



**Alameda County Employees' Retirement Association
BOARD OF RETIREMENT**

***AUDIT COMMITTEE/BOARD MEETING
NOTICE and AGENDA***

ACERA MISSION:

To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

Thursday, February 21, 2019
1:00 p.m.

LOCATION	COMMITTEE MEMBERS	
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14 TH STREET, 10 TH FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574	HENRY LEVY, CHAIR	EX-OFFICIO
	TARRELL GAMBLE, VICE-CHAIR	APPOINTED
	KEITH CARSON	APPOINTED
	DALE AMARAL	ELECTED SAFETY
	ELIZABETH ROGERS	ELECTED GENERAL

Should a quorum of the Board attend this meeting, this meeting shall be deemed a joint meeting of the Board and Committee.

The order of agenda items is subject to change without notice. Board and Committee agendas and minutes are available online at www.acera.org.

Note regarding public comments: Public comments are limited to four (4) minutes per person in total.

Note regarding accommodations: The Board of Retirement will provide reasonable accommodations for persons with special needs of accessibility who plan to attend Board meetings. Please contact ACERA at (510) 628-3000 to arrange for accommodation.

AUDIT COMMITTEE/BOARD MEETING

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Call to Order: 1:00 p.m.

Public Comment:

Action Items: Matters for Discussion and Possible Motion by the Committee

External Audit:

1. **Presentation, review, discussion, and possible motion to approve the external audit scope of work and timeline of services for the Financial Statements ended December 31, 2018, to be performed by Williams Adley & Co. LLP.**

- Robert Griffin, Concurring Partner
- Audrey Elbert, Engagement Partner
Williams, Adley & Company-CA, LLP
- Margo Allen

Recommendation:

The Audit Committee recommends to the Board of Retirement that the Board approve the external audit scope of work and timeline of services for the Financial Statements ended December 31, 2018, to be performed by Williams Adley & Co. LLP, .

Internal Audit:

2. **Presentation, discussion, and possible motion to approve the revised Internal Audit Department Charter**

- Harsh Jadhav

Recommendation:

The Audit Committee recommends to the Board of Retirement that the Board approve the revised Internal Audit Department Charter.

3. **Presentation, discussion, and possible motion to approve the Audit Committee Charter**

- Harsh Jadhav

Recommendation:

The Audit Committee recommends to the Board of Retirement that the Board approve the Audit Committee Charter.

Information Items: These items are not presented for Committee action but consist of status updates and cyclical reports

External Audit

1. **2019 Audit Committee Work Plan (Proposed)**

- Margo Allen

AUDIT COMMITTEE/BOARD MEETING

NOTICE and AGENDA, Page 3 of 3 - Thursday, February 21, 2019

Internal Audit

- 2. Review of Annual Risk Assessment** - Harsh Jadhav
- 3. Presentation of the 2019 Internal Audit Plan (Proposed)** - Harsh Jadhav

Trustee Comment:

Future Discussion Items

External Audit

1. Presentation and discussion of the GASB Statement No. 67 Valuation and addendums as of December 31, 2018 (Segal)
2. Presentation and discussion of the GASB Statement No. 74 Valuation and addendums as of December 31, 2018 (Segal)
3. Recommendation to extend WACO's contract to perform audit for calendar years 2019 and 2020.

Internal Audit

1. Progress report on the Internal Audit Plan
2. Review complete audits
3. Presentation and discussion of the Financial Fraud Policy

Establishment of Next Meeting Date

April 18, 2019 at 1:00 pm



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Audit and Communications Plan for the Year Ended
December 31, 2018



Confidence Earned

Agenda

- ▶ Engagement Team
- ▶ Auditor Responsibilities
- ▶ Management Responsibilities
- ▶ Audit Committee Responsibilities
- ▶ Our Risk-Based Approach
- ▶ Areas of Significant Risk
- ▶ Other Areas of Audit Emphasis
- ▶ Timeline

Engagement Team

▶ Audrey F. Elbert, CPA, Engagement Partner

- ▶ Has overall responsibility for the engagement, including service levels and adherence to timelines. Responsible for the engagement, including the content of reports and compliance with Firm and professional standards.

▶ Kenneth Yu, CPA, Senior Manager

- ▶ Primarily responsible for the achievement of engagement objectives and quality control of the audit procedures performed and the reports issued.

▶ Robert Griffin, CPA, Technical Review Partner

- ▶ Primary responsibility is to provide an independent view of the engagement team's judgments related to auditing and technical accounting matters. He will also provide consultation on technical issues and serve as a liaison to GASB, AICPA, and other authoritative sources.

Auditor Responsibilities

- ▶ Our responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards* is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. GAAP. Provide an in-relation to opinion on the other supplementary information.
- ▶ Issue report on internal controls and compliance (no opinion) based on results of tests of compliance with certain provisions of laws, regulations, contracts and grants
- ▶ Perform an audit of the GASB 68 & GASB 75 schedules in accordance with GAAS.
- ▶ Express opinions on whether the GASB 68 & GASB 75 schedules are presented in conformity with U.S. GAAP.
- ▶ Communicate significant matters related to the audits.

Management Responsibilities

- ▶ Prepare and present financial statements and supplementary information in conformity with U.S GAAP.
- ▶ Establish and maintain effective internal controls.
- ▶ Implement systems designed to achieve compliance with applicable laws, regulations, and contracts.
- ▶ Select and apply appropriate accounting principles.
- ▶ Comply with applicable laws and regulations and the provisions of contracts.
- ▶ Design and implement programs and controls to prevent and detect fraud, and inform us about all known or suspected fraud.
- ▶ Provide written representations.

Audit Committee Responsibilities

- ▶ Meet periodically with the auditors to discuss audit progress and findings.
- ▶ Resolve conflicts between auditors and management, if necessary.
- ▶ Review recommendations of the auditors regarding internal controls and ensure that they are being carried out in a timely manner.

Our Risk-Based Approach

- ▶ Audit planning is a continuous process. We use our most experienced team members to conduct and evaluate audit risks.
- ▶ External and internal risks are identified based on interviews, review of documentation (minutes, policies and procedures, IAD reports, etc.), results of internal control walkthroughs and testing, and institutional knowledge.
- ▶ We consider the effects of current risk factors on ACERA and emphasis is also placed on those areas requiring subjective judgment by management.
- ▶ Our approach to the internal control environment is to update our understanding of key controls annually, and perform testing on a rotational basis over a three year cycle.
- ▶ Our audit procedures emphasize testing areas with the highest risk of material misstatement, i.e., those accounts or transactions where we believe there is the greatest risk of material misstatement to the financial statements, whether due to error or fraud.
- ▶ Our reporting objective focuses on the fairness of presentation of the financial statements and schedules and the clarity and accuracy of related disclosures.

Areas of Significant Risk

Additions (Revenue)	Management Override of Controls	Investments
<p><u>Risks</u></p> <ul style="list-style-type: none"> Contributions are misstated. Investment income, including appreciation, is misstated. 	<p><u>Risks</u></p> <ul style="list-style-type: none"> Financial statements could be materially misstated. Misappropriation of assets. 	<p><u>Risks</u></p> <ul style="list-style-type: none"> Over-statement of account balances. Valuations not reported using proper methodology. Transactions reported in incorrect period. Assets not held in ACERA's name.
<p><u>Audit Response</u></p> <ul style="list-style-type: none"> Confirm with employers the amount of contributions and related receivables. Confirm investment valuation and perform analytical procedures. 	<p><u>Audit Response</u></p> <ul style="list-style-type: none"> Evaluate and update our understanding of controls over the financial reporting process. Select a sample of transactions and test to determine whether controls were operating effectively. 	<p><u>Audit Response</u></p> <ul style="list-style-type: none"> Independent confirmation and reconciliation testing. Review of third party valuations and market quotes.

Other Areas of Audit Emphasis

- ▶ In addition to significant risks identified previously, we have identified areas below as areas of focus during the audit due to materiality of the balance and/or complexity/judgment involved in the accounting.
 - ▶ Participant data and actuarial information
 - ▶ Benefit payments
 - ▶ Reserves
 - ▶ Cash activity
 - ▶ Presentation and disclosure of the financial statements
 - ▶ Accounting and reporting for actuarially determined estimates

Timeline

- ▶ Planning and Client Assistance - January / February 2019
- ▶ Fieldwork - Mid February - April 2019
- ▶ Presentation of Audit Results to Audit Committee - May 2019
- ▶ Reporting Deadlines
 - ▶ State Controller's Report - June 30, 2019
 - ▶ CAFR to GFOA - June 30, 2019
- ▶ Management Letter Comments - June 2019
- ▶ GASB 68 & 75 reports - June 2019



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: February 21, 2019

TO: Members of the Audit Committee

FROM: Harsh Jadhav, Chief of Internal Audit
Margo Allen, Fiscal Services Officer

SUBJECT: Audit Committee Charter

Executive Summary

In April 2018, Los Angeles County Employees Retirement Association (LACERA), an independent third party peer reviewer, performed a Quality Assessment Review (QAR) of the ACERA Internal Audit Department.

The objective of the QAR was to confirm the Internal Audit Department was adhering to the following standards of practice:

- Performing its audits with the appropriate level of objectivity;
- Maintaining a high level of ethics; and
- Exercising the appropriate level of independence.

The results of the assessment indicate that the Internal Audit Department met the requirements of “generally conforming”, which is the highest rating. As a part of its assessment, LACERA offered several best practice recommendations, including developing an Audit Committee Charter.

The Audit Committee Charter is intended to provide guidance and direction to the Audit Committee in carrying out its primary role by outlining the Audit Committee’s meeting and quorum requirements, authority and scope of responsibility, reporting requirements to the Board of Retirement, and specific duties as they relate to financial reporting, maintaining an effective system of internal controls, audit activities, compliance with applicable rules and regulations, and maintaining the highest standards of ethical conduct.

Recommendation

Staff recommends that the Audit Committee recommend to the Board of Retirement a motion to accept the recommendation made by LACERA (Quality Assessment Reviewer) to adopt the Audit Committee Charter.

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
AUDIT COMMITTEE CHARTER

I. PURPOSE

The purpose of this "Audit Committee Charter" is to guide the Audit Committee in fulfilling its fiduciary duties to provide oversight on matters of the integrity of ACERA's financial reporting process, the system of internal controls, the auditor's roles and responsibilities, and the organization's method for monitoring compliance with laws and regulations.

II. COMPOSITION

The Audit Committee shall consist of the Audit Committee Chairperson, Audit Committee Vice-Chairperson and three board members appointed by the Board Chairperson. Ideally, committee members should be sufficiently knowledgeable about topics such as risk management, accounting, auditing, financial reporting, and internal controls in order to make informed recommendations.

III. AUTHORITY

The Audit Committee has the authority to conduct or authorize investigations into any financial or compliance matters within its scope of responsibility. The work of the Audit Committee shall be confidential to the extent allowed by law, except for public reports to the Board of Retirement. The Audit Committee could seek any information it requires from employees, all of whom are directed to cooperate with the Committee's requests or consultants, as necessary.

IV. RESPONSIBILITIES

Generally the range of responsibilities for the Audit Committee would include:

- A. Oversee the reporting of financial information, including the financial statements, disclosures, notes to the financial statements, required supplemental information, supplemental schedules and other financial information;
- B. Review findings made by the internal auditors, external auditors, regulatory agencies, government authorities or other professional bodies concerning financial reporting discrepancies, financial fraud, operational inefficiencies, policy and compliance violations, or other ethics issues;
- C. Oversee the work of the internal auditors, external auditors, and any other consultants hired to assist the Audit Committee in fulfilling its fiduciary duties;
- D. Resolve any disagreements between management, internal auditors, and/or external auditors regarding financial reporting, audit findings, risk assessment, internal controls or matters of compliance;
- E. Approve the adoption and implementation of laws and regulations affecting financial reporting, disclosures, and presentation (i.e., GASB);
- F. Administer hearings and recommend to the Board of Retirement to accept or reject a participating employer's appeal of the findings on a final PEPPRA employer audit report;

- G. Review entity-level risks and possible impacts to the organization, members, participating employers and other stakeholders;
- H. Make recommendations to the Board regarding the appointment, retention, compensation, and scope of work of the external auditor engaged to audit ACERA's financial statements;
- I. Retain outside counsel, financial experts and other advisors as the Audit Committee may deem appropriate to perform agreed upon procedures, reviews, or investigations related to financial, compliance or operational matters;
- J. Review, approve and monitor the annual Internal Audit Plan;
- K. Monitor and review the charters and policies assigned to the Audit Committee;
- L. Review other related subject matter that the full Board deems appropriate.

V. MEETINGS

The Audit Committee will meet on a periodic basis, with authority to convene additional meetings as circumstances require. All meetings are subject to the Ralph M. Brown Act, Government Code Section 54950 et seq. As permitted by the Brown Act, the internal auditor or external auditor may request to meet privately with the Audit Committee to discuss material weaknesses in the internal control structure, fraud, conflicts of interest or other reportable issues. Three Audit Committee members present at the meeting shall constitute a quorum. No motion may be passed, or business transacted without three affirmative votes.

VI. REPORT AND RECOMMENDATION TO THE BOARD OF TRUSTEES

The Audit Committee will report its activities and make recommendations to the Board of Trustees. All formal actions taken at committee meetings must be considered for approval by the Board of Trustees.



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: February 21, 2019

TO: Members of the Audit Committee

FROM: Harsh Jadhav, Chief of Internal Audit
Margo Allen, Fiscal Services Officer

SUBJECT: Revised Internal Audit Department Charter

Executive Summary

We appreciated the discussion and input provided by the trustees from the October 2018 Audit Committee meeting on staff's suggested changes to improve the Internal Audit Department Charter language. We have incorporated any trustee feedback and are presenting the revised Internal Audit Committee Charter for consideration and approval.

In summary, in February 2010, the Board of Retirement approved the Internal Audit Department Charter, which defined the role and responsibilities of the Internal Audit Department. The Internal Audit Charter was subsequently reviewed by the Board of Retirement in October 2017 to discuss the key areas of auditor independence and restricted access.

Areas that are covered in the charter include:

- Mission and Scope of Work of the Internal Audit Department
- Accountability to the Audit Committee and Management
- Independence of Internal Audit Staff
- Definition of the Role and Responsibilities
- The Internal Auditor's Authority to Access Restricted and Confidential Material
- Standards of Audit Practice

In April 2018, Los Angeles County Employees Retirement Association (LACERA), an independent third party peer reviewer, performed a Quality Assessment Review (QAR) of the ACERA Internal Audit Department. LACERA reviewed the reporting structure, department procedures, risk assessment process, audit quality and audit workpapers. Based on its assessment, LACERA recommended opportunities for improvement and best practices that could make the ACERA Internal Audit Department more efficient and effective. One of the key recommendations made by LACERA was to modify the existing Internal Audit Department Charter to include the Institute of Internal Auditors (IIA) Code of Ethics.

In addition, the ACERA Internal Audit Department recommends adding a section to the charter specifying the requirements for consulting and advisory services engagements, which allows the Internal Audit Department to provide proactive, value-added service upfront (i.e. recommends internal controls during the system design and functional requirements stage of a new system implementation). Unlike an audit engagement where an auditor provides an independent opinion

on the risk and effectiveness of internal controls, a consulting engagement requires auditors to work with management in an advisory capacity on projects or to improve processes. Typically the consulting work is related to designing effective internal controls and assisting with risk assessment.

Other minor revisions were made to restate the information in a clear and concise manner, but these changes did not materially alter the intent or content of the original charter. Both a redlined version and clean version of the charter were provided for the committee's review and consideration.

Recommendation

Staff recommends that the Audit Committee recommend to the Board of Retirement a motion to accept the recommendation made by LACERA (Quality Assessment Reviewer) to adopt the Code of Ethics defined by the Institute of Internal Auditors (IIA), and add the Code of Ethics language to the Internal Audit Department Charter, to make the suggested minor revisions to improve the readability of the policy, and to add a section in the charter on *Consulting and Advisory Services*, to provide guidance on performing consulting engagements.

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION INTERNAL AUDIT DEPARTMENT CHARTER

I. MISSION AND SCOPE OF WORK

The mission of Alameda County Employees' Retirement Association (ACERA) Internal Audit Department is to provide assurance and advisory services to improve the organization's operations, evaluate and strengthen key financial controls, and protect against negative publicity. It helps ACERA accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequately functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee behavior and actions comply with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control process.

Opportunities for improving management control, profitability, operational efficiency and organizational image may be identified during audits, and they will be communicated to the appropriate level of management.

II. ACCOUNTABILITY

The Internal Audit Department shall be accountable to the Chief Executive Officer and the ACERA Board of Retirement to:

- Conduct an annual assessment of the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, ethics, environmental, external audit).

III. INDEPENDENCE

To ensure the independence of the Internal Audit Department, its personnel report administratively to the Chief Executive Officer (CEO) and directly to the Board of Retirement and the respective Audit Committee, in a manner outlined in the Accountability Section.

IV. CONSULTING AND ADVISORY SERVICES

The objective of consulting services is to provide management with formal assessments and advice for improving current processes or used at the front-end of projects so risks can be identified and managed, and internal controls can be designed. The objectives of advisory services are to provide informal advice to management. Examples of advisory services include participating on various committees in a non-voting capacity; providing routine advice on policies, monitoring internal controls, and remediation; providing risk management training and tools; facilitating meetings; and collecting benchmarking information.

V. RESPONSIBILITY

The Internal Audit Department will have the responsibility to:

- Develop a flexible annual audit plan using the appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval.
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to uphold the requirements of this charter.
- Establish a quality assurance program by which the CEO assures the operation of internal auditing activities.
- Perform consulting services, beyond assurance services, to assist management in meeting objectives. Examples may include facilitation, process design, training, and advisory services.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with development, implementation, and expansion.
- Issue periodic reports to the Audit Committee and management summarizing results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Audit Committee.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

Our Client will have the responsibility to:

- Implement, document, administer and monitor internal controls of their respective business processes and scope of responsibility. This will include documentation of the business process supporting the control, coordinating with internal or external third parties to collect and document inputs and outputs from that process, and providing a walkthrough for the business process. The Internal Audit Department will provide guidance and recommendations on strengthening existing key controls, eliminating inefficient secondary controls and promoting new key and compensating controls.
- Provide access to information systems, records, assets, and personnel necessary to perform reviews.
- Be accessible during the audit and, assign staff or management resources who will work with the Internal Audit Department help to coordinate timelines, communication, data gathering, testing, and resolve cross-functional issues.

- Respond in writing to audit findings and recommendations within an agreed upon period. Document disagreements and propose alternative solutions to mitigate risk and control deficiencies. If a finding demonstrates that a control needs to be remediated, the control is remediated within an agreed upon period.
- Maintain confidentiality regarding investigations that may affect personnel, plan members, or sensitive data.

VI. AUTHORITY

The Internal Audit Department is authorized to:

- Have unrestricted access to all functions, records, property, and personnel. Access deemed highly sensitive or confidential will only be accessible with prior approval from either the CEO, Audit Committee Chairperson, Audit Committee and/or the Board of Retirement.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequency, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where audits are being performed, as well as other specialized services from within or outside the organization.

The Internal Audit Department is not authorized to:

- Perform any operational duties for the organization or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

VII. CODE OF ETHICS

Internal auditors are expected to apply and uphold the following principles:

1. **Integrity** - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
2. **Objectivity** - Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors provide a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. **Confidentiality** - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency** - Internal auditors apply the knowledge, skills, and experience needed for the performance of internal audit services.

VIII. STANDARDS OF AUDIT PRACTICE

The Internal Audit Department will strive to meet or exceed the standards for the professional practice of internal auditing (i.e., IIA, IPPF).



2019 Audit Committee Work Plan (Proposed)

	Action Items	Information Items	Staff Items
Feb 21 – 1:00 PM (3 rd Thurs, same day as Board Meeting)	<i>External Audit</i> <ul style="list-style-type: none"> • Presentation, discussion, and possible motion to approve the external audit scope of work and timeline of services for the Financial Statements ended December 31, 2018, performed by the external audit firm <i>Internal Audit</i> <ul style="list-style-type: none"> • Presentation, discussion, and possible motion to approve the revised Internal Audit Department Charter • Presentation, discussion, and possible motion to approve the Audit Committee Charter 	<i>External Audit</i> <ul style="list-style-type: none"> • Audit Committee Work Plan (Proposed) <i>Internal Audit</i> <ul style="list-style-type: none"> • Review of Annual Risk Assessment • Presentation of the 2019 Internal Audit Plan (Proposed) 	
Apr 18 – 1:00 PM (3 rd Thurs, same day as Board Meeting)	<i>External Audit</i> <ul style="list-style-type: none"> • Recommendation to extend WACO’s contract to perform audits for calendar years 2019 and 2020. <i>Internal Audit</i> <ul style="list-style-type: none"> • None 	<i>External Audit</i> <ul style="list-style-type: none"> • Presentation and discussion of the GASB Statement No. 67 Valuation and addendums as of December 31, 2018 (Segal) • Presentation and discussion of the GASB Statement No. 74 Valuation and addendums as of December 31, 2018 (Segal) <i>Internal Audit</i> <ul style="list-style-type: none"> • Progress report on the Internal Audit Plan • Review complete audits • Presentation and discussion of the Financial Fraud Policy 	The GASB Statements No. 67 and No. 74 valuations and addendums are presented at the April committee meeting, and brought back in May for concurrent approval with the audited financial statement.



2019 Audit Committee Work Plan (Proposed)

	Action Items	Information Items	Staff Items
May 16 – 1:00 PM (3rd Thurs, same day as Board Meeting)	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • Discussion and possible motion to recommend approval of the December 31, 2018 Audited Financial Statements and Independent Auditor’s Report • Discussion and possible motion to recommend adoption of the Government Accounting Standards Board (GASB) Statement No. 67 Actuarial Valuation and Addendum as of December 31, 2018 • Discussion and possible motion to recommend adoption of the Government Accounting Standards Board (GASB) Statement No. 74 Actuarial Valuation and Addendum as of December 31, 2018 <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • None 	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • None <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • Progress Report on the Internal Audit Plan • Review completed audits 	<ul style="list-style-type: none"> • Participating Employers meeting (TBD) with Segal and Williams Adley to present: <ul style="list-style-type: none"> ○ Actuarial Valuation as of December 31, 2018 ○ GASB Statement No. 67 and No. 74 Valuations and addendums as of December 31, 2018



2019 Audit Committee Work Plan (Proposed)

Action Items	Information Items	Staff Items
Jun 20 – 1:00 PM (3 rd Thurs, same day as Board Meeting)	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • Discussion and possible motion to adopt the audited Schedules of Employer Allocations and Schedules of Pension Amounts by Employer with Related Notes, <i>based on the Addendum to GASB Statement No. 67 Valuation as of December 31, 2018</i> • Discussion and possible motion to adopt the audited Schedules of Employer OPEB Allocations and Schedules of OPEB Amounts by Employer with Related Notes, <i>based on the Addendum to GASB Statement No. 74 Valuation as of December 31, 2018</i> <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • None 	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • Presentation of the 2018 Auditor’s Observations and Recommendations (if any) • Recommendation to receive and file the Observations and Recommendations from WACO (if any) • Presentation and discussion of the GASB 68 Valuation and employer schedules as of December 31, 2018 • Presentation and discussion of the GASB 75 Valuation and employer schedules as of December 31, 2018 <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • Progress Report on the Internal Audit Plan • Review completed audits
Oct 17 - 1:00 PM (3 rd Thurs, same day as Board Meeting)	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • None <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • None 	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • None <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • Progress Report on the Internal Audit Plan • Review completed audits

Note: This work plan is subject to change without prior notice. Periodic rearrangements of agenda items will be made to the work plan to provide a reasonable length of time for each meeting.



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: February 21, 2019

TO: Members of the Audit Committee

FROM: Harsh Jadhav, Chief of Internal Audit

SUBJECT: 2019 Internal Audit Program

Executive Summary

The annual risk assessment is complete. The Internal Audit Department has reassessed the internal controls and risks identified by management to determine how changes in business process, laws, and regulations, pension practice or the organizational structure have changed the risk ranking for 2019. Based on the results of the risk assessment, the Internal Audit Department has planned to conduct five internal audits, complete the Alameda Health System (AHS) and Superior Courts Employer Audits, implement the ACERA Financial Fraud Hotline, and provide staff training on data analytics and fraud. Key objectives for this year will be to continue to build our competency in performing employer audits, focusing on staff development, utilize audit software to help us analyze large sets of data more effectively, and implementing a robust training program. The Audit Committee Meeting in February 2019 will feature the proposed 2019 Internal Audit Program, discussion regarding the updated risk assessment process, recommendations to adopt a revised Internal Audit Department Charter and Audit Committee Charter, and a review of the key initiatives the Internal Audit Department will focus on this year.

Update on the Employer Audit Strategy

Participating Employer	2014	2015	2016	2017	2018	2019
Alameda County			X			
Superior Courts of California						X
Alameda Health System				X →		
First 5 Alameda County	X					
Housing Authority of the County of Alameda		X				
Livermore Area Recreation and Park District	X					

The Internal Audit Department completed the fifth year of the participating employer audit cycle. The employer audit cycle has been extended from five to six years due to the volume and complexity of testing for the larger employers. We are pleased to report that we have completed the testing phase for the Alameda Health System Employer Audit, and now in the communication and report writing phase. We are still on schedule to report the results of the audit in 2019.

We sincerely thank our AHS colleagues, David Cox, CFO, Tony Redmond, Chief Human Resource Officer, Paula Peck, Director, Total Rewards, Nathan Chung, Retirement Plans Administrator, Karen Skillman, HRIS Manager and their AHS staff for their assistance during this process. In addition, we have started the data gathering phase for the employer audit for the County of Alameda, Superior Courts. In this stage, we are collecting membership and payroll data. We want to extend our thanks to our Superior Courts colleagues Glenys Rogers, Human Resources Director, Melanie Lewis, Finance Director and Deanne Klass, Payroll Technician for their excellent cooperation.

Proposed 2019 Audit Plan

Internal Audit Program (2019)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
Medical Part B Premium Reimbursement (MBRP) Audit	Internal Audit	Lyndon	Started				
Underpayments/Overpayments (Vendor Payments) Audit	Internal Audit	Lyndon	Not Started				
Investment Watchlist Audit	Internal Audit	Harsh	Started				
Cybersecurity and Data Security Review	Internal Audit	Harsh	Ongoing				
30 Year Membership Verification Audit	Internal Audit	Harsh	Not Started				
Employer Audit Testing/Report - Alameda Health System	Employer Audit	Caxton	Started				
Employer Audit Testing/Report - Superior Courts	Employer Audit	Caxton	Started				
2019 Annual Internal Audit Risk Assessment	Administration	Harsh	Complete				
2020 Annual Internal Audit Risk Assessment	Administration	Harsh	Not Started				
Actuarial Data Conversion	Administration	Lyndon	Not Started				
Implement Fraud Hotline	Special Project	Lyndon	Started				
Data Analytics Training for Staff	Special Project	Lyndon	Not Started				
Fraud Training for Staff	Special Project	Caxton	Not Started				

Proposed 2019 Internal Audit Program

Internal Audits

Audit – Medical Part B Premium Reimbursement (MBRP)

The objective of this audit is to ensure the monthly medical allowance (specifically related to the Medicare Benefit Reimbursement Plan) is paid to eligible retirees.

Audit - Underpayment and Overpayment Audits (Vendor and Taxing Authority Payments)

The objective of this audit is to ensure business processes are in place and effective in preventing and/or recovering overpayments made to healthcare vendors and government taxing authorities. The review will include a walk-through of the business processes to determine how overpayments occur, the internal controls in place to mitigate overpayments, and the recovery process.

Audit – Investment Watchlist Audit

The objective of this audit is to review the Investment Department's procedures for monitoring fund managers based on the criteria listed in the General Investment Guidelines, Policies, and Procedures. Our focus will be to assess whether the internal controls were designed effectively to ensure performance decisions related to the Watchlist, Probation and Termination status, were made in accordance with the policy and established procedures.

.Audit – Cybersecurity Review and Data Security

The objective of this review will be to work with the PRISM Department to determine if adequate firewall, access controls, employee training, and processes for incident response, business recovery, and threat analysis are in place to ensure sensitive organizational data and member data are protected and secure.

Audit – 30-Year Membership Verification

The objective of this audit is to verify members granted 30-Year Membership have met the requirements for contributions to stop after 30 years of service credit. The scope of work will include reciprocity, membership entry dates for both safety and general members, and membership tiers.

Employer Audits

Audit – PEPRA Employer Audit of Alameda Health System

The employer audit of the Alameda Health System will assess the participating employer's compliance with state laws, rules, regulations and administrative policies regarding the enrollment of members, reporting of member data, and the reporting and remittance of employer contributions in accordance with the Public Employees' Pension Reform Act of 2013.

Audit – PEPRA Employer Audit of Superior Courts of California

The employer audit of Superior Courts of California will assess the participating employer's compliance with state laws, rules, regulations and administrative policies regarding the enrollment of members, reporting of member data, and the reporting and remittance of employer contributions in accordance with the Public Employees' Pension Reform Act of 2013.

Special Projects

Data Analytics Training

Internal Audit staff plans to hold internal trainings to educate ACERA staff on various technology tools and processes to improve the use of data analytics for business decision making.

Fraud Training

Internal Audit staff are developing a fraud awareness program to educate team members on anti-fraud activities that can reduce the cost of fraud within the organization. The training will cover fraud areas related to lack of segregation of duties, unauthorized use of data, operations, financial transactions, and theft.

Fraud Hotline

As part of their annual fraud assessment, the external auditor recommended for ACERA to implement a Financial Fraud Hotline. We are expecting the hotline to be functional by Q2 2019.

Summary

The Proposed 2019 Audit Program includes five internal audits, two employer audits and three special projects. Similar to the previous year, the proposed audits cover a cross-section of departments and risks. Last year, we successfully completed our fifth year of employer audits and several challenging internal and compliance audits. I want to acknowledge my staff for doing excellent work in 2018. I have full confidence that 2019 will be no different, and the Internal Audit Staff will continue to a great job partnering with management, servicing the Board of Retirement, and protecting our members.



**Alameda County Employees' Retirement Association
Internal Audit Department**



Internal Audit Department 2019 Internal Audit Plan

February 21, 2019

Agenda

1. Action Item – Revised IA Department Charter
2. Action Item – Audit Committee Charter
3. Annual Risk Assessment Process
4. Proposed Internal Audit Plan – 2019
5. Proposed Employer Audit Plan – 2019
6. Questions

Revised Internal Audit Department Charter



Peer Review and IA Recommendations:

1. IIA standard 1010 requires that the Code of Ethics be recognized in the Internal Audit Department Charter.
2. Add a section to the charter specifying the requirements for consulting and advisory services engagements, which allows the Internal Audit Department to provide proactive, value-added service upfront.

Audit Committee Charter



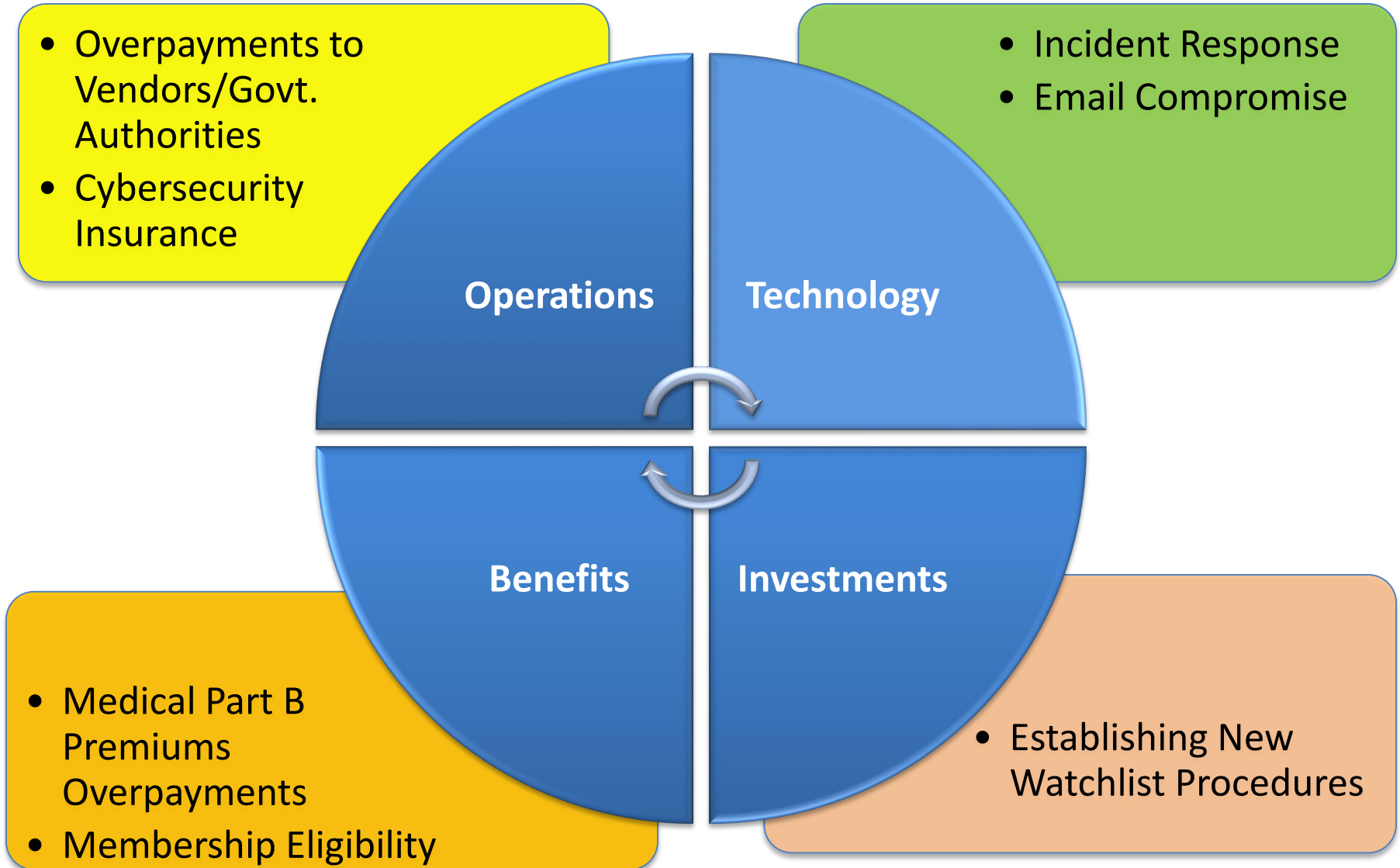
Peer Review Recommendation:

1. The Audit Committee does not have a charter to clearly define their roles and responsibilities. ACERA should work with the Committee in establishing a charter which will ensure that the Committee's aligns with industry best practices

Annual Risk Assessment Process

1. Reviewed the strategic objectives of each department and current and potential risks the departments were concerned about. Risks covered benefits, fiscal operations, investments, legal, IT, actuarial and human resources.
2. Discussed potential control weaknesses, new business processes introduced in the current year, staffing changes, and new legislative mandates which may impact the current business.
3. Reviewed potential cybersecurity risks related to privacy and data security.
4. Considered risks for fraud and compliance issues.
5. We summarized the key risks from each department to help prioritize our audit effort and develop the Internal Audit Plan for 2019.







Identified Risks



2019 Internal Audit Plan

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Employer Audit Plan

	Participating Employer	2014	2015	2016	2017	2018	2019
	Alameda County			X			
	Superior Courts of California						X
	Alameda Health System				X →		
	First 5 Alameda County	X					
	Housing Authority of the County of Alameda		X				
	Livermore Area Recreation and Park District	X					



Complete



In Process

Questions

