



Audit of Procurement Process

Report Date: October 3, 2022

Internal Audit Department

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OCERS Internal Audit
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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 that help ensure OCERS' compliance with its Procurement and Contracting Policy (Policy).

The scope of the audit included contracts authorized between 2019 and 2022. Internal Audit audited for compliance with the Policy as approved by the Board of Retirement in 2018 and then again in 2021.

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 controls to ensure the Procurement Process is in compliance with the Policy. There were eight Important Observations, which included two vendors in which the selection process did not follow Policy, due diligence was not consistently performed or documented for three vendors, and for five contracts which did not have authorized signatures as per Policy. We also noted opportunities to strengthen the Legal review of contracts and the accuracy of information entered into the Contract Management System (CMS).

Internal Audit independently tested a sample of 25 contracts and performed the following:

- Verified that Policy provisions applicable to all contracts were performed, such as the review and approval of contract terms, due diligence and performance reviews.
- Confirmed that the required search and selection process (e.g., RFP, IFB, Sole Source) was used when soliciting goods and services.
- Verified that contracts were reviewed and approved by the appropriate parties (e.g., Executives, and Legal) as per the Policy.
- Confirmed that provisions for the selection of Named Service Providers were followed in compliance with the Policy.
- Confirmed that the status of the contracts were monitored and reported to the Board in a timely manner.

Background

The Policy establishes the guidelines of the Procurement Process to obtain goods and services, along with identifying the roles and responsibilities of those involved with the process, including the CEO, responsible Executives, the Contract Administrator and OCERS Board of Retirement. The Policy also describes the criteria used in the search and selection process when selecting a vendor, which includes an Invitation for Bid (IFB), Request for Proposal (RFP) and Sole Source. Contract signing authority along with the number of signatures required are also described in the Policy.

The Policy, which has been in place since 2002, had gone through significant updates in 2013 which included expanding the scope of the Policy beyond just Named Service Providers to include procuring all goods and services. The Policy was again updated in 2018 to clarify the roles of the Contract Administrator and the Executives responsible for managing contracts. The Policy was last updated in 2021 to further define terms used in the Policy, adjust dollar value thresholds for the different vendor selection processes, and list additional responsibilities of the Contract Administrator. Although a Policy has been in place, the processes were still being formalized during the period audited. Additionally, the audit helped to improve the communication between Contract Administration and the Legal Division.

OCERS did not have a formal contract administration process until the current Contract Administrator was hired in 2016. Key to formalizing the process was the Contract Administrator's recommendation and implementation of a Contract Management System (CMS). The Contract Administrator helped to further formalize the implementation of the Policy as well as oversee a total of 267 contracts in the CMS (166 active vendors and 101 in-active vendors). As per the Policy, the role of the Contract Administrator includes, but is not limited to, managing the contract files, coordinating contract solicitation efforts, performing due diligence for potential contractors, and overseeing the review of contractors' performance. The Contract Administrator also reviews the business, operational and legal risks associated with the vendor as part of a due diligence checklist. This includes performing a credit check, confirming the vendor is not on the US Treasury's OFAC (Office of Foreign Assets Control) sanctions list, and identifying any current litigation against the vendor.

At the August 15th Regular Board meeting, Board members raised questions about OCERS Procurement and Contracting Policy, specifically regarding the Board's role with approving vendor contracts. Senior Management plans to respond to these questions to provide additional clarification at the October 17 Board Meeting.

Important Observations

- 1. OCERS did not comply with OCERS Procurement and Contracting Policy (Policy) regarding contracts awarded to two different vendors.** In one vendor from our sample, an informal competitive search was used instead of the Request for Proposal (RFP) process as required by the Policy. With a second sample vendor, there was no documented evidence of the performance of an Invitation for Bid. The procurement of these contracts followed shortly after significant changes to the Policy in 2018. Not complying with the Policy hinders the objective that “a level of rigor should be commensurate with the importance and cost of the service or goods in question” as per Policy. In response to our observation, updates to the Policy will be recommended to add the task of communicating and educating staff on the requirements for procuring a vendor as per the Policy. Management will also begin maintaining supporting bidding documentation in the Contract Management System (CMS).
- 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.** OCERS had awarded contracts for these three vendors during 2019 and 2020, however the due diligence was not performed or documented in a manner consistent with the Policy by the Contract Administrator. In one instance, the contract had been authorized by Executives before the Contract Administrator was able to perform the due diligence. For the remaining two instances, a level of due diligence was performed, but either documentation was not maintained or the due diligence was not performed completely. Between the 2018 and 2021 Policy revisions, the Contract Administrator was in the process of formalizing the due diligence. Without such documentation, OCERS cannot document that these vendors, as required by Policy “meet all minimum qualifications set forth in the solicitation document; and meets all other standards which, in the exercise of sound business judgment, are required of the Contractor.” In response to our observation, the Contract Administrator will formalize a process to ensure the due diligence is performed and account for instances in which a contract is signed before the due diligence is complete.
- 3. Authorizing signatures, as required by the Policy, were not obtained on five contracts within our sample.** The Policy establishes the number of required signatures and management position level of the signatories to approve a contract. During our review, Internal Audit noted five contracts in which either the number of signatures or level did not follow Policy. As per the Policy “The role of the Responsible Executive is to approve the purchase of goods and services for which s/he is responsible.” In response to our observation, updates to the Policy will be recommended for the Contract Administrator to validate the signatures are appropriate. Non-compliance will be addressed through the Employee Evaluation and Discipline practices as noted in the Employees Handbook.
- 4. The Legal Division’s review was not obtained for an IT Consultant’s contract awarded in 2021.** A Legal review was not obtained for one sample because the Contract Administrator believed using a contract template previously approved for use by the Legal Division did not warrant further Legal review. However, upon discussion with the Legal Division, each and every draft contract should be presented to the Legal Division so that they can review the actual terms of the contract for approval, even if the approved contract template was used. Although a Policy has been in place, the processes were still being formalized during the period audited. Not presenting all contracts for the Legal Division’s review would hinder, as per the policy, “The role of General Counsel or his/her designee to: Review contracts before execution for compliance with legal requirements and to provide assessment of risk to the

agency.” In response to our observation, the Contract Administrator will forward all contracts to OCERS’ Legal for review and will maintain the approval.

5. **For two vendors in our sample, the vendor’s Certificate of Insurance (COI) provided to OCERS did not meet the dollar amount of insurance coverage as specifically stated in the executed contract.** For one vendor, the contract requires \$10 million in Errors and Omissions Insurance, but the vendor’s COI only states \$5 million of coverage. In the second vendor, the contract requires \$2 million per occurrence of Professional Liability Insurance, but the vendor’s COI only states \$1 million of coverage. In response to our observation, the Contract Administrator will implement procedures to ensure Certificates of Insurance are in accordance with the vendor contracts and address instances of non-conformance.
6. **Policy is absent guidance of when a contract is needed and how to monitor routine items that do not warrant a contract.** In discussions with management, we determined that the Policy does not sufficiently describe the circumstances in which a contract with a vendor is required, particularly regarding the purchase of routine items. Nor how to monitor current and future vendors that would not need a contract as determined by management or industry practice. Having valid contracts would help evidence that OCERS has a “A system of internal controls related to the procurement of goods and services is implemented.” In response to our observation, the Contract Administrator will work with OCERS’ Legal to identify circumstances where a contract is required and make recommendations to update the Procurement and Contracting Policy as deemed appropriate.
7. **Upon review of OCERS’ the Contract Management System (CMS), we noted data entry errors with six vendors in our sample.** Oversight when manually keying in terms of contracts within the CMS could lead to incorrect reporting to the Board or monitoring of the vendors’ lifecycle. The role of the Contract Administrator is to “Manage the Contractor files and the lifecycle management system,” and to “Monitor the expiration dates of all contracts to ensure either timely extension of the contract term or timely issuance of contract solicitation.” In response to our observation, Management has approval to hire an additional Team Member in Contract Administration. Review procedures will be created and implemented at that time.
8. **We noted potential room for improvement with either the Policy or with recommended addition of new procedures.** First, there is a gap in the policy in regard to required signature approval for contracts that do not have a pre-determined dollar threshold, such as for vendors who bill by the hour. Second, there needs clarification regarding governance over the approval of Investment related Named Service Providers between the Policy and the Investment Committee Charter. Third, the Contract Administrator should explicitly denote which potential vendor(s) are minority owned for future solicitations, as per the Policy requirement, “a diverse audience of contractors” (e.g. minority groups). In response to our observation, Management will recommend the necessary changes to the Policy and develop a process to track solicitations sent to small and diverse businesses.

Copies to:

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

J. Doezie
C. Hockless
M. Serpa
Audit Committee Members

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p data-bbox="415 280 751 310" style="text-align: center;">Important Observations</p> <p data-bbox="216 334 957 440">1. OCERS did not comply with OCERS Procurement and Contracting Policy (Policy) regarding contracts awarded to two different vendors.</p> <p data-bbox="262 488 957 630">Vendor #1: OCERS failed to use an RFP (Request For Proposal), as required by policy, to award a contract for a medical disability evaluation service vendor.</p> <p data-bbox="262 703 957 911">OCERS Procurement and Contracting Policy (Policy) requires a formal RFP for contracted services worth more than \$100,000. The medical disability evaluation service contract above is worth approximately \$400,000 per year in spending. The contract was awarded in 2019.</p> <p data-bbox="262 959 957 1130">We interviewed Member Services staff and learned that they did perform an informal competitive bid search for a medical disability evaluation service vendor, but that they were not aware that an RFP was required.</p> <p data-bbox="262 1179 957 1320">Vendor #2: There was no documented evidence of the performance of an Invitation for Bid search for third-party risk management/vendor risk management vendor, as required per policy.</p>	<p data-bbox="978 334 1339 363">Management Action Plan:</p> <ul style="list-style-type: none"> <li data-bbox="1073 383 1839 480">A. Management will communicate with all Executives the requirements for issuing an RFP and will coordinate the RFP's per Policy requirements. <li data-bbox="1073 488 1839 610">B. Management will propose changes to the Procurement Policy to include a requirement of the Contracts Administrator to educate staff and confirm Policy compliance. <li data-bbox="1073 618 1881 708">C. Proof of bids and competitive price comparisons will be retained in the Contracts Management System ("CMS") for future reference <p data-bbox="978 813 1602 842">Management Action Plan Responsible Party:</p> <p data-bbox="978 867 1434 896">Jim Doezie, Contract Administrator</p> <p data-bbox="978 967 1224 997">Completion Date:</p> <p data-bbox="978 1013 1167 1042">June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>The Contract Administrator, who was also the Business Manager procuring the services, recalls using the Invitation for Bid process. However, the Contract Administrator does not have documentation evidencing that such a process was used to award the contract to the vendor. The contract was awarded in 2019 and renewed in 2021 with a yearly value of \$26,910.</p> <p>The procurement of these contracts followed shortly after significant changes to the Policy in 2018.</p> <p>Risk: Not complying with the Policy hinders the objective that <i>“a level of rigor should be commensurate with the importance and cost of the service or goods in question”</i>.</p> <p>See Policy § I.B.5.</p>	
<p>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:</p> <p>Due diligence is performed on a vendor prior to awarding the contract. The Contract Administrator will review the business, operational and legal risks associated with the vendor as part of the Due Diligence checklist. This includes performing a credit check, confirming the vendor is not on the OFAC</p>	<p>Management Action Plan:</p> <p>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.</p> <p>Management Action Plan Responsible Party: Jim Doezie, Contract Administrator</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>sanctions list, and identifying any current litigations against the vendor. Between the 2018 and 2021 Policy revisions, the Contract Administrator was in the process of formalizing the due diligence.</p> <p>OCERS awarded contracts for the following three vendors during 2019 and 2020, however the due diligence was not performed or documented in a manner consistent with the Policy:</p> <ul style="list-style-type: none"> • Medical disability evaluation service provider. (Contract value of \$400,000). The due diligence was not performed. Management had already signed a contract before the Contract Administrator was made aware of the agreement. • Phone system/call center vendor. (Contract value of \$247,932). Documentation of the due diligence was not maintained. • Firewall installation vendor. The responsible business executive had performed a level of due diligence to confirm the vendor met the qualifications of the solicitation. However, the legal and operational risks were not addressed. (Contract value of \$93,765) <p>Risk: Without such documentation, OCERS cannot document that these vendors, as required by Policy “<i>meet all minimum qualifications set forth in the solicitation document; and meets all other standards which, in the exercise of sound business judgment, are required of the Contractor.</i>”</p>	<p>Completion Date: June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
See Policy § III.E.1.i & ii.	
<p>3. Authorizing signatures, as required by the Policy, were not obtained on five contracts within our sample.</p> <p>Contract guidelines in the Policy establish the number of required signatures and level of the signatories to approve a contract. During our review, Internal Audit noted five contracts in which either the number of signatures or level was not followed:</p> <ul style="list-style-type: none"> • A required signature from the Asst CEO of Internal Operations was not provided on the contract for a diversity consultant. Only the Director of Human Resources' signature was found on the contract. (Contract value of \$84,500.) • The required signature from the CEO was not provided on the contract for the Boardroom audio/visual system vendor. The 2021 contract was signed by the Asst CEO of Internal Operations and Director of IT. (Contract value of \$367,158.) • A second signature was missing on the firewall installation vendor contract. The 2020 contract had only one signature from the CEO. (Contract value of \$93,765.) 	<p>Management Action Plan:</p> <ul style="list-style-type: none"> A. Management will recommend changes to the Procurement and Contracting Policy to include a duty of the Contract Administrator 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. <p>Management Action Plan Responsible Party: Jim Doezie, Contract Administrator</p> <p>Completion Date: June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<ul style="list-style-type: none"> The required signature from the CEO was not provided on the contract for an investment risk tracking software subscription. The 2020 contract was only signed by the CIO. (Contract value \$165,000.) A second signature from an Executive was not provided on the contract for an insurance policy. The 2021 contract was only signed by the Asst. CEO of Internal Operations. (Contract value of \$31,215). <p>Risk: As per the Policy <i>“The role of the Responsible Executive is to approve the purchase of goods and services for which s/he is responsible.”</i></p> <p>See Policy § I.C.3.i.</p>	
<p>4. The Legal Division’s review was not obtained for an IT Consultant’s contract awarded in 2021. (Contract value of \$126,000).</p> <p>Per inquiry with the Contract Administrator, a review was not obtained because the contract followed a contract template previously approved for use by the Legal Division. However, upon discussion with the Legal Division, each and every draft contract should be presented to the Legal Division so that they can review the actual terms of the contract for approval, even if the approved contract template was used.</p>	<p>Management Action Plan:</p> <p>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.</p> <p>Management Action Plan Responsible Party: Jim Doezie, Contract Administrator</p> <p>Completion Date:</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>Although a Policy has been in place, the processes were still being formalized during the period audited.</p> <p>Risk: Not presenting all contracts for the Legal Division’s review would hinder, as per the policy, <i>“The role of General Counsel or his/her designee to: Review contracts before execution for compliance with legal requirements and to provide assessment of risk to the agency.”</i></p> <p>See Policy § I.C.5.</p>	<p>Complete</p>
<p>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.</p> <ul style="list-style-type: none"> • The 2022 contract with OCERS Real Estate Investment Consultant requires \$10 million in Errors and Omissions Insurance, but the consultant’s COI only states \$5 million of coverage. • The 2022 contract with OCERS External Auditor requires \$2 million per occurrence for Professional Liabilities, but the External Auditor’s COI states only \$1 million in coverage. <p>Risk: Oversight when reviewing contractors’ certificate of insurance could put OCER at risk if actual dollar amount coverage is not adequate or does not</p>	<p>Management Action Plan:</p> <p>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.</p> <p>Management Action Plan Responsible Party:</p> <p>Jim Doezie, Contract Administrator</p> <p>Completion Date:</p> <p>June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>meet the terms required of the authorized contract. The role of the Contract Administrator is to “<i>Review Contractors' certificates of insurance to verify compliance with the contracted requirements for coverage.</i>”</p> <p>See Policy § I.C.4.vi.</p>	
<p>6. Policy is absent guidance of when a contract is needed and how to monitor routine items that do not warrant a contract.</p> <p>Throughout the audit, IA tested the Policy’s explicit requirements in terms of the authorization and the administration of vendor contracts. However, in discussions with management, we determined that the Policy does not sufficiently describe the circumstances in which a contract with a vendor is required, particularly regarding the purchase of routine items. Nor how to monitor current and future vendors that would not need a contract as determined by management or industry practice.</p> <p>The Policy does not explicitly state the criteria for when a contract is required.</p> <p>Risk: Having valid contracts would help evidence that OCERS has a “<i>A system of internal controls related to the procurement of goods and services is implemented.</i>”</p>	<p>Management Action Plan:</p> <p>A. 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.</p> <p>Management Action Plan Responsible Parties:</p> <p>Jim Doezie, Contract Administrator Manuel Serpa, Deputy General Counsel</p> <p>Completion Date:</p> <p>June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
See Policy § I.B.3	
<p>7. Upon review of OCERS' Contract Management System (CMS), we noted data entry errors with six vendors in our sample.</p> <ul style="list-style-type: none"> • Data Center co-location connection vendor's 2020 contract expiration date in the CMS was incorrectly entered as one year prior to the actual expiration date on the contract. (Contract values of \$118,000) • Firewall vendor's 2020 contract value needed correction from \$39,765 to \$136,221. • Copier vendor's 2019 contract value needed correction from \$103,806 to \$94,499. • Diversity consultant's 2021 contract value needed correction from \$75,000 to \$84,500 (this also included one of five contracts that was not uploaded into the CMS). • Insurance vendor's 2021 contract needed correction from \$64,352 to \$31,215. • Property management vendor's 2020 contract needed correction from \$57,000 to \$27,000. <p>Risk: Oversight when manually keying in terms of contracts within the CMS could lead to incorrect reporting or monitoring of the vendors' lifecycle. The role of the Contract Administrator is to "<i>Manage the Contractor files and the lifecycle management system,</i>"</p>	<p>Management Action Plan:</p> <p>A. Management has approval to hire an additional Team Member in this department. Review procedures will be created and implemented at that time.</p> <p>Management Action Plan Responsible Parties: Brenda Shott, Assistant CEO, Internal Operations Jim Doezie, Contract Administrator</p> <p>Completion Date: January 31, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<p>and to “Monitor the expiration dates of all contracts to ensure either timely extension of the contract term or timely issuance of contract solicitation.”</p> <p>See Policy § I.C.4.i. and § I.C.4.xi.</p>	
<p>8. We noted potential room for improvement with either the Policy or with the addition of new procedures.</p> <ul style="list-style-type: none"> • For certain contracts the value cannot be defined ahead of time, such as for work billed by the hour or piecemeal. Since approvals are delineated in the policy by dollar amount thresholds, there appears to be an unintended gap regarding which signature approval is required for such contracts without a pre-determined contract value. • There needs clarification regarding governance over the approval of Named Service Providers (NSP) between the Policy and the Investment Committee Charter. The Policy states that Named Service Providers shall be approved for hire by the Board of Retirement. However, OCERS Investment Committee Charter states that the Investment Committee may approve the hiring of “managers, funds, consultants and custodians as necessary”. The Investment Committee Charter does not include a provision to recommend awarding a NSP to the Board for appointment. 	<p>Management Action Plan:</p> <ul style="list-style-type: none"> 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. <p>Management Action Plan Responsible Party:</p> <p>Jim Doezie, Contract Administrator</p> <p>Completion Date:</p> <p>June 30, 2023</p>

Observation Details	Management Action Plan (MAP) /MAP Responsible Party / Completion Date
<ul style="list-style-type: none"> The Contract Administrator should explicitly denote which potential vendor(s) are minority owned for future solicitations, as per the Policy, “a <i>diverse audience of contractors</i>” (e.g. minority groups) § II.A.4. As this is a new provision, the Contract Administrator should educate the OCERS Executives on this Policy requirement and ensure it is being followed. <p>Risk: Clarification of the above can help avoid potential confusion with how to comply with the Policy regarding the above three scenarios.</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”.

Opportunities for Improvement:

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

Inadequate:

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