined	—
Talent Management	Consultation January 2027	To be determined	—
Total requirements issued to date			69

3. Next Steps: Risk Assessment Plan

Internal Audit will soon begin its risk assessment procedures to develop the proposed 2027 Audit Plan. The steps are outlined below. Steps 3 and 5 are new to the process this year.

1. **Update the risk universe** to reflect current organizational priorities, emerging risks, and observations from the 2026 Audit Plan.
2. **Engage key stakeholders** to validate risk rankings with executive leadership and department heads so coverage aligns with strategic objectives.
3. **Survey the Audit Committee** (new). The Director of Internal Audit will send a survey to the Audit Committee so members have an opportunity to provide input on areas of risk and any specific audits they would like incorporated into the 2027 Audit Plan.
4. **Incorporate 2026 results** from completed audits to refine risk ratings and priorities.
5. **Benchmark peer coverage** (new). Incorporate industry trends and audit topics from peer pension systems and the County of Orange to benchmark coverage and identify areas warranting review.
6. **Present the 2027 Audit Plan** to the Audit Committee for review and approval, based on the results of the risk assessment procedures.

4. Other Internal Audit Activities

Below is an overview of other activities Internal Audit is actively engaged in beyond the audit reports presented to the Committee.

Executive Alignment

- Weekly meetings with the Chief Executive Officer.
- Participation in monthly executive management meetings to stay current on business priorities and emerging risks.

Coordinated Assurance

- Working collaboratively with the Compliance Officer as the compliance function is developed.
- Coordinating coverage to avoid approaching the business twice with the same questions, while preserving Internal Audit's independence.

Disciplined Follow-Through

- Timely follow-up of Management Action Plans.
- Clear ownership, agreed-upon due dates, and visible status reporting on open items.

Least-Disruptive Delivery

- Coordinating audit timing and information requests around operational demands.
- Goal of being as minimally disruptive to the business as possible while maintaining audit rigor.

Departmental Key Performance Indicators

- Establishing quantitative and qualitative key performance indicators to measure the effectiveness and efficiency of the Internal Audit Department, including:
 - Project management tool to assess whether audits are on track for timely completion.
 - Weekly audit hours control to monitor hours and identify overruns and audit issues in a timely manner, providing more accurate budget-to-actual reporting and a clearer view of audit status.
 - Auditee feedback surveys are being reinstated to gather qualitative feedback from auditees and identify opportunities for improvement.

Submitted by:



LY - Approved

Linda Young
Director of Internal Audit



Memorandum

DATE: October 12, 2026
TO: Members of the Audit Committee
FROM: Linda Young, Director of Internal Audit
SUBJECT: MANAGEMENT ACTION PLAN VERIFICATION REPORT

Written Report

Background/Discussion

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

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

- Confirming that management has implemented an action plan and no further action is required.
- Testing the operational effectiveness of the MAPs.

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 are operating effectively during the current year.
- For the MAPs noted as Closed – No Further Action Required (Prior Years), Internal Audit confirmed that the MAPs were implemented and operating effectively prior to the current year.

Submitted by:



LY - Approved

Linda Young
Director of Internal Audit



Management Action Plan (MAP) Status Report

Project(s): 102, 103, 104, 105, 106, 107, 108, 109, 111, 45, 85, 99
 Mgmt. Status: ALL Process Owner(s): ALL
 Plan Year(s): 2024, 2025, 2026 Total # of Records: 29

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PROJECT: 2631 - OC DISTRICT ATTORNEY EMPLOYER AUDIT

Report Date: 06/08/2026

Total Observations: 2

Open: 0

Closed: 2

OBSERVATION #1 - PREMIUM PAY ITEM REQUIREMENTS

CLOSED - NO FURTHER ACTION REQUIRED (YTD)

Process Owner: Employer

Completion Date: 05/22/2026

Action Plan: The District Attorney amended the bilingual pay authorization form for this employee. OC Human Resources forwarded a copy of the amended form to OCERS Internal Audit for their records.

OBSERVATION #2 - TERMINATION NOTICES NOT FORWARDED TO OCERS

CLOSED - NO FURTHER ACTION REQUIRED (YTD)

Process Owner: Employer

Completion Date: 04/29/2026

Action Plan: The District Attorney's Office submitted the missing termination notices to OCERS Member Services.

PROJECT: 2532 - SERVICE CREDIT PURCHASES (SCP)

Report Date: 02/26/2026

Total Observations: 2

Open: 0

Closed: 2

OBSERVATION #1 - LACK OF DOCUMENTATION BETWEEN BUSINESS RULES AND BPD

CLOSED - NO FURTHER ACTION REQUIRED (YTD)

Process Owner: Member Services

Completion Date: 09/23/2026

Revised Due Date: 07/31/2026

Action Plan: As part of the Horizon (PAS) project, Member Services has developed approximately 70 detailed Service Credit Purchase (SCP) business rules defining eligibility criteria, calculation methodology, and data sources. These business rules reflect and formalize existing procedural guidance documented in the Service Credit Purchase Business Process Document (BPD). Member Services is finalizing documentation of the SCP business rules, which require Legal review as part of the documentation process.

OBSERVATION #2 - RE-EVALUATION OF MEDICAL LEAVE METHODOLOGY IN SCP BPD

CLOSED - NO FURTHER ACTION REQUIRED (YTD)

Process Owner: Member Services

Completion Date: 09/23/2026

Action Plan: Following receipt of Legal guidance, Member Services will update the SCP Business Process Document and related business rules as necessary to ensure alignment with Legal guidance. Staff training will be provided on any revised procedures to promote consistent and accurate application.



Management Action Plan (MAP) Status Report

Project(s): 102, 103, 104, 105, 106, 107, 108, 109, 111, 45, 85, 99
 Mgmt. Status: ALL Process Owner(s): ALL
 Plan Year(s): 2024, 2025, 2026 Total # of Records: 29

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PROJECT: FINANCE CONTRIBUTIONS AUDIT

Report Date: 12/09/2025

Total Observations: 1

Open: 0

Closed: 1

OBSERVATION #1 - REVIEWS PERFORMED ON SYSTEM CHANGES MADE TO INTACCT

CLOSED - NO FURTHER ACTION REQUIRED (YTD)

Process Owner: Finance

Completion Date: 02/11/2026

Action Plan: Finance will implement a standardized report within Sage Intacct to independently review system-level changes made by administrator-level users. This report will be reviewed by the Assistant CEO, Finance and Internal Operations, on a quarterly basis to ensure the appropriateness of any system changes.

PROJECT: 2512 - INVESTMENTS DUE DILIGENCE AUDIT

Report Date: 10/06/2025

Total Observations: 2

Open: 0

Closed: 2

OBSERVATION #1 - PROJECT MANAGEMENT FRAMEWORK AND PROCEDURE

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Investments

Completion Date: 09/29/2025

Action Plan: Management concurs with the recommendation and will establish a peer review process for automation projects that involve programming. The Investments Team will also utilize GitHub to track and redline any code changes.

OBSERVATION #2 - LACK OF FORMAL DOCUMENTATION REGARDING MANAGEMENT REVIEWS

CLOSED - NO FURTHER ACTION REQUIRED (YTD)

Process Owner: Investments

Completion Date: 04/17/2026

Action Plan: Management concurs with the recommendations and is in the process of exploring and developing tools through Microsoft Power Automate to support and enhance the management review process.



Management Action Plan (MAP) Status Report

Project(s): 102, 103, 104, 105, 106, 107, 108, 109, 111, 45, 85, 99
 Mgmt. Status: ALL Process Owner(s): ALL
 Plan Year(s): 2024, 2025, 2026 Total # of Records: 29

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PROJECT: 2435 - ALAMEDA PHASE 2 IMPLEMENTATION AUDIT

Report Date: 06/09/2025

Total Observations: 2

Open: 0

Closed: 2

OBSERVATION #1 - OPPORTUNITIES TO IMPROVE HOW QUALITY CHECKS ARE DOCUMENTED IN THE RECALCULATION PROCESS.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Member Services

Completion Date: 08/14/2025

Action Plan: The Member Services Management Team will make a full review of the checklist used for sign offs in the Recalculation Excel workbooks. We will also make the appropriate changes to ensure proper documentation of our existing controls are reflected for transparency.

OBSERVATION #2 - KEY RECALCULATION SPREADSHEETS COULD BENEFIT FROM ADDITIONAL PROTECTIVE CONTROLS TO PREVENT UNINTENDED CHANGES

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Member Services

Completion Date: 08/14/2025

Action Plan: The Member Services Management Team will review the spreadsheet tabs listed to determine if we can lock formula cells in a way to not cause issues with the process of performing the calculations efficiently. If we are unable to lock the cells, we will ensure proper sign offs to provide evidence of the reviews performed.

PROJECT: 2432 - LAFCO EMPLOYER AUDIT

Report Date: 03/25/2025

Total Observations: 4

Open: 0

Closed: 4

OBSERVATION #1 - LAFCO'S BOARD RESOLUTION DOCUMENTING THE USE OF AN EMPLOYER PAID PICKUP OF EMPLOYEE CONTRIBUTIONS CAN BE MORE CLEAR

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer

Completion Date: 12/01/2025

Action Plan: The resolution for Fiscal Year 2026-27 is expected to be presented in November or December of 2025 to the Commission and will have the modified language to clarify any ambiguity.



Management Action Plan (MAP) Status Report

Project(s): 102, 103, 104, 105, 106, 107, 108, 109, 111, 45, 85, 99

Mgmt. Status: ALL

Process Owner(s): ALL

Plan Year(s): 2024, 2025, 2026

Total # of Records: 29

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OBSERVATION #2 - EMPLOYEE CONTRIBUTION RATES COLLECTED BY LAFCO FOR ITS TWO LEGACY EMPLOYEES DIFFER FROM THE FULL EMPLOYEE RA

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer

Completion Date: 11/26/2025

Action Plan: The employer paid pickup was established and is calculated by the County of Orange, not LAFCO. OC LAFCO implemented the established formulas and calculation as provided by the County. To fulfill OCERS observation involving the calculation, following discussions with LAFCO general counsel and accountant and with OCERS, staff presented a recommendation to the Commission that would facilitate keeping both employer paid pickups (§31581.1 and §31581.2) at the same calculation agreed upon with the County in 2005 and resolve the underpayment and overpayment through the portion paid by the active Legacy members. The newly adjusted calculation involves the following:

- §31581.1 employer pick up = $(1/2 \times \text{Plan B rate (average age rate)}) \times \text{discount rate}$
- §31581.2 employer pick up = $((1/2 \times \text{Plan B rate (entry age rate)})$
- Take the amounts calculated from the §31581.1, not inclusive of the discount, and §31581.2 and subtract them from the entire employee adopted rate to get the employee paid portion.

This calculation achieves contributions being paid through the employer pickups and by the employees in line with rates established by OCERS. The OCERS-recommended calculation falls slightly short of the established rates.

During discussions with OCERS, it was noted by OCERS staff that the OCERS Pension Administration System (PAS) was designed to flag differences between Board adopted contribution rates expected, and rates reported by the employers in their transmittal payroll data. However, the PAS, through modification by OCERS and prior to the audit of LAFCO, did not alert the differences in contributions.

The calculation adjustment limiting the employer paid pickups to .51 of the B plan with the remaining portions paid by the Legacy employees (Reso No. CP 24-07) was adopted on November 13, 2024. The County

OBSERVATION #3 - RETROACTIVE PAY WAS INCORRECTLY CALCULATED FOR ONE EMPLOYEE, RESULTING IN AN OVERPAYMENT.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer

Completion Date: 12/12/2024

Action Plan: To process retroactive pay, LAFCO staff submits a form to the Orange County Central Payroll department. The form includes the retroactive pay amount, pay periods for the retroactive pay, and the new pay rate for the employee. For the retroactive pay events, the Orange County Central Payroll department manually transfers the information included in the retroactive pay form to their system. LAFCO learned that there was an overpayment to the employee due to processing timing carried out by the County of Orange. The oversight resulted in an overlap between pay periods included in the form and when the new pay rate for the employee should take effect. The overpayment has been corrected and the County will send the corrected payroll transmittal.

For future payroll processing involving retroactive pay or other salary adjustments, LAFCO will coordinate with County Payroll staff on deadlines for processing to avoid potential overpayments.

LAFCO has notified the affected employee and completed the required paperwork from Payroll. Reimbursements of overpayments by the affected employee have been processed through County Payroll and deductions from the employee's pay.

OBSERVATION #4 - AN EMPLOYEE'S TIMECARD WAS MISSING SUPERVISOR APPROVAL.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer

Completion Date: 09/01/2024

Action Plan: Following a discussion with the Orange County Payroll department, confirmation was made that the time reported was processed correctly. There was no evidence or explanation for the missing approval on the timecard. The hours worked by the employee were also confirmed to be accurate and valid.

For future payroll processing involving the approval of timesheets, the Commission Clerk will ensure that timesheets are approved by a supervisor prior to submitting the timesheet via OC Time. The Commission Clerk will follow up with the County immediately if reports indicate any errors or other unknown actions or comments.



Management Action Plan (MAP) Status Report

Project(s): 102, 103, 104, 105, 106, 107, 108, 109, 111, 45, 85, 99
 Mgmt. Status: ALL Process Owner(s): ALL
 Plan Year(s): 2024, 2025, 2026 Total # of Records: 29

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PROJECT: 2440 - FINANCE RETIREE PAYROLL AUDIT

Report Date: 03/25/2025
 Total Observations: 2
 Open: 0
 Closed: 2

OBSERVATION #1 - FINANCE DEPARTMENT'S VERIFICATION OF THIRD-PARTY PAYROLL DEDUCTIONS COULD BE MORE STRUCTURED AND CLEARLY DOCUMENTED

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Finance

Completion Date: 03/21/2025

Action Plan: Verifications are consistently performed to ensure the accuracy of information provided by employers and agencies. To strengthen controls, Finance implemented a standardized verification template for reviewing the Deductions and Adjustments import files. This template includes references to source information, a sign-off identifying the preparer of the verification, and notation that potential variances, if identified, were sent back to the employers and/or agencies for research.
 In the sample selected by Internal Audit, there was one instance noted where the verification was not included in the file. While the supporting documentation was obtained from the employer, the verification information was not included in the verification file due to a combination of employer staffing issues, multiple discrepancies with the file, and the imminent retiree payroll processing deadline. As a result, the verification details were saved in a separate file instead of on the template. This was an extenuating circumstance outside the standard process. Going forward, similar items and circumstances will be documented in the standard verification template referred to above to keep a consistent audit trail.

OBSERVATION #2 - FINANCE DEPARTMENTAL DOCUMENTED PROCEDURES DO NOT INCLUDE A PERIODIC REVIEW OF EXCEL SPREADSHEETS USED IN MONTHLY RETIREE PAYROLL JOURNAL ENTRIES

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Finance

Completion Date: 09/25/2025

Action Plan: Finance is currently in the process of updating procedures for monthly retiree payroll as part of the Master Repository Project. We will include a step in the procedure to formalize the annual review of the Excel spreadsheets used to record monthly retiree payroll activity, which is currently being done by the Finance Manager. (The annual review of 2025 monthly retiree payroll journal entry spreadsheets was completed on January 7, 2025, by the Finance Manager.)

PROJECT: 2430 - HCA EMPLOYER AUDIT

Report Date: 12/12/2024
 Total Observations: 5
 Open: 0
 Closed: 5

OBSERVATION #1 - RETROACTIVE PAY REPORTED FOR TWO EMPLOYEES WAS INCORRECT.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer

Completion Date: 09/12/2024

Action Plan: Both members whose retroactive pay was reported incorrectly have been corrected with the CAPS+ system and will be reflected in payroll transmittal adjustment files to be sent to OCERS.



Management Action Plan (MAP) Status Report

Project(s): 102, 103, 104, 105, 106, 107, 108, 109, 111, 45, 85, 99
 Mgmt. Status: ALL Process Owner(s): ALL
 Plan Year(s): 2024, 2025, 2026 Total # of Records: 29

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OBSERVATION #2 - INTERNAL AUDIT IDENTIFIED 125 HCA MEMBERS WITH INCORRECT STATUS IN OCERS PENSION ADMINISTRATION SYSTEM (PAS).

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer
Completion Date: 09/12/2024
Action Plan: Both members whose retroactive pay was reported incorrectly have been corrected with the CAPS+ system and will be reflected in payroll transmittal adjustment files to be sent to OCERS.

OBSERVATION #3 - 3. HCA HR DOES NOT USE EXTRA HELP POSITION REQUEST FORMS FOR CONTRACT EXTRA HELP EMPLOYEES, AS IT CONSISTENTLY

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer
Completion Date: 11/06/2024
Action Plan: The suggestion to amend the request form will be made to HCA leadership. The amendment would indicate that the employee has professional or highly technical skills (as per 5.c.i. of the OCERS Membership Eligibility Requirements policy).

OBSERVATION #4 - FOR 5 OF 10 EXTRA HELP EMPLOYEES SAMPLED, TOTAL HOURS REPORTED BY APPROVED TIMECARDS DID NOT MATCH THE TOTAL HOURS WORKED REPORT.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer
Completion Date: 12/18/2024
Action Plan: For the five employees whose timecard hours do not match the reports, the differences were caused by missing data in our reporting system due to an archive error. This error is currently being corrected by IT.

OBSERVATION #5 - THE EXTRA HELP EMPLOYEES HOURS WORKED REPORTS HCA USES FOR MONITORING HOURS WORKED BY EXTRA HELP DOES NOT INCLUDE EMPLOYEES WHO WERE HIRED AS REGULAR EMPLOYEES OR WERE SEPARATED.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Employer
Completion Date: 10/18/2024
Action Plan: Reports only show active (current) extra help employees and do not include past or historical data, leading to the differences in employees reported on the Extra Help Employees Hours Worked reports. HRS Analytics also identified missing data in our reporting system due to an archive error. This error is currently being corrected by IT. Recommendations will be made for a future HR system to create reporting parameters to provide past or historical data to address the discrepancy. Also, a request has been made to HRS Analytics to address the archiving error.

PROJECT: 2433 - OCERS EMPLOYER AUDIT

Report Date: 12/12/2024
Total Observations: 2
Open: 0
Closed: 2

OBSERVATION #1 - IN ONE TEST SAMPLE, A PERSONNEL ACTION NOTICE (PAN) FORM WAS NOT COMPLETED TO DOCUMENT THE EMPLOYEE'S RETIREMENT. PROMOTION ENDED.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Human Resources
Completion Date: 01/08/2025



Management Action Plan (MAP) Status Report

Project(s): 102, 103, 104, 105, 106, 107, 108, 109, 111, 45, 85, 99
 Mgmt. Status: ALL Process Owner(s): ALL
 Plan Year(s): 2024, 2025, 2026 Total # of Records: 29

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Action Plan: The department will include in the payroll processing a process for using a PAN form to return employees to their regular pay.

OBSERVATION #2 - THE OCERS DIRECT EMPLOYEE HANDBOOK CURRENTLY LACKS A SECTION DETAILING THE PREMIUM PAY ITEMS AVAILABLE TO OC **CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)**

Process Owner: Human Resources

Completion Date: 12/01/2025

Action Plan: OCERS is set to review the OCERS Direct handbook in 2025.
This information will be included.

PROJECT: 2436 - QUARTERLY FAS REVIEW (Q3 2024)

Report Date: 12/12/2024

Total Observations: 1

Open: 0

Closed: 1

OBSERVATION #1 - IN OUR SAMPLE, SIX FAS CALCULATION EXCEL FILES DID NOT HAVE FORMAL EVIDENCE OF A SECONDARY QA (QUALITY ASSURAN **CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)**

Process Owner: Member Services

Completion Date: 03/31/2025

Action Plan: Management will update our current procedure document (in process with Master Repository Project) to include a secondary review of calculation (if necessary) based on team members experience.
Management will also add a secondary QA sign off section on the excel calculation template, so it is clear when a secondary QA review is processed.

PROJECT: 2491 - CIS CONTROLS ASSESSMENT

Report Date: 10/09/2024

Total Observations: 6

Open: 0

Closed: 6

OBSERVATION #1 - AN OPPORTUNITY EXISTS TO ADDRESS UNSUPPORTED SOFTWARE. **CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)**

Process Owner: Information Security

Completion Date: 10/09/2024

Action Plan: Remove the one (1) instance of unsupported software from the identified computer.

OBSERVATION #2 - AN OPPORTUNITY EXISTS TO ADDRESS UNAUTHORIZED SOFTWARE. **CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)**

Process Owner: Information Security

Completion Date: 10/09/2024



Management Action Plan (MAP) Status Report

Project(s): 102, 103, 104, 105, 106, 107, 108, 109, 111, 45, 85, 99
 Mgmt. Status: ALL Process Owner(s): ALL
 Plan Year(s): 2024, 2025, 2026 Total # of Records: 29

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Action Plan: Remove the seven (7) instances of unauthorized software and eleven (11) instances of unauthorized browser extensions from the identified computers.
 b. Establish a process to ensure the software inventory is reviewed for unauthorized software monthly (at a minimum).

OBSERVATION #3 - AN OPPORTUNITY EXISTS TO DISABLE CURRENT DORMANT ACCOUNTS.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Information Security

Completion Date: 12/02/2024

Action Plan: Delete the one (1) dormant service account.
 Establish a process to ensure dormant accounts are reviewed monthly (at a minimum).

OBSERVATION #4 - AN OPPORTUNITY EXISTS TO IMPROVE VULNERABILITY DETECTION FOR NETWORK DEVICES.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Information Security

Completion Date: 10/09/2024

Action Plan: Perform authenticated scans for internal network devices (when feasible and prudent) quarterly (at a minimum).

OBSERVATION #5 - AN OPPORTUNITY EXISTS TO ENHANCE THE MANAGEMENT OF NETWORK DEVICES.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Information Security

Completion Date: 10/09/2024

Action Plan: Determine if it is possible to track network devices in Axonius (the organization's primary asset inventory system). If it is not possible, determine an alternative method for maintaining a network device inventory.

OBSERVATION #6 - AN OPPORTUNITY EXISTS TO ESTABLISH DOCUMENTATION SURROUNDING PROCESS CONTROL DOCUMENTATION.

CLOSED - NO FURTHER ACTION REQUIRED (PRIOR YEARS)

Process Owner: Information Security

Completion Date: 10/09/2024

Action Plan: Establish and maintain process control documentation for CIS Controls 4.1, 4.2, 6.1, 6.2, 7.1, 7.2, 8.1, and 17.4.