



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, October 18, 2018  
10:00 a.m.

LOCATION	COMMITTEE MEMBERS	
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14 <sup>TH</sup> STREET, 10 <sup>TH</sup> FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574	HENRY LEVY, CHAIR	EX-OFFICIO
	DALE AMARAL, VICE-CHAIR	ELECTED SAFETY
	VACANT	APPOINTED
	KEITH CARSON	APPOINTED
	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](http://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.

*Note regarding Public Records:* All writings that are distributed to a majority of members of the ACERA Board of Retirement in connection with a matter subject to discussion at an open meeting of the Board or one of its Committees are public records within the meaning of the California Public Records Act and are available for inspection upon request, unless the writings are privileged or otherwise exempt from disclosure under the provisions of the California Public Records Act. Please contact ACERA at (510) 628-3000 to request to inspect documents. Documents will be made available at ACERA, 475 14<sup>th</sup> Street, Oakland, California.

# ***AUDIT COMMITTEE/BOARD MEETING***

NOTICE and AGENDA, Page 2 of 2 - Thursday, October 18, 2018

**Call to Order:** 10:00 a.m.

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

None.

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

### *Internal Audit*

- |   |                          |
|---|--------------------------|
| 1. Progress Report on the Internal Audit Plan   | Harsh Jadhav             |
| 2. Progress Report on the Employer Audit Plan   | Harsh Jadhav             |
| 3. Review Objective and Scope of the Employer Audit of the Superior Court of Alameda County | Harsh Jadhav/Caxton Fung |
| 4. Discuss the Internal Audit Department Charter  | Harsh Jadhav             |
| 5. Discuss the Audit Committee Charter  | Harsh Jadhav/Margo Allen |
| 6. Discuss Implementation of the Financial Fraud Hotline                                    | Harsh Jadhav/Margo Allen |
| 7. Discuss the Financial Fraud Policy   | Harsh Jadhav/Margo Allen |

## **Trustee/Public Input**

## **Future Discussion Items**

### *External Audit*

- TBD

### *Internal Audit*

- TBD

## **Establishment of Next Meeting Date**

February 21, 2019 at 1:00 pm



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



# **Internal Audit Department 2018 Internal Audit Plan**

**October 18, 2018**


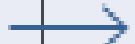



# Agenda

1. Progress on Internal Audit Plan – 2018
2. Progress on Employer Audit Plan – 2018
3. Superior Courts Employer Audit
4. Internal Audit Department Charter
5. Audit Committee Charter
6. Financial Fraud Policy
7. Financial Fraud Hotline
8. Questions

# 2018 Internal Audit Plan

Internal Audit Program (2018)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
2018 Annual Internal Audit Risk Assessment	Internal Audit	Caxton	Complete				
2019 Annual Internal Audit Risk Assessment		Caxton	Not Started				
2019 Risk Assessment (Redesign Project)		Margo/Caxton/Jessica	Started				
Fraud Reporting Process (Lean Project)		Lyndon	Complete				
Asset Tracking Audit		Lyndon	Complete				
Fixed Asset Review - Headquarter Building		Lyndon	Postponed to 2019				
Cybersecurity and Data Security Review		Harsh	Ongoing				
Investment Watchlist - Probation - Termination Procedure Audit		Harsh	Started				
Compliance Audits (MBRP)	Compliance Audits	Lyndon	Started				
Underpayments/Overpayments Audits - Vendor Payments		Lyndon	Not Started				
Employer Audit Testing/Report - Alameda Health System	Employer Audits	Caxton	Started				
Employer Audit Testing/Report - Superior Courts (New)		Caxton	Started				
PEPRA Best Practices Council - Participating Employers	Administration	Harsh	Complete				
Charter and Policy Development (New)		Harsh	Complete				
Peer Review		Harsh	Complete				
Fraud Training		Lyndon	Started				

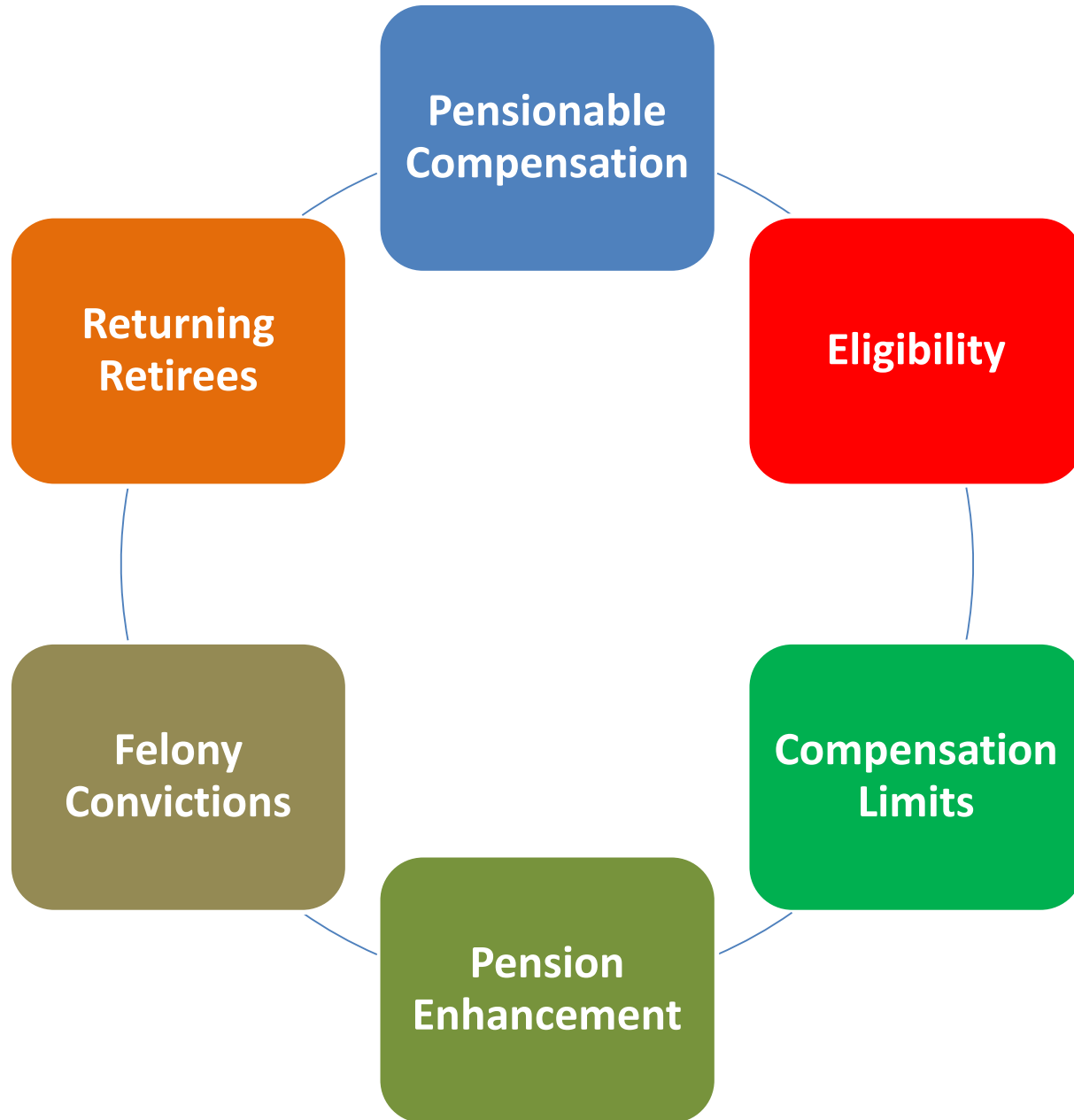
# Employer Audit Plan

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					

# **PROPOSED SUPERIOR COURT OF ALAMEDA EMPLOYER AUDIT**

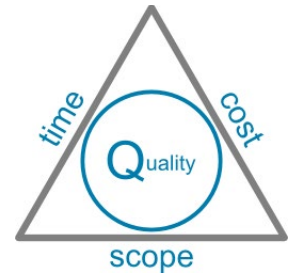


# General Areas of Employer Audit Review





# Audit Scope of Work



## Eligibility

1. Determine if membership enrollment forms for eligible employees are received by ACERA.
2. Determine if ineligible employees are being reported as eligible to participate in ACERA's defined benefit plan.

## Eligible Compensation

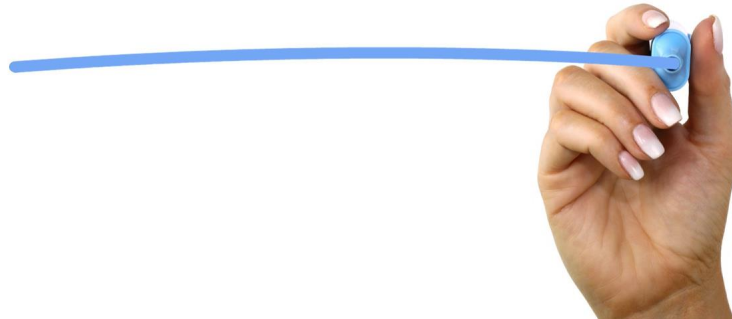
1. Determine if the Superior Court of California is reporting the correct pensionable compensation to ACERA.
2. Scan for unusual items included in the payroll reports/transmittal files to ACERA.
3. Determine if pensionable pay codes are applied correctly in the employer's payroll system.
4. Determine if the employer is in compliance with the PEPRA's pensionable compensation limits for new employees hired after January 1, 2013.
5. Determine if the employer is in compliance with the pensionable compensation limits specified in Section 401(a)(17) of Title 26 of the United States Code.
6. Determine if the employer is in compliance with vacation accrued, used and sell policies.

# Superior Courts Audit Timeline

Employer PEPPRA Audit - The Superior Court of California, the County of Alameda	Status	SEPT 2018	OCT 2018	NOV 2018 - JAN 2019	FEB 2019	MAR 2019	APR 2019	MAY 2019	JUN 2019	JUL 2019
Employer Audit Risk Assessment - Risk Matrix	Completed									
Employer Audit Plan Review by Audit Committee	On Track									
Review Employer Report Samples	Not Started									
Employer PEPPRA Audit Starts and Document Inquiry	Not Started									
Select Audit Samples for Initial Testing	Not Started									
Employer Payroll System Walk Through	Not Started									
Audit Testing	Not Started									
Draft Audit Report and Review with Employer	Not Started									
Finalize Audit Report, Comments and Suggested Remedies	Not Started									
Audit Committee Adopts Audit Report	Not Started									

# CHARTERS & POLICIES

POLICIES



# Internal Audit Department Charter



## Peer Review Recommendations:

1. IIA standard 1010 requires that the Code of Ethics be recognized in the internal auditor charter. Internal Audit should update the existing Internal Audit Department Charter to reflect the recognition of the Code of Ethics.
2. Enhancing ACERA management's understanding of the specific functions and scope of Internal Audit can increase Internal Audit's effectiveness in carrying out its mission.

# 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

# Fraud Policy



- ACERA is committed to maintaining the highest standards of ethics, integrity and accountability.
- ACERA recognizes the importance of protecting the organization, its employees, operations, members and assets from the consequences of fraudulent financial activity.
- Employees are the first line of defense against fraud and should be vigilant at all times and report any concerns about financial fraud in accordance with these policy guidelines.

# FINANCIAL FRAUD HOTLINE



# Fraud Hotline Lean Project



- Fraud Hotline was recommended by our External Auditor (Williams-Adley & Company-CA, LLP) as part of their annual fraud assessment.
- In addition, a Fraud Hotline is considered a best practice by the Association of Fraud Examiners, Institute of Internal Auditors, Association of Pension Fund Auditors and American Institute of Certified Public Accountants.



# REPORT TO THE NATIONS ON OCCUPATIONAL FRAUD AND ABUSE 2016 GLOBAL FRAUD STUDY

**Figure 23: Detection Method by Region—  
United States**

Detection Method	Percent of Cases
Tip	37.0%
Management Review	14.3%
Internal Audit	14.1%
By Accident	7.2%
Account Reconciliation	6.1%
Other	5.5%
Document Examination	4.8%
External Audit	4.0%
Notified by Law Enforcement	2.5%
Surveillance/Monitoring	1.9%
IT Controls	1.5%
Confession	1.2%



# Other Retirement Systems Using a Fraud Hotline



**OCERS**  
EMPLOYEES RETIREMENT SYSTEM

**Make a Report**

**Follow-up on a Report**

**Code of Conduct**

**To Make a Report**

You may use either of the following two methods to submit a report:

- Select the **"Make a Report"** link at the top of this web page.
- OR
- Dial toll-free, within the United States, Guam, Puerto Rico and Canada: **855-612-7058**

After you complete your report, you will be assigned a unique code called a "report key" and you will establish a password. Write down your report key and password, and keep them in a safe place. Reports will be reviewed by the OCERS Internal Audit Division. A response to your report and/or follow-up questions will be posted to the EthicsPoint's system within five to eight business days. After eight business days, use your report key and password to check your report for feedback or questions.

**OCERS Ethics, Compliance, and Fraud Hotline**

The OCERS Board of Retirement and management are committed to the highest standards of ethics, compliance with the law, and prudent management of plan assets.

As part of this commitment, OCERS has established an Ethics, Compliance, and Fraud Hotline for plan participants, employees, vendors, and the public to report concerns about suspected fraud, waste, or violations of law or policy. OCERS has contracted with an independent company, EthicsPoint, to accept calls and internet reports twenty-four hours a day, seven days a week. The information you provide will be sent to OCERS Internal Audit Division on a completely confidential and anonymous basis.

The [OCERS Code of Conduct](#) contains general guidelines for acceptable and lawful business practices, to promote professionalism, and establish standards of conduct applicable to OCERS employees.

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**Orange County**  
**Employees Retirement System**

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**Los Angeles County Fraud Hotline**

Department of Auditor-Controller  
Office of County Investigations

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**Before you Report...**

Use this hotline to report Los Angeles County managers, employees, contractors, or vendors who commit fraud, waste, or misappropriation of County resources.

**OCI NEWS**

**OCI in the NEWS**

Report Fraud

Add to Case

Check Status



Enriching Lives...

LA County Fraud Hotline

Open New Case

Add To Existing Case

Check Case Status

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Established 1855



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**Fraud, Waste, and Abuse Hotline**

**About the Hotline**

The Fraud Hotline is designed for reporting suspected cases of fraud, waste, or abuse. The Fraud Hotline is not a substitute for employment-related grievances or appeals, as existing City policy and procedures provide channels for resolution of these issues.

Face to face reporting is always the best form of communication, although that is not always feasible. Current City procedures and/or department instructions state that all complaints should be sent through the chain of command. However, recognizing that employees are not always comfortable going through the chain of command, the Fraud Hotline is another vehicle to report waste, fraud or abuse.

**Confidentiality**

The City Auditor will at all times maintain the confidentiality of all complaints, associated reports, working papers, and other documents. Similarly, Departments investigating reviewing allegations shall also maintain the confidentiality of all complaints.

**Whistleblower Protection**

The City of San Diego will not retaliate, nor will it tolerate retaliation against those who, in good faith, report suspected ethics violations or who participate in an investigation of suspected ethics violations. An act of retaliation should be reported immediately to the City Auditor for referral to the Personnel Director, who will investigate any such report as a potential ethics violation. In addition, those who bring matters to the Office of the City Auditor are protected through the state Whistleblower Protection Act.

**Resources**


- [Resources Home](#)
- [Fraud, Waste, and Abuse Hotline](#)

(866) 809-3500

[Report Fraud, Waste, or Abuse Online](#)

[Hotline Reports and Statistics](#)

[View Online Fraud Reporting Video](#)



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Home > Contact > Ethics Helpline

**Ethics Helpline**

At CalPERS, we strive to foster a work environment based on our Core Values: quality, respect, integrity, openness, accountability, and balance. To help ensure our workplace meets these professional standards, we created the CalPERS Ethics Helpline. The helpline provides a means to confidentially report potential unethical behavior to a third party, EthicsPoint, Inc., 24 hours a day, 7 days a week, online, and by phone.

The CalPERS Ethics Helpline can be used to report:

- Abuse
- Conflict of interest
- Fraud
- Improper business activity
- Retirement benefits abuse
- Safety violations
- Sexual harassment allegations
- Unethical conduct
- Waste

Before making a report, consider:

- Calling the CalPERS Customer Contact Center which provides help with all CalPERS business, including ordering retirement estimates, providing member statements, and responding to inquiries

Contact

**Ethics Helpline**

Headquarters & Regional Offices

Organization Directory

Public Records Requests

Questions, Comments, & Complaints

Tours & Speakers

Resources

California Department of Human Resources (CalHR)

CalPERS Ethics Helpline

Department of Fair Employment and Housing

Disability Fraud Tip Line

Equal Employment Opportunity Commission

State Personnel Board (SPB)

Transparency & Accountability

# Fraud Hotline Lean Project

## Lean Project Team

**Co-Leaders:** Lyndon Coggin and Cristina Pena

**Team:** Brehanna Ramirez, Jocelyn Jacala, Tina Gonzales, Marlon Montenegro and Kevin Weller

**Coach:** Margo Allen





# Fraud Hotline Vendor Comparison

Analysis	Description	Vendors		
		Safe Hotline	Red Flag Reporting	Lighthouse
1	Headquarters	Arizona	Ohilo	Pennsylvania
2	Minimum Cost	\$395 per year plus one free poster	\$525 per year	\$497 per year plus posters (\$40 - \$75)
3	Availability	24/7 (Voice Mail only)	24/7/365 all with live trained operators	24/7/365 all with live trained operators
4	Case Management Software	Included	Included	Included
5	Training	Minimal	Included -Video training	Included -Video training
6	Access	Voice Mail only with auto transcriptions	Web, fax, mail, e-mail, text and toll free phone	Web, fax, mail, e-mail, text and toll free phone
7	Set-up & Report Fees	6 month commitment then month to month	Included - No Charge	Included - No Charge
8	Communications	Act as middle man only	Ethics and Safety Issues ongoing	Ethics and Safety Issues ongoing
9	References from Vendor	150 clients with 6 employees in Arizona	Association of Certified Fraud Examiners, Nasdaq Stock Exchange, J.D. Powers	2,000 organizations with over 4 million users
10	Reference from APPFA	None	Kentucky Retirement utilizes this system and speaks highly of their collaboration	None
11	History	Came out of an auditor's experience and has been in business for 2 1/2 years	Started as a service of a large CPA firm, became independent. Has overseas clients and many years of experience	Hotline services since 2003 in a wide range of diverse industries
12	Servier	Microsoft Azure	Microsoft Azure	Multiple servers with backups for emergencys
13	Ability to Adapt	Reprogramming would be needed	Scalable	Scalable
14	Demo	Teleconference	Teleconference	Self-Serve Online Demo Only

# **SPECIAL RECOGNITION**





Armanino hosted its annual CFO Evolution conference in San Francisco on October 8th and recruited Margo Allen to sit on a panel for a session focused on finance teams who have led initiatives to drive businesses beyond just finance dashboards and KPI's.

The session content focuses on the path to becoming a transformational CFO, deploying technology, building the team of the future and much, much more.

# Congratulations Margo!







# Recognition of my **OUTSTANDING** staff



Caxton Fung volunteered  
and selected to be a  
Polling Inspector



Lyndon Coggin  
selected to be on the  
APPFA Panel on  
Data Analytics

# Questions







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MEMORANDUM TO THE AUDIT COMMITTEE

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**DATE:** October 18, 2018

**TO:** Members of the Audit Committee

**FROM:** Harsh Jadhav, Chief of Internal Audit

**SUBJECT:** Progress Update on the 2018 Internal Audit Program

**Executive Summary**

The Internal Audit Department is making steady progress on the 2018 Internal Audit Program. A few of the notable internal audits that are in progress include the Investment Watchlist, Probation and Termination Procedures Audit, which was slightly delayed due to the recent revisions made to the Watchlist and Probation sections of the General Investment Guidelines, Policies and Procedures. The Alameda Health System (AHS) Employer Audit is gaining momentum, as we received the remaining data files and scheduled our process walk-throughs. At the suggestion of the Benefits Department, we have initiated a follow-up compliance audit to review the Medicare Part B Premium Reimbursement (MBRP) process.

We also spent a significant effort to remediate issues raised by our peer reviewers in their 2018 Quality Assessment Review of the Internal Audit Department, including revising and introducing new charters and policies to give more clarity on the role and responsibilities of the department and the Audit Committee. In addition, based on the recommendation by our external auditors, Williams, Adley & Company-CA, LLP, we designed the financial fraud reporting process and policy.

**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 testing phase for the Alameda Health System Employer Audit is nearly complete. 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 scoped the employer audit for The County of Alameda, Superior Courts and completed the PEPPRA Risk Assessment process to help us plan the audit. We want to extend our thanks to our Superior Courts colleagues Glenys Rogers, Human Resources Director and Melanie Lewis, Finance Director for their excellent cooperation.

## **2018 Audit Plan**

Internal Audit Program (2018)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
2018 Annual Internal Audit Risk Assessment	Internal Audit	Caxton	Complete				
2019 Annual Internal Audit Risk Assessment		Caxton	Not Started				
2019 Risk Assessment (Redesign Project)		Margo/Caxton/Jessica	Started				
Fraud Reporting Process (Lean Project)		Lyndon	Complete				
Asset Tracking Audit		Lyndon	Complete				
Fixed Asset Review - Headquarter Building		Lyndon	Postponed to 2019				
Cybersecurity and Data Security Review		Harsh	Ongoing				
Investment Watchlist - Probation - Termination Procedure Audit		Harsh	Started				
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Employer Audit Testing/Report - Alameda Health System	Employer Audits	Caxton	Started				
Employer Audit Testing/Report - Superior Courts (New)		Caxton	Started				
PEPPRA Best Practices Council - Participating Employers	Administration	Harsh	Complete				
Charter and Policy Development (New)		Harsh	Complete				
Peer Review		Harsh	Complete				
Fraud Training		Lyndon	Started				

## **2018 Internal Audit Program**

### ***Internal Audits***

#### Audit – Investment Watchlist, Probation and Termination Procedures 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 – Asset Tracking Audit

The objective of this audit will be to assess risks and evaluate internal controls associated with the organization's management of capital and non-capital assets.

#### Review – 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.

#### Review – Headquarter Building (Postponed to 2019)

The objective of this review will be to work with the Fiscal Services Department, Investment Department and Legal Department to better understand the ownership structure and the related financial and investment reporting requirements of the ACERA headquarter building located in Oakland, CA. One of our goals is to help the agency be proactive in determining if and how GASB Statement No. 87 (Leases) might change the reporting on the financial statements. GASB Statement No. 87 (Leases) is due to go into effect for reporting periods after December 15, 2019.

### ***Compliance Audits***

#### Audit – Underpayment/Overpayment Audits - Vendor/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 – Compliance

The objective of this series of audits is to ensure ACERA is complying with applicable laws, regulations, policies and established internal procedures. We have identified four broad sections of compliance (Federal/State Compliance, Policy Compliance, Contract Compliance and Internal Compliance), of which the Internal Audit Department will select certain areas of compliance to audit as part of the audit plan. It should be noted that in order to maintain objectivity and audit independence, the Internal Audit Department is not responsible for developing, designing, documenting or implementing compliance policies or procedures.

### ***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 (Postponed to 2019)

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***

#### Business Continuity Plan Review (Postponed to 2019)

As part of the three-year business plan, the Internal Audit Department has been tasked by the Leadership Team to assess the organization-wide business continuity plan to ensure the plan addresses new threat scenarios (i.e. the threat of unauthorized access to sensitive member data, malware, viruses). In addition, we will review the logistics of accessing the data center and opportunities to utilize cloud-based disaster recovery solutions.

#### Fraud Reporting Process (Lean Project)

The objective of this special project is to design and implement a fraud reporting process that allows ACERA staff to report fraud. The benefits of a fraud reporting process will improve the

safeguarding of assets and minimize monetary losses. In addition, fraud training on the reporting process will raise awareness of fraud risks and how to combat it in the workplace.

#### Enhanced Risk Assessment Process (Lean Project)

The objective of this special project is to redesign and implement a more robust risk assessment process to ensure key risks are identified and evaluated. Part of the project will be to determine if there are better ways to engage managers, including building a better risk assessment tool.

#### PEPRA Best Practices Council - Participating Employers

Since performing the first cycles of employer audits, we found that the participating employers had questions and suggestions regarding how to design a specific PEPRA internal control within a business process, interpret a PEPRA statute and apply it in practice, and implement best practices. We are partnering with the participating employers to host an optional meeting for all participating employers to meet on a periodic basis to discuss these matters, and hopefully leverage each other's expertise. In addition, it will allow the Internal Audit Department to give updates on best practice internal controls discovered in the field and an opportunity to review progress on the employer audit plan. We are exploring opportunities to host these meetings online to minimize commute times.

#### Peer Review

The Chief of Internal Audit determined best practices are not being utilized in all internal audit process and procedures and recommends conducting a peer review with another government agency. In addition, since the department is now responsible for several new initiatives, a peer review will evaluate if audit staff receives the appropriate training to build necessary skills to perform their new roles and responsibilities. The Internal Audit Department follows professional internal auditing standards as guidance and requires a peer review on a periodic basis.

#### Charter and Policy Development

The results of the Peer Review (Quality Assurance Assessment) indicated that the Internal Audit Department Charter needed to be revised to include an ethics component for internal auditors and an Audit Committee Charter needed to be developed to provide guidance to Audit Committee members on their role and responsibilities. In addition, staff also developed a Financial Fraud Policy to inform ACERA employees of the process to report financial fraud discovered within the organization.

#### Fraud Training

By implementing an effective fraud awareness program, leaders can educate team members in its anti-fraud activities and can significantly 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.

#### Summary

The Proposed 2018 Audit Program includes seven active audits/reviews and seven key initiatives. Similar to the previous year, the proposed audits cover a cross-section of departments and risks. I want to acknowledge my staff for their strong effort and dedication to delivering quality work. The Internal Audit Staff will continue to do a great job partnering with management, servicing the Board of Retirement, and protecting our members.



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## MEMORANDUM TO THE AUDIT COMMITTEE

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**DATE:** October 18, 2018

**TO:** Members of the Audit Committee

**FROM:** Harsh Jadhav, Chief of Internal Audit

**SUBJECT:** 2019 PEPRA Compliance Audit – Superior Court of California (County of Alameda)

### **EXECUTIVE SUMMARY**

Pursuant to Government Code Sections 31542.5, 31543, 7522.40 – 7522.74, the Board of Retirement may audit the participating employer to determine the correctness of contributions, retirement benefits, reportable compensation, enrollment and reinstatement in the retirement system, post-retirement employment, and certain reported felony convictions. This audit is to determine if employer's payroll data and payroll processes are in compliance with applicable Public Employees' Pension Reform Act (PEPRA) and/or the County Employee Retirement Law of 1937 (CERL) as added, impacted or amended by PEPRA.

### **AUDIT OBJECTIVE**

The objective of this compliance audit is to determine if the employer's payroll data, payroll process, and other reporting requirements are in compliance with PEPRA and/or the CERL as added, impacted or amended by PEPRA. To accomplish the objective, a review of applicable PEPRA legislation, applicable ACERA Policy, and the CERL as added, impacted or amended by PEPRA, was conducted. In addition, the participating employer's documents and procedures were examined and key personnel from the employing agencies were interviewed, to gain an understanding of the employer's business process and practices.

### **SCOPE AND STRATEGY**

This audit scope is primarily to audit payroll and enrollment data from January 1, 2017 to June 30, 2018, for compliance with PEPRA. The objective of this audit will be to examine risks identified in Section 2.2. In addition, PEPRA Section 7522.32 states retirement benefits are determined using the highest average annual pensionable compensation earned by the member during a period of at least 36 consecutive months. This would require the participating employer to provide individual compensation records prior to 2017 and the first six months of 2018.

ACERA's Internal Audit Department will engage with the participating employers to perform limited scope audits related to compliance with the PEPRA. The scope of the audits will be based on what the Internal Audit Department deems as the highest risk areas, and may not include all risks and controls described in the PEPRA law. The audits will be performed by ACERA's Internal Audit staff, having adequate technical training and proficiency as auditors. In

In planning the engagement, a sufficient understanding of the internal controls will be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed. Sufficient appropriate evidential matter will be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding whether the participating employer is compliant with the specific controls being tested in accordance with the PEPPRA. Note that certain control risks and inherent risks prevent the Internal Audit Department from providing full assurance that the Participating Employer is in compliance and/or the non-complaint activity will not be prevented or detected on a timely basis by the participating employer's internal controls.

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# Participating Employer Audit Plan

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Audit of Public  
Employees' Pension  
Reform Act (PEPRA) for  
The Superior Court of  
California the County of  
Alameda  
Audit Year 2019

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# PARTICIPATING EMPLOYER AUDIT PLAN

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## **1.0 GENERAL INFORMATION**

## **1.1 Purpose**

Pursuant to Government Code Sections 31542.5, 31543, 7522.40 – 7522.74, the Board of Retirement may audit the participating employer to determine the correctness of contributions, retirement benefits, reportable compensation, enrollment and reinstatement in the retirement system, post-retirement employment, and certain reported felony convictions. This audit is to determine if employer's payroll data and payroll processes are in compliance with applicable Public Employees' Pension Reform Act (PEPRA) and/or the County Employee Retirement Law of 1937 (CERL) as added, impacted or amended by PEPRA.

## **1.2 Scope**

This audit scope is primarily to audit payroll and enrollment data from January 1, 2017 to June 30, 2018, for compliance with PEPRA. The objective of this audit will be to examine risks identified in Section 2.2. In addition, PEPRA Section 7522.32 states retirement benefits are determined using the highest average annual pensionable compensation earned by the member during a period of at least 36 consecutive months. This would require the participating employer to provide individual compensation records prior to 2017 and the first six months of 2018.

ACERA's Internal Audit Department will engage with the participating employers to perform limited scope audits related to compliance with the PEPRA. The scope of the audits will be based on what the Internal Audit Department deems as the highest risk areas, and may not include all risks and controls described in the PEPRA law. The audits will be performed by ACERA's Internal Audit staff, having adequate technical training and proficiency as auditors. In all matters relating to the audit engagement, independence in mental attitude will be maintained by the auditor or auditors. Due professional care will be exercised in the performance of the audit and the preparation of the report. The work will be adequately planned and assistants, if any, will be properly supervised.

In planning the engagement, a sufficient understanding of the internal controls will be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed. Sufficient appropriate evidential matter will be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding whether the participating employer is compliant with the specific controls being tested in accordance with the PEPRA. Note that certain control risks and inherent risks prevent the Internal Audit Department from providing full assurance that the Participating Employer is in compliance and/or the non-complaint activity will not be prevented or detected on a timely basis by the participating employer's internal controls.

Furthermore, ACERA's Internal Audit Department personnel are not trained or qualified to offer recommendations on legal, actuarial or investment matters. Any questions on these issues should be directed to the appropriate party. Hence, no part of the Internal Audit Report should be construed as legal, actuarial, or investment advice.

## 1.3 Audit Steps

A general overview of the audit steps that will be taken, include the following:

1. Meet with participating employer and/or staff to obtain background information, and to gain familiarity of their business processes, known issues, and potential risks as a way to research the feasibility of audit tests.
2. Identify risks or exposures through the Risk Matrix completed by the participating employer, information provided by ACERA staff, and by evidence obtained through third parties.
3. Prepare the audit plan after assessing the requirements, resource constraints, timing and feasibility in performing this audit.
4. Present the audit plan to Audit Committee for review.
5. The participating employer will be informed of the audit, the opening conference meeting will be scheduled, and an initial document request will be sent to the employer requesting information necessary to begin the audit process.
6. The audit will then be conducted by ACERA Internal Audit staff. Staff may recommend that additional audit tests be performed, if new risks or weak internal controls are identified during the audit.
7. Compare ACERA's member records versus the participating employer's payroll system, which may involve view access to employer payroll system.
8. Conduct walkthroughs of various employer payroll and business processes.
9. Document findings and schedule an exit conference to discuss findings with the participating employer and ACERA staff to ensure no flagrant errors are included in the audit report.
10. Prepare the final audit report.
11. Submit the final audit report to Audit Committee and Board of Retirement.

## 1.4 Reasonable Basis for Conducting an Audit & Course Changes

### Reasonable basis for conducting an audit

We plan to conduct this audit between September 2018 and July 2019 in accordance with Generally Accepted Auditing Standards (GAAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained will provide a reasonable basis for our findings and conclusions based on our audit objective.

### Changes during the course of the audit

We may modify the overall audit strategy and the audit plan, if circumstances change significantly during the course of the audit, including changes in risk levels, changes to the business process and/or changes in the PEPR law.

## 1.5 Definitions

### **Audit sampling (sampling)**

The selection and evaluation of less than 100 percent of the population of audit relevance such that the auditor expects the items selected (the sample) to be representative of the population and, thus, likely to provide a reasonable basis for conclusions about the population. In this context, representative means that evaluation of the sample will result in conclusions that, subject to the limitations of sampling risk, are similar to those that would be drawn if the same procedures were applied to the entire population.

### **Audit findings**

The matters that are required to be reported by the auditor in accordance with the governmental audit requirement.

### **Compliance audit**

A program-specific audit or an organization-wide audit of an entity's compliance with applicable compliance requirements.

### **Compliance requirements**

Laws, regulations, rules, and provisions of contracts or grant agreements applicable to government programs with which the entity is required to comply.

### **Deficiency in internal control over compliance**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis.

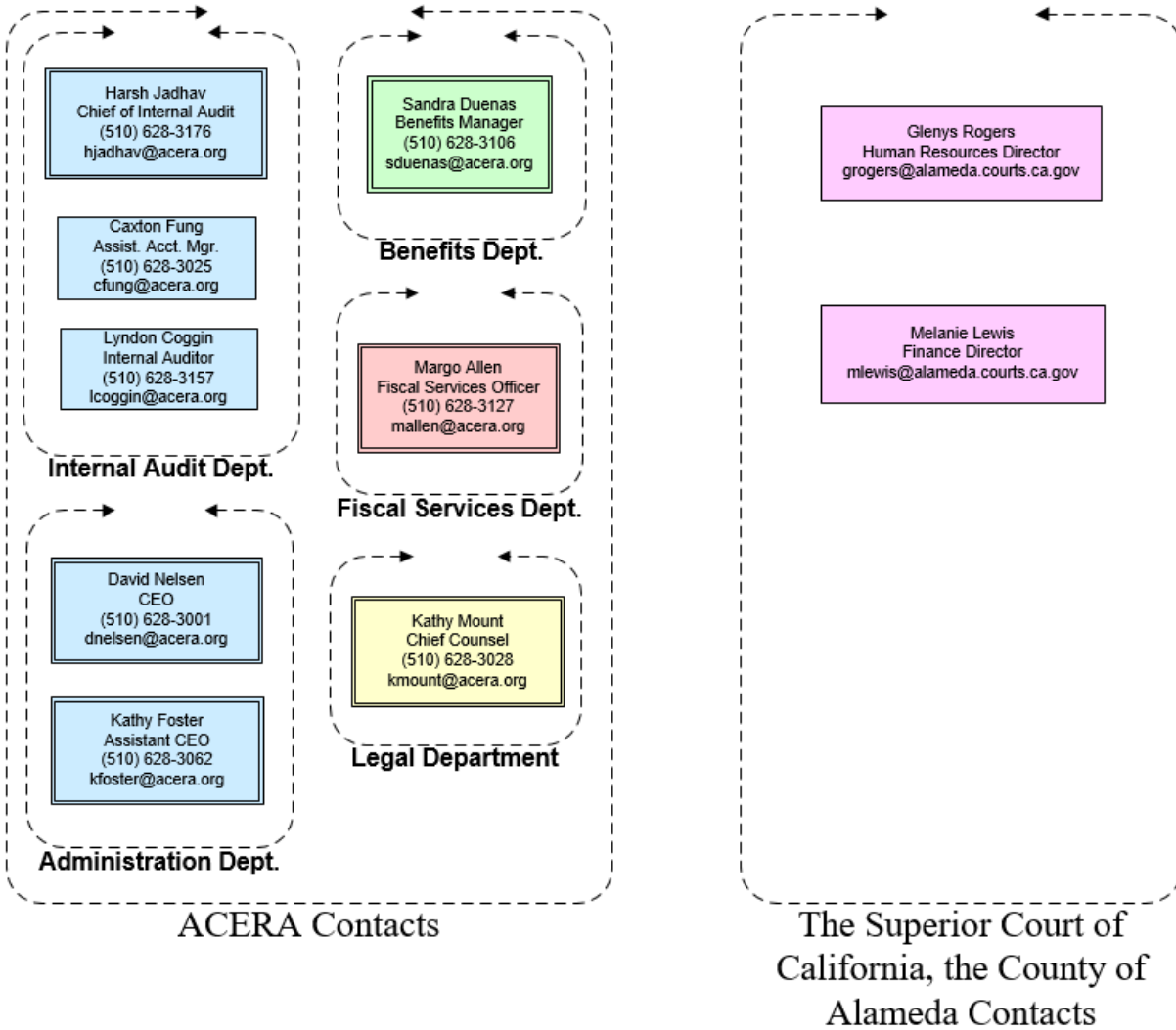
### **Inherent risk of noncompliance**

The susceptibility of a compliance requirement to noncompliance that could be material, either individually or when aggregated with other instances of noncompliance, before consideration of any related controls over compliance.

### **Control risk of noncompliance**

The risk that noncompliance with a compliance requirement that could occur and that could be material, either individually or when aggregated with other instances of noncompliance, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control over compliance.

## 1.6 Points of Contact



## **2.0 AUDIT PROCESS**

## **2.1 Type of Audit**

This is a compliance audit to determine if the employer's payroll data, payroll processes, and reporting requirements are in compliance with PEPRA and/or the County Employee Retirement Law of 1937 (CERL) as added, impacted or amended by PEPRA.

## **2.2 Identified Risks**

### **Eligibility**

- 1) Determine if membership enrollment forms for eligible employees are received by ACERA.
- 2) Determine if ineligible employees are being reported as eligible to participate in ACERA's defined benefit plan.

### **Eligible Compensation**

- 1) Determine if the Superior Court of California, the County of Alameda is reporting the correct pensionable compensation to ACERA.
- 2) Scan for unusual items included in the payroll reports/transmittal files to ACERA.
- 3) Determine if pensionable pay codes are applied correctly in the employer's payroll system.
- 4) Determine if the employer is in compliance with the PEPRA's pensionable compensation limits for new employees hired after January 1, 2013.
- 5) Determine if the employer is in compliance with the pensionable compensation limits specified in Section 401(a)(17) of Title 26 of the United States Code.
- 6) Determine if the employer is in compliance with vacation accrued, used and sell policies.

## **2.3 Roles and Responsibilities**

### **Internal Audit Department**

Internal Audit staff is responsible for audit planning, auditing employer's internal controls on retirement enrollment and employer's payroll data for accuracy, issuing the audit report, and addressing audit related questions from employer. The Internal Audit Department will present the audit report to the Audit Committee and the Board of Retirement.

### **Legal Department**

Legal staff is responsible for providing legal opinions on the interpretation of PEPRA and CERL as added, impacted or amended by PEPRA.

### **Benefits Department**

Benefits staff is responsible for overall internal controls for ACERA's pension administration. Part of their role will be to ensure the pay code listing is current and up-to-date as it will be used to verify the accuracy of pay codes in employer's payroll system. As Benefits staff may have view access to employer's payroll system, staff can assist in providing payroll details for selected individual sample.

### **Fiscal Services Department**

Fiscal Services staff may be consulted to ensure retirement contribution payments have been received timely and matching to the payroll record submitted by employer.

## 2.4 Audit Methodology

To accomplish our objectives, the Internal Audit Department will review applicable PEPRA and the CERL as added, impacted or amended by PEPRA. The internal auditors will also visit employing agencies to conduct a review of documents and procedures, as well as interview personnel at the selected agencies. In addition, we will analyze the data and information maintained at ACERA and available from the employing agency to confirm it to be reliable for our audit purposes. If our analysis raises suspicion of potential inappropriate activity, we may change our audit strategy during the course of the audit including potentially expanding the audit scope.

## 2.5 Document and Records Inquiry

The Internal Audit Department may inquire and review various documents and records, including but not limit to:

- Participating employer's Board minutes and Board resolutions
- Participating employer's written labor policies, Memorandum of Understandings (MOU), and other agreements
- Participating employer's salary, wage and benefit agreements including applicable resolutions
- Participating employer's personnel records and payroll registers
- Participating employer's payroll information including contribution transaction history and detailed reports
- Other documents used to specify pay rate, special compensation, and benefits for all employees
- Participating employer's enrollment practices and written procedures for hiring temporary and part-time employees, to determine whether individuals met ACERA membership requirements
- Other documents, as necessary

## 2.6 Audit Timeline Summary

Employer PEPRA Audit - The Superior Court of California, the County of Alameda	Status	SEPT 2018	OCT 2018	NOV 2018 - JAN 2019	FEB 2019	MAR 2019	APR 2019	MAY 2019	JUN 2019	JUL 2019
Employer Audit Risk Assessment - Risk Matrix	Completed									
Employer Audit Plan Review by Audit Committee	On Track									
Review Employer Report Samples	Not Started									
Employer PEPRA Audit Starts and Document Inquiry	Not Started									
Select Audit Samples for Initial Testing	Not Started									
Employer Payroll System Walk Through	Not Started									
Audit Testing	Not Started									
Draft Audit Report and Review with Employer	Not Started									
Finalize Audit Report, Comments and Suggested Remedies	Not Started									
Audit Committee Adopts Audit Report	Not Started									





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MEMORANDUM TO THE AUDIT COMMITTEE

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**DATE:** October 18, 2018

**TO:** Members of the Audit Committee

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

**SUBJECT:** Review of the Internal Audit Department Charter

**Executive Summary**

In February 2010, the Board of Retirement approved the Internal Audit 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).

## **Results**

Along with our recommendation, staff agrees with the recommendation made by LACERA, and have included a draft Internal Audit Charter for the Committee's review and consideration. This draft charter is for discussion only, with anticipation of incorporating any suggested changes, and returning the final version in February 2019.

1. LACERA recommended that the ACERA Internal Audit Department adopt the Code of Ethics defined by the Institute of Internal Auditors (IIA), and add language to the Internal Audit Charter. The purpose of the IIA Code of Ethics is to ensure the internal audit function is an independent, objective and consultative group designed to add value and improve the organization's operations. Although Alameda County has already implemented a Code of Ethics for Alameda County Employees, it does not include certain attributes like objectivity and audit competency which are specific to the internal audit function.
2. The ACERA Internal Audit Department recommends adding a section on Consulting and Advisory Services, to clearly define the objective and provide examples of acceptable consulting engagements. 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 are provided for the committee's review and consideration.

## ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION INTERNAL AUDIT DEPARTMENT CHARTER

### I. MISSION AND SCOPE OF WORK

The mission of Alameda County Employees' Retirement Association (ACERA) ~~Office of Internal Audit~~ Internal Audit Department is to provide ~~independent, objective~~ assurance and advisory services ~~designed~~ to improve the organization's operations, evaluate and strengthen key financial controls, and ~~to~~ 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 ~~the Office of Internal Audit~~ is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequately ~~and~~ 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-s ~~behavior and~~ actions ~~are in compliance~~ 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 ~~the~~ organization-s sal image may be identified during audits, ~~and they~~ They will be communicated to the appropriate level of management.

### II. ACCOUNTABILITY

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

- Conduct an annual assessment ~~on~~ 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 ~~Office of the Internal Audit~~ Internal Audit Department, its personnel report administratively to the Chief Executive Officer (CEO); and ~~all audit results~~ directly to the Board of Retirement and ~~the~~ respective Audit Committee, in a manner outlined in the Accountability Section.

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#### 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.

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#### V. RESPONSIBILITY

The ~~Office of Internal Audit~~ Internal Audit Department will have the responsibility to:

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- 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 ~~meet~~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 ~~its~~ 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 ~~their~~ development, implementation, and ~~or~~ 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 ~~for 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 ~~Office of Internal Audit~~ 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 ~~the~~ reviews.
- Be accessible during the audit. ~~In addition and,~~ assign ~~a~~ staff or management resources who will ~~serve on the Office of Internal Audit work with the Internal Audit Department Advisory Committee. The Office of Internal Audit Advisory Committee will serve~~help to coordinate

timelines, communication, data gathering, testing, ~~remediation~~ and resolve cross-functional issues.

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

## VI. AUTHORITY

The ~~Office of Internal Audit~~ 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 ~~either the CEO, Audit Committee Chairperson, Audit Committee and/or the Board of Retirement from the CEO and/or the Board of Retirement Audit Committee~~.
- Have full and free access to the audit committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where ~~they perform audits~~ audits are being performed, as well as other specialized services from within or outside the organization.

The ~~Office of Internal Audit~~ 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 ~~I~~internal ~~A~~auditing ~~D~~department.
- Direct the activities of any organization employee not employed by the ~~I~~internal ~~A~~auditing ~~D~~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 ~~I~~internal ~~A~~auditing ~~D~~department will strive to meet or exceed the standards for the professional practice of internal auditing (i.e., IIA, IPPF).

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# 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).





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## MEMORANDUM TO THE AUDIT COMMITTEE

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**DATE:** October 18, 2018

**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.

### **Results**

Staff agrees with LACERA’s recommendation, and has included a draft Audit Committee Charter for the committee’s review and consideration. This draft charter is for discussion only, with anticipation of incorporating any suggested changes, and returning the final version in February 2019.

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.



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MEMORANDUM TO THE AUDIT COMMITTEE

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**DATE:** October 18, 2018

**TO:** Members of the Audit Committee

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

**SUBJECT:** Financial Fraud Policy

**Executive Summary**

ACERA is committed to maintaining the highest standards of ethics, integrity and accountability, and recognizes the importance of protecting the organization, its employees, operations, members and assets from the consequences of fraudulent financial activity.

The Financial Fraud Policy is a management policy, and is being presented to the committee for information only. The policy is established to facilitate the development of internal controls that will aid in the detection and prevention of fraud. ACERA employees are the first line of defense against fraud and should report any concerns about financial fraud in accordance with these policy guidelines.

By providing proper policy guidelines and assigning responsibility for the development of internal controls and the conduct of investigations, we can ensure consistent and effective prevention, investigation, and reporting of fraud.



## **FINANCIAL FRAUD POLICY**

### **I. PURPOSE**

The Alameda County Employees' Retirement Association ("ACERA") has adopted this policy to ensure consistent and effective prevention, investigation, and reporting of fraud. It will provide guidelines on how to report financial fraud by employees who suspect that a financial fraud has occurred.

### **II. OBJECTIVE**

ACERA is committed to maintaining the highest standards of ethics, integrity and accountability. ACERA recognizes the importance of protecting the organization, its employees, operations, members and assets from the consequences of fraudulent financial activity. Employees are the first line of defense against fraud and should be vigilant at all times and report any concerns about financial fraud in accordance with these policy guidelines. This policy is further designed to provide guidelines on financial fraud reporting to employees and in assigning responsibility for the development of controls and conduct of investigations.

### **III. POLICY GUIDELINES**

- A. This policy applies to any known or suspected acts of financial fraud or irregularity at ACERA. These acts may involve ACERA employees, members, beneficiaries, consultants, vendors, contractors, or any other parties with a business relationship with ACERA. Investigations of alleged financial misconduct will be conducted without regard to a person's position, length of service, or relationship to ACERA.
- B. This policy will not apply to known or suspected acts of financial fraud or irregularity by trustees, participating employers, or staff of the participating employer's organization. Those complaints should be directed to the CEO, Assistant CEO, ACERA Board Chairperson or Vice-Chairperson and/or Chief Legal Counsel.

- C. Each member of the management team should be familiar with the types of financial fraud that might occur within their area of responsibility and be alert for any indication of irregularity. Employees who become aware of circumstances that might constitute financial fraud should first report the circumstances to the manager of the area affected or to their own manager. The employee may also report the circumstances to the Internal Audit Department through a fraud reporting hotline.
- D. The Internal Audit Department will coordinate an investigation with the CEO, Chief Counsel and others as appropriate. If any member of the Internal Audit Department is suspected of committing fraud, the CEO, Assistant CEO, or Chief Counsel should be notified immediately by the employee or the employee's manager.

#### **IV. DEFINITION OF FINANCIAL FRAUD**

- A. "Fraud" means the intentional concealment or false representation of a material fact of the purpose of inducing another to act upon it to their injury. The following definitions also shall under the general terms "fraud" or "financial fraud" for the purpose of this policy.
- B. "Misappropriation" means the intentional, illegal use of funds of another person for one's own use or other unauthorized purpose. Misappropriation also includes embezzlement and theft.
- C. "Financial improprieties" means misbehavior, reckless or inappropriate conduct in financial matters.
- D. Examples of fraud, misappropriation, or financial improprieties are listed below. This is not an exhaustive list.
  - 1. Any fraudulent act related to financial matters at ACERA
  - 2. Impropriety in the handling or reporting of money or financial transactions
  - 3. Theft of government money or property
  - 4. Fraudulent claims for benefits
  - 5. Any similar or related financial irregularity

**V. OTHER IRREGULARITIES NOT INVOLVING FINANCIAL FRAUD**

This policy does not relate to circumstances that do not involve financial fraud. Concerns about unnecessary spending, improper use of government resources, or inefficiencies should be brought to the attention of, and resolved by, departmental management. Concerns about behavioral conduct temporary and permanent staff or contractor should be reported to the employee's management and/or to the Human Resource Department. Vendor performance issues or violations of contract terms should be reported directly to the department manager responsible for the contract or to the Legal Department. If there is any question as to whether an action constitutes financial fraud, contact the Internal Audit Department for further guidance.

**VI. INVESTIGATION OF ALLEGATIONS OF FRAUD**

- A. Following a report of alleged financial fraud, an investigator or investigation team may be formed by the Internal Audit Department and the Chief Executive Officer (CEO), or someone designated by the CEO and the Chief Counsel. Members of that team will have free and unrestricted access to all ACERA records that are within the scope of the investigation. Access to the premises either owned or rented, will also be made available to the team.
- B. Confidentiality of the complaint will be maintained and information will be shared only with those parties who have a need to know about the details of the complaint and the identity of the complainant and parties involved. Information received about alleged fraud may need to be disclosed to internal and external parties as part of an investigation or as required by law.
- C. Employees who suspect fraudulent activity should not attempt to personally conduct investigations, interviews or interrogations related to any suspected fraudulent act, but will instead, notify their immediate supervisor, any Senior Leader and/or the Internal Audit Department of the facts surrounding the alleged fraudulent activity.
- D. Investigation results will not be disclosed or discussed with anyone other than those who have a need to know.

**VII. POLICY REVIEW**

Management shall review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

**VIII. POLICY HISTORY**

A. Management has adopted this policy on xx/xx/xxxx.