



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

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

**THIS MEETING WILL BE CONDUCTED VIA TELECONFERENCE PER GOV'T CODE § 54953(e)**

**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 20, 2022  
12:30 p.m.

ZOOM INSTRUCTIONS	COMMITTEE MEMBERS	
The public can view the Teleconference and comment via audio during the meeting. To join this Teleconference, please click on the link below. <a href="https://zoom.us/join">https://zoom.us/join</a> <b>Webinar ID: 879 6337 8479</b> <b>Passcode: 699406</b> For help joining a Zoom meeting, see: <a href="https://support.zoom.us/hc/en-us/articles/201362193">https://support.zoom.us/hc/en-us/articles/201362193</a> <b>Call-in Number: 1 669 900 6833</b>	<b>HENRY LEVY, CHAIR</b>	<b>TREASURER</b>
	<b>LIZ KOPPENHAVER, VICE-CHAIR</b>	<b>ELECTED RETIRED</b>
	<b>DALE AMARAL</b>	<b>ELECTED SAFETY</b>
	<b>KEITH CARSON</b>	<b>APPOINTED</b>
	<b>TARRELL GAMBLE</b>	<b>APPOINTED</b>

This is a meeting of the Audit Committee if a quorum of the Audit Committee attends, and it is a meeting of the Board if a quorum of the Board attends. This is a joint meeting of the Audit Committee and the Board if a quorum of each attends.

The order of agenda items is subject to change without notice. Board and Committee agendas and minutes, and all documents distributed to the Board or a Committee in connection with a public meeting (unless exempt from disclosure), 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.

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

NOTICE and AGENDA, Page 2 of 2 - Thursday, October 20, 2022

## **Call to Order**

12:30 p.m.

## **Roll Call**

## **Public Comment (Time Limit: 4 minutes per speaker)**

## **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. Review completed audits** - Harsh Jadhav

## **Trustee Comment**

## **Future Discussion Items**

## **Establishment of Next Meeting Date**

TDB




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MEMORANDUM TO THE AUDIT COMMITTEE

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**DATE:** October 20, 2022

**TO:** Members of the Audit Committee

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

**SUBJECT:** Progress on the 2022 Internal Audit Program

**Executive Summary**

The Audit Committee meeting in October 2022 will feature a progress update on the 2022 Internal Audit Program, the results of the Felony Forfeiture Policy Audit, the audit strategy for the Workforce Resilience Audit, a presentation of the Pension Administration System Internal Controls Project, and a cybersecurity update.

The Internal Audit Department is scheduled to perform four internal and one policy audits. In addition, three special projects are still on schedule or completed. The Commercial Bank Internal Controls project was delayed to 2023 per the request of staff.

**2022 Audit Schedule**

Internal Audit Plan (2022)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
Felony Forfeiture Policy Audit	Policy Audit	Caxton	Completed				
Prevent Member Identity Theft Audit	Internal Audit	Lyndon	In Progress				
System-Wide Benefits Calculations Audit	Internal Audit	Lyndon/Caxton	Not Started				
Workforce Resilience Audit	Internal Audit	Harsh/Lyndon	In Progress				
Third-Party Service Provider Audit	Internal Audit	Harsh	Not Started				
Workers Compensation Contributions and Service Credit Project	Special Project	Caxton	Completed				
Commercial Bank Internal Controls Project	Special Project	Lyndon	Postponed				
Pension Administration System Internal Controls Project	Special Project	Lyndon/Caxton	Continuous				
Cybersecurity and Data Security Self-Assessment	Special Project	Vijay/Harsh	Continuous				
2022 Annual Risk Assessment	Administration	Harsh	Completed				
2023 Annual Risk Assessment	Administration	Harsh	Not Started				
Fraud Hotline Management	Administration	Lyndon	Continuous				
Fraud Training	Administration	Lyndon/Caxton	Completed				

**2022 Audit Program**

***Policy Audits***

**Felony Forfeiture Policy Audit**

The purpose of the audit is to review the participating employer's compliance with ACERA's Felony Forfeiture Policy. This policy provides guidance on how participating employers handle felony forfeitures of retirement benefits. The Public Employees' Pension Reform Act of 2013

("PEPRA") added two forfeiture statutes applicable to public employees convicted of felonies on or after January 1, 2013.

### ***Internal Audits***

#### Prevent Member Identity Theft Audit

This audit aims to strengthen internal fraud controls to prevent third parties from making unauthorized changes to member accounts and banking information. The examination will review the business process and explore technology solutions to enhance identity management controls.

#### System-Wide Benefit Calculations Audit

The purpose of the audit is to sample active, deferred, and retired members to ensure internal controls preventing overpayments are in place and operating effectively. Our approach will be to perform several small sample-size audits to review several types of benefit calculations for accuracy and completeness. With smaller data sets, we can quickly uncover potential systemic issues and recommend a remediation strategy. In addition, we will continue examining whether the final pensionable salary calculation for retired members is accurate.

#### Workforce Resilience Audit

This review aims to determine if ACERA has trained staff, backup personnel, and documented procedures for their critical processes. As the pandemic continues, part of prudent business continuity planning requires organizations to identify essential staff, ensure that critical processes are documented and updated regularly, and that backup personnel have been trained and assessed periodically.

#### Third-Party Service Provider Audit

This review determines if the critical third-party service providers that manage ACERA's confidential and sensitive information (i.e., member data) have internal controls to prevent breaches, processes to manage adverse events and adequate incident response procedures.

### ***Special Projects***

#### Workers Compensation Contributions and Service Credit Project

Staff requested a review of ACERA's process for collecting member and employer contributions on Worker's Compensation Pay.

#### Commercial Bank Internal Controls Project

The Fiscal Services Department has asked Internal Audit to provide advisory services and test internal controls for the segregation of duties as ACERA transitions to a new commercial bank to manage a suite of services, including retirement payroll, expense administration, and vendor payments.

#### Pension Administration System Internal Controls Project

The objective of this special project will be for the Internal Audit Department to support the business with technical guidance on risk and internal controls as the leadership plan to roll out Pension Gold (Version 3) to the organization.

#### Cybersecurity and Data Security Self-Assessment Project

The objective of this special project will be to work with the PRISM Department to determine if adequate firewalls, 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.

# Internal Audit Department 2022 Internal Audit Plan

October 20, 2022



# Agenda



Progress Update  
on the Internal  
Audit Plan



Felony Forfeiture  
Employer Audit



Workforce  
Resilience  
Audit



PAS Internal  
Controls Project



Cybersecurity  
Update

# Update on the Internal Audit Plan

# Internal Audit Plan

Internal Audit Plan (2022)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
Felony Forfeiture Policy Audit	Policy Audit	Caxton	Completed				
Prevent Member Identity Theft Audit	Internal Audit	Lyndon	In Progress				
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Fraud Training	Administration	Lyndon/Caxton	Completed				

# Recognition of Internal Audit Team Members



Lyndon Coggin was recently appointed as a Board Member with the Association of Public Pension Fund Auditors (APPFA), and will lead their conference next month in San Antonio. He previously served as the Historian for the San Francisco Chapter of the Association of Government Accountants, He is also a member of the Institute of Internal Auditors (IIA) and the Association of Certified Fraud Examiners (ACFE), for whom he has been asked to present at their annual conference next year

Caxton Fung has over 30 years of experience in accounting and auditing, and has been with ACERA since 1999. Caxton is a member of the Institute of Internal Auditors (IIA) and the Association of Certified Fraud Examiners (ACFE). Caxton was previously invited to speak about fraud at the CALAPRS Administrative Roundtable, and currently serves the IIA Northern California East Bay Board as a Programs/Seminar Committee Member.



# Internal Control Types

## **Preventive controls:**

Deter problems from occurring by implementing effective internal controls to support a business process. Examples include training, documentation, special projects, management approvals and reviews.

## **Detective controls:**

Discover problems that preventive controls fail to deter due to poor design or changes in the business process. Detective controls include audits and data analytics.

## **Corrective controls:**

Identify internal control weaknesses and report deficiencies to the stakeholders. Please note that Internal Audit does not get involved with the actual remediation to maintain their independence and objectivity.

# **Audit Results – Felony Forfeiture Policy Audit**

# Audit Objective

The objective of the audit was to determine if each participating employer had a process in place to track and report felony convictions to ACERA within ninety days of a conviction.

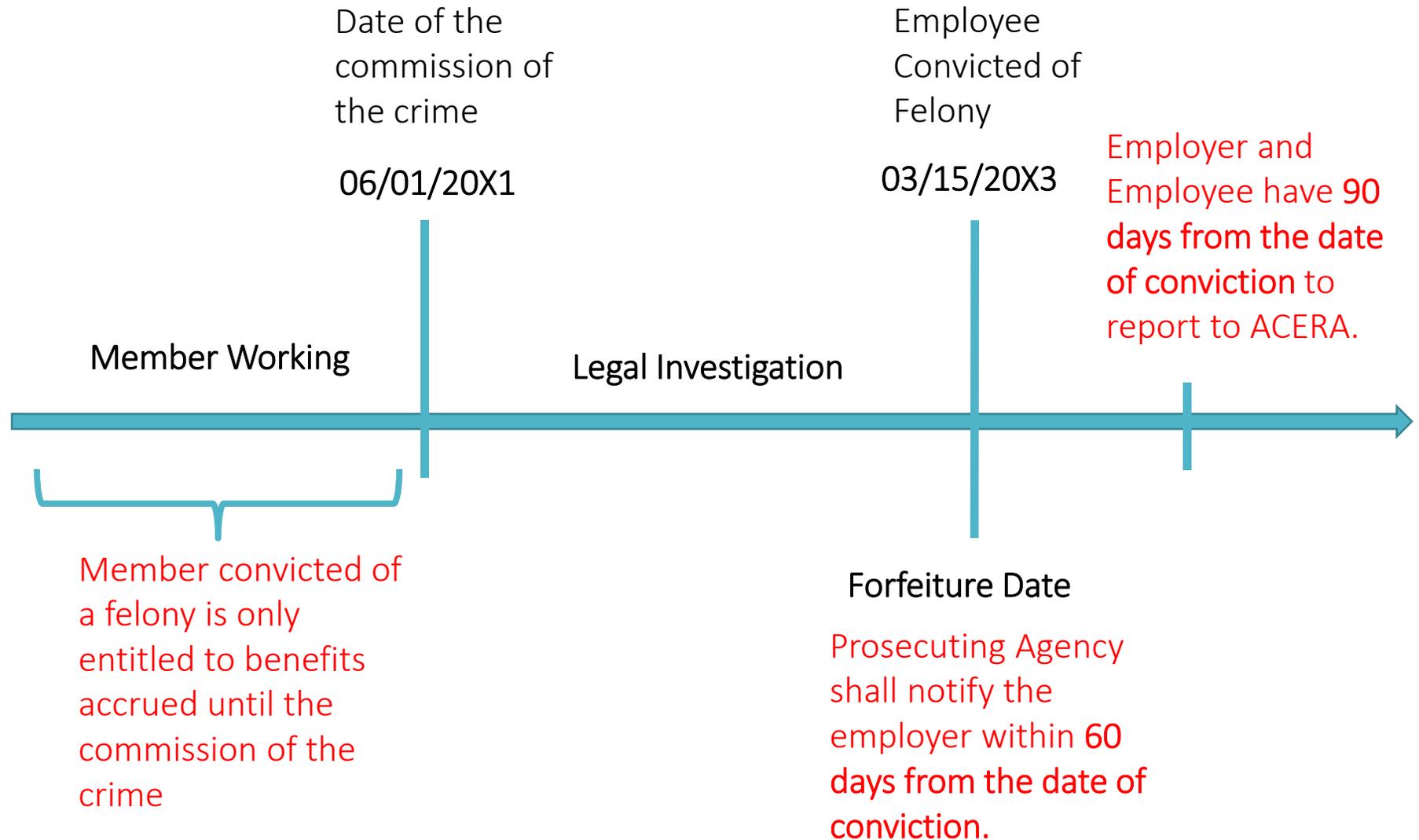
*PEPRA sections (7522.72 and 7522.74) and the ACERA policies*

# Scope of Work

We surveyed each participating employer with a series of questions to determine if the employers had a process to report felony convictions to ACERA resulting from a work-related incident.

We interviewed key personnel from the employers and reviewed the related documents and procedures. Due to the limitations on in-person meetings from the COVID-19 pandemic, we did not perform walk-throughs to observe the processes.

# Felony Reporting Process



# Survey Questions

## Survey Questions

1. Does your agency have a completed document(s) and procedure(s) for reporting employees convicted of job-related felonies to ACERA?
2. Does your procedure include monitoring and reporting potential felons?
3. Since January 1, 2013, how many job-related felony cases has your agency had?

# Audit Results

Employer	Effective	Partially Effective	Improvement Opportunity	Ineffective	In Remediation
Alameda County					X
AHS					X
Superior Court	X				
Housing Authority		X			
LARPD	X				
First 5 Alameda	X				

# Key Findings

1. Although some employers had no formal felony reporting and tracking process in place, they have started the remediation process.
2. The participating employers did not have a communication plan with the District Attorney's Office to track employees undergoing the felony conviction process.
3. In some cases, the felony forfeiture reporting process was in place, but not documented.
4. One case was discovered where the convicted employee self-reported his conviction to ACERA.

# Key Findings (cont.)

5. Some participating employers were unaware of how to report a convicted felon to ACERA since there was no primary point of contact at ACERA for reporting felony forfeitures. Jeff Rieger, Chief Counsel will now serve as the primary contact for felony reporting to ACERA.
6. The participating employers can benefit from more education about the felony forfeiture rules and regulations.

# Special Thanks

***Special thanks to Trustee George Wood for connecting ACERA and the participating employers with a liaison from the District Attorney's Office, who will assist with tracking and reporting the felony conviction status.***

# **Progress Update – Workforce Resilience Audit**

# Audit Objective

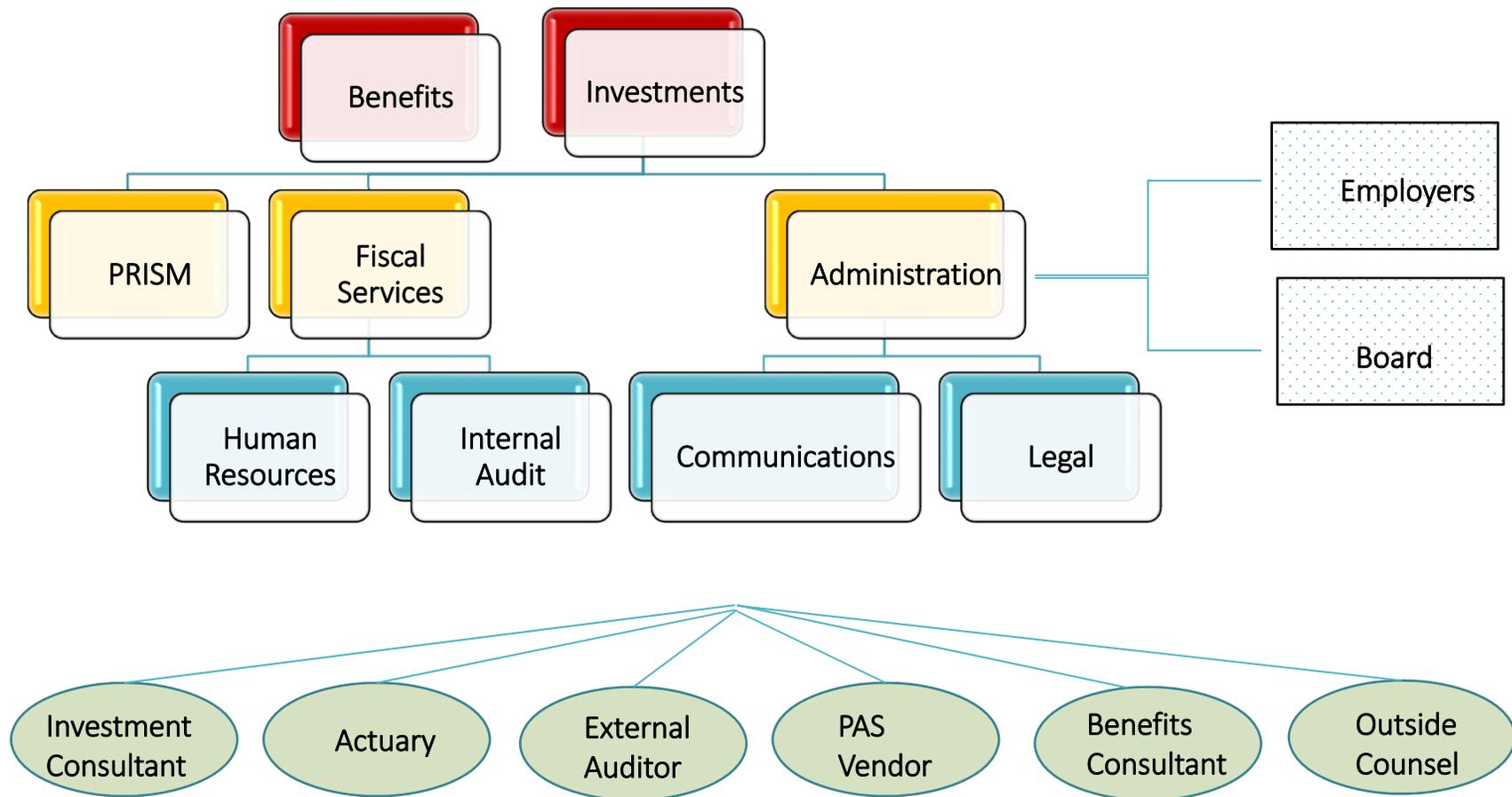
This review aims to determine if ACERA has trained staff, backup personnel, and documented procedures for their critical processes.

As the pandemic continues, part of prudent business continuity planning requires organizations to identify essential staff, ensure that critical processes are documented and updated regularly, and that backup personnel has been trained and assessed periodically.

# Audit Process/Scope of Work

Stream	Identified Critical Process	Process Is Documented & Standardized	Key Person Risk	Remote Work	Recovery Time Objective	Modified for PAS and Dependencies	PRISM Support & Systems
Business Impact	X	X	X	X	X	X	X
Internal Audit	X	X	X				
Training	X	X	X	X		X	

# Selection of Critical Processes



# Business Impact Analysis

The Business Impact Analysis (BIA) is a method for analyzing how disruptions may impact ACERA operations. The analysis considers timescales of disruption, as well as intensity, and looks at the resulting impacts on important business function activities.

# Business Impact Analysis

A BIA assessment maps the following:

- Identifies the most important business functions
- Examines the impact of business interruptions
- Details acceptable levels of downtime and losses
- Identifies resources needed for each business process and activities
- Identifies internal and external dependencies

# Business Impact Analysis

- The BIA is used in the continuous development of the ACERA Business Continuity Plan to ensure:
- Primary and Alternate staff are identified and trained to perform critical business functions and processes
- Information technology and tools and resources are secured and readily available to quickly recover from disruptions

# BIA Survey Example

**Critical Function:**

Call Center Operations

**Description:**

Ability to assist members via telephone and/or teleconference service

**Outage Impact:**

Severe

**Recovery Time Objective:**

24 Hours

**Technology Requirements:**

Laptop, USB Headset, Internet, Virtual Desktop Application, Pension Administration Application, Document Imaging Application, Virtual Contact Center Application

**Database/Records Requirements:**

Department File Share, Customer Log Database

**Staffing Requirements:**

3 FTE

**Dependencies:**

Document Scanning Unit (Internal), IT Department (Internal), Healthcare Provider Contact Center (External)

# Key Person Risk

- Have we identified a backup person/team to step in to perform a critical function, if the key person is unavailable?
- Has adequate training been given to potential backups?
- Has the backup person run through a practice exercise (i.e., business continuity planning simulation), where they actually go through the steps in the critical function?
- Does the key person have adequate technology to be able to do the critical process in a remote environment?
- Legacy Planning

# Standardized Processes

- Where critical processes involve multiple departments, is there clear and adequate communication between the departments?
- Consistency – Do all staff in the same role follow the same process?

# Documented Procedures

- Are procedures documented and updated on a consistent basis?
- Are the documented procedures centrally located?
- Are the documented procedures secure, where sensitive or confidential information is protected.

# Training

- Is the training uniform and standardized to ensure all staff are given the same level of training?
- As the business process changes, is there a process to update the training documentation?
- How often does backup staff get re-trained to ensure they are up to date on the most current business process and technology?
- Can better technology tools be used to enhance the training?
- Cost/Benefit – What training model and tools make sense for ACERA, considering the cost to develop and maintain?

# Training Best Practices

- Standardized approach to training that encompasses the different learning types
  - Auditory, visual, and kinesthetic
- Standardized, detailed, step-by-step procedures that include screenshots
- Combination of visual and hands on instruction
- Knowledge check points and/or quizzes
- When available – utilize Learning Management Software (LMS) to host/deliver training, access training records, and track staff training progress in a centralized depository

# Pension Administration System V3 Auditing Partnership



# Subject Matter Areas

- Benefit Payment Calculations
- Exception Management/Transmittal Reporting
- Scope Management Strategies
- Security Policies V3 Admin Fields

# Calculations

- ▶ Calculation Matrix V2- V3 Automation
- ▶ Considerations -Benefit Calculations identified for automation
  
- ▶ FAS Related Events
- ▶ Impact of Vacation Sell Amounts on FAS
- ▶ Benefit Estimate Results Letter Vacation Projections
  
- ▶ Salary and 401A17 Limit User Testing in V3.

# Transmittal Reporting

- ❖ Considerations enabling late payment notifications to Employers
- ❖ Standardize Employer Practices High and Low Contribution Deductions
- ❖ Knowledge sharing – County transmittal reporting and payroll practices

# Scope Management Strategies

- ❖ Business Process v System Customization
- ❖ EIN as designated payee corrections
- ❖ Adjustment Code Management
- ❖ New Salary Pay Code Validation from Employers
- ❖ Consult enforcing data entry constraints related to accurate interest posting (Future)

# Security and Access

- Member Portal Security Risks
- Name Change Controls for Active Employees
- User Level Permissions in V3 denial of MD access
  
- Account Locking
- Audit Reasons
- Appropriate Usage
  
- Manual Benefit Calculation V3 policy constraints

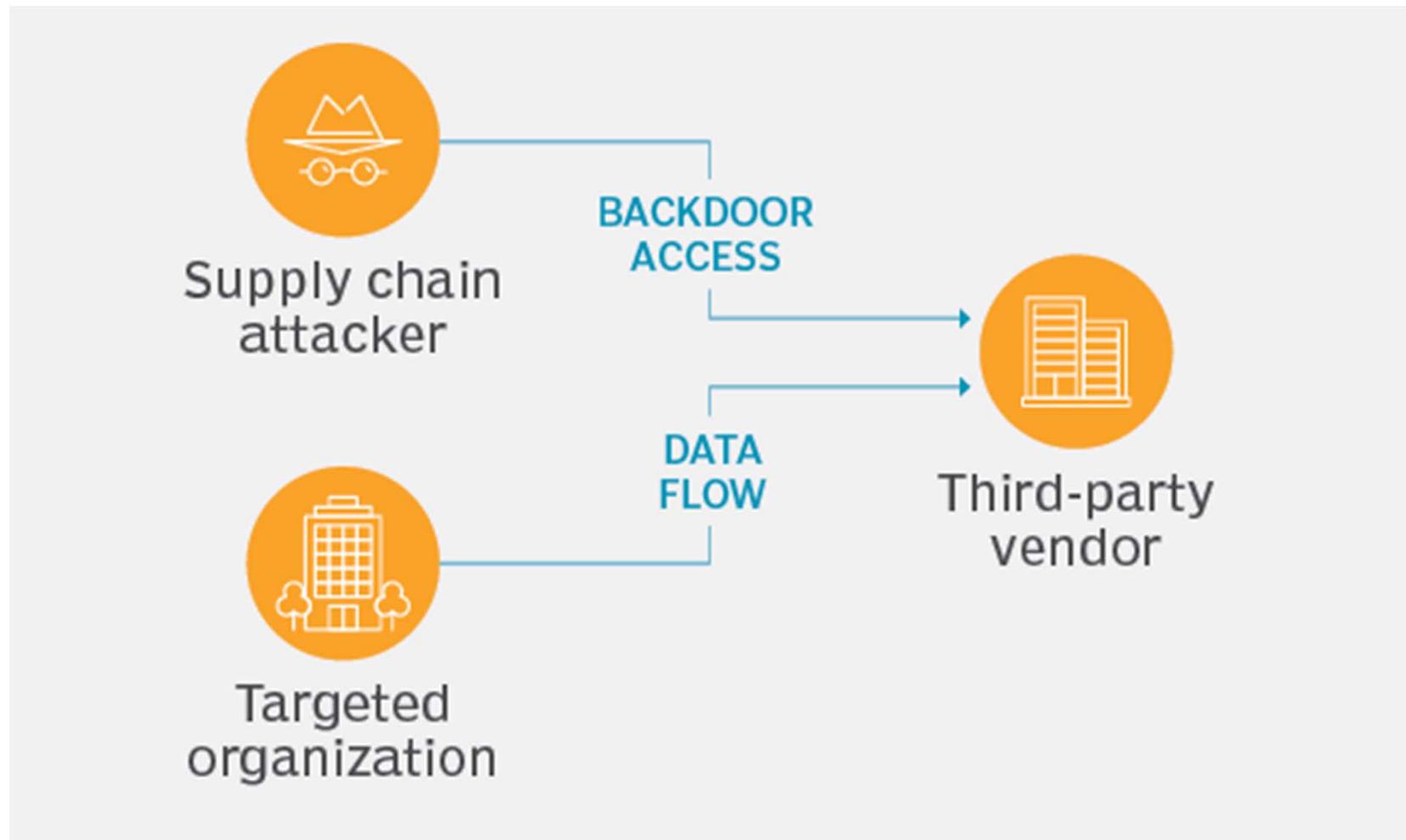


Title

# Cybersecurity Update

October 20, 2022  
Vijay Jagar

# What Is a Supply Chain Attack?



# Supply Chain Risk Management

1. Identify
2. Manage
3. Assess
4. Know
5. Verify
6. Evaluate



# Questions



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MEMORANDUM TO THE AUDIT COMMITTEE

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**DATE:** October 20, 2022

**TO:** Members of the Audit Committee

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

**SUBJECT:** Results of the Felony Forfeiture Policy Audit

### **EXECUTIVE SUMMARY**

Pursuant to Government Code Sections 31543, the Board of Retirement ("Board") may audit a participating employer to determine the correctness of certain reported felony convictions. This audit is to determine if the employer's payroll data and payroll processes comply with the Public Employees' Pension Reform Act (PEPRA) and the County Employee Retirement Law of 1937 (CERL), as impacted by PEPRA. The Board approved the audit of the participating employer's compliance with the felony forfeiture requirements with PEPRA.

### **AUDIT OBJECTIVE**

The objective of the audit was to determine if each participating employer had a process in place to track and report felony convictions to ACERA within ninety days of a conviction. We surveyed each participating employer with a series of questions to determine if the employers had a process to report felony convictions to ACERA resulting from a work-related incident. We interviewed key personnel from the employers and reviewed their related documents and procedures. Due to the limitations on in-person meetings due to the COVID-19 pandemic, we did not perform walk-throughs to observe the processes.

### **KEY FINDINGS**

1. Although some employers had no formal felony reporting and tracking process in place, they have started the remediation process.
2. The participating employers did not have a communication plan with the District Attorney's Office to track employees undergoing the felony conviction process.
3. In some cases, the felony forfeiture reporting process was in place, but not documented.
4. One case was discovered where the convicted employee self-reported his conviction to ACERA.
5. Some participating employers were unaware of how to report a convicted felon to ACERA since there was no primary point of contact at ACERA for reporting felony forfeitures.
6. The participating employers can benefit from more education about the felony forfeiture rules and regulations.

### **SUMMARY**

Of the six participating employers, we found that three had an effective felony reporting process, two were in remediation, and one had a partially effective process.



Alameda County Employees' Retirement Association  
Internal Audit Department

## Felony Forfeiture Policy Audit (All Participating Employers)



**REPORT PREPARED FOR:  
ACERA BOARD OF RETIREMENT  
OCTOBER 2022**

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## CONTROL SUMMARY

### KEY CONTROLS

#	Control	Risk Level	Effectiveness
1	<p><b>Audit Survey to The County of Alameda (County):</b> This control uses a survey to validate whether the participating employer has processes in place to report employees convicted of a job-related felony back to ACERA on a timely basis so that ACERA can adjust the retirement allowance (benefits forfeiture) accordingly.</p>	Medium	In Remediation
2	<p><b>Audit Survey to The Alameda Health System (AHS):</b> This control uses a survey to validate whether the participating employer has processes in place to report employees convicted of a job-related felony back to ACERA on a timely basis so that ACERA can adjust the retirement allowance (benefits forfeiture) accordingly.</p>	Medium	In Remediation
3	<p><b>Audit Survey to The Superior Court of California, the County of Alameda (Court):</b> This control uses a survey to validate whether the participating employer has processes in place to report employees convicted of a job-related felony back to ACERA on a timely basis so that ACERA can adjust the retirement allowance (benefits forfeiture) accordingly.</p>	Medium	Effective
4	<p><b>Audit Survey to The Housing Authority of the County of Alameda (HACA):</b> This control uses a survey to validate whether the participating employer has processes in place to report employees convicted of a job-related felony back to ACERA on a timely basis so that ACERA can adjust the retirement allowance (benefits forfeiture) accordingly.</p>	Medium	Partially Effective
5	<p><b>Audit Survey to Livermore Area Recreation and Park District (LARPD):</b> This control uses a survey to validate whether the participating employer has processes in place to report employees convicted of a job-related felony back to ACERA on a timely basis so that ACERA can adjust the retirement allowance (benefits forfeiture) accordingly.</p>	Medium	Effective
6	<p><b>Audit Survey to First 5 Alameda County (First 5):</b> This control uses a survey to validate whether the participating employer has processes in place to report employees with job-related convicted felonies to ACERA on a timely basis so that ACERA can adjust the retirement allowance (benefits forfeiture) accordingly.</p>	Medium	Effective

## RISK LEVEL

### **High-Risk Controls:**

Controls associated with critical processes within an organization. Typically, these controls are associated with monitoring critical controls or controls encompassing key or numerous processes. They can be controls that had significant weaknesses in previous years. A high-risk control failure could result in a material weakness. Material weakness includes material misstatements in the financial statements, significant process errors, and misuse of ACERA resources.

### **Medium-Risk Controls:**

Controls associated with important processes within an organization, where a deficiency in the control could cause financial loss or breakdown in operation, but in most cases, do not lead to a critical systemic failure. Typically, these controls had minimal or no findings in previous years but are integral to the process and necessary to test regularly. A medium-risk control failure could result in a significant deficiency and, in some instances, a material weakness. Significant deficiencies can include staff competency, lack of consistent business processes, and poor utilization of ACERA resources.

### **Low-Risk Controls:**

Controls associated with process optimization and non-critical processes. Typically, they represent controls that did not have findings in the previous year's testing and have not changed how they operate or in the personnel performing the controls. Low-risk controls are inherent in the current control environment but are unlikely to cause a material misstatement unless there is a failure of several low-risk controls within the same process.

## CONTROL EFFECTIVENESS

### **Effective:**

The control is fully operating as designed.

### **Partially Effective:**

The control is operating as designed with the modification necessary due to a change in business process, change in personnel, inadequate documentation, the control has not been fully implemented, or the control requires additional enhancements to be effective. Often new controls will fall in this category.

### **Improvement Opportunity:**

The control is only marginally effective and should be redesigned or implemented. Typically, these controls require review due to an ineffective design, which will prevent the control from detecting control risk.

### **Ineffective:**

The control is not operating as designed and could lead to a significant risk to the organization if not remediated.

### **Remediated/In Remediation:**

The control was previously ineffective, partially effective, or an improvement opportunity. A remediation plan is in place to correct the deficiency. Note that reliance can be placed on the remediated control once retested by internal audit, which typically occurs in the following audit cycle.

## **EXECUTIVE SUMMARY**

Pursuant to Government Code Sections 31543, the Board of Retirement ("Board") may audit a 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 determines if the employer's payroll data and processes comply with the Public Employees' Pension Reform Act (PEPRA) and the County Employee Retirement Law of 1937 (CERL), as impacted by PEPRA. The Board approved the audit of the participating employer's compliance with the felony forfeiture requirements with PEPRA.

## **AUDIT OBJECTIVE**

The objective of the audit was to determine if each participating employer had a process in place to track and report felony convictions to ACERA within ninety days of a conviction. We surveyed each participating employer with a series of questions to determine if the employers had a process to report felony convictions to ACERA resulting from a work-related incident. We interviewed key personnel from the employers and reviewed their related documents and procedures. Due to the limitations on in-person meetings due to the COVID-19 pandemic, we did not perform walk-throughs to observe the processes.

## **SCOPE AND STRATEGY**

The Internal Audit Department engaged with the participating employers to perform a limited scope audit related to compliance with the felony forfeiture statutes (PEPRA sections 7522.72 and 7522.74) and the ACERA policies. Based on the employer's completed risk assessment matrix and interviews with the employer's management team, we gained an understanding of the control environment and identified the highest-risk areas. Subsequently, we used this information to determine the scope of the audit.

Due to the COVID-19 pandemic, we modified our audit strategy from an on-site audit to a survey. The survey requested information about the employer's process to notify ACERA within 90 days of a public employee's conviction of a job-related felony. The survey also requested information from the employers about their ability to track and monitor employees who were charged but not yet convicted. We also inquired if any present or past employees were convicted of a felony and not reported to ACERA. Since there were no reported felonies, we could not perform testing for whether the reporting was timely, and this test was excluded from the scope of this audit.

### **Survey Questions**

- 1) Does your agency have a completed document(s) and procedure(s) for reporting employees convicted of job-related felonies to ACERA?
- 2) Does your procedure include monitoring and reporting any potential felon(s)?
- 3) Since January 1, 2013, how many job-related felony cases has your agency had?
- 4) Have any of those cases not been communicated to ACERA?
- 5) Who is your main contact person(s) at ACERA for reporting your agency's felony cases?

- 6) Is your agency able to notify ACERA within 90 days of an employee's date of a felony conviction?
- 7) Are there any recommendations you have to improve the communication process for reporting felony convictions to ACERA?

## AUDIT LIMITATIONS

The PEPRA regulations are still largely untested, making interpreting specific statutes difficult. To mitigate this ambiguity, we solicited input from the employers' representatives and ACERA's Legal and Benefits Departments to provide guidance on interpreting the intent and application of certain laws and regulations. In addition, due to certain resource constraints, the employer audit was limited in scope to focus on the highest-risk areas, which may not represent a comprehensive review of all risks.

Furthermore, to be efficient in our audit testing, we sometimes sample records that we believe represent the population. Whenever a sampling approach is used, a sampling risk arises from the possibility that the auditor's conclusions from testing the sample may differ from testing the entire population. Also, note that this audit's primary purpose was not intended to detect payroll fraud, non-compliance with federal or state statutes, or other compliance issues outside the scope of this audit. Sometimes during the course of an audit, new information is uncovered, or a new risk is identified, which could change our audit strategy, including potentially expanding or reducing the audit scope.

## INSTITUTE OF INTERNAL AUDITORS (IIA) AUDIT GUIDANCE AND STANDARDS

Internal auditing is conducted in diverse legal and cultural environments within organizations that vary in purpose, size, complexity, structure, and persons within or outside the organization. While differences may affect the internal audit practice in each environment, conformance with professional auditing standards (*Standards*) is essential in meeting internal auditors' responsibilities and internal audit activity. If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the *Standards*, compliance with all other parts of the *Standards* and appropriate disclosures are needed.

If the *Standards* are used in conjunction with standards issued by other authoritative bodies, internal audit communications may also cite the use of other standards as appropriate. In such a case, if inconsistencies exist between the *Standards* and other regulations, internal auditors and the internal audit activity must conform to the *Standards*.

The purpose of the *Standards* is to:

- (1) Delineate basic principles that represent the practice of internal auditing.
- (2) Provide a framework for performing and promoting a broad range of value-added internal auditing.
- (3) Establish the basis for the evaluation of internal audit performance.
- (4) Foster improved organizational processes and operations.

The *Standards* are principles-focused, mandatory requirements consisting of:

- (1) Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- (2) Interpretations, which clarify terms or concepts within the Statements. The Standards employ terms that are specific. Specifically, the Standards use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless circumstances justify deviation when applying professional judgment. It is necessary to consider the Statements and their Interpretations and the specific meanings from the Glossary to understand and apply the Standards correctly.
- (3) The structure of the *Standards* is divided between Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards are also provided to apply to all internal audit services.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The internal auditor determines the nature and scope of the assurance engagement. The Internal Audit Department personnel are not qualified to offer legal, actuarial, or investment recommendations. Any questions on these issues should be directed to the appropriate ACERA Department or qualified consultant. Hence, no part of the Internal Audit Report should be construed as legal, actuarial, or investment advice.

## SURVEY RESULTS

### CONTROL 1 – AUDIT SURVEY OF THE COUNTY OF ALAMEDA (COUNTY)

Risk Level - Medium

<u>PEPRA Felony Forfeiture Survey Results</u>		Alameda County
#1	Does agency have a written document for reporting convicted job-related felony employee to ACERA?	No
#2	Any procedure in monitoring and reporting any potential felon(s)?	No, HRS only receives arrest/conviction records for NEW HIRES. HRS only receives subsequent arrest records for certain County classification - not all, and we do not receive conviction records post-hire for any classifications.
#3	Since January 1, 2013, how many job-related felony cases has your agency had?	0
#4	Have any of those cases not been notified or communicated to ACERA?	No
#5	Who is your main contact person(s) at ACERA for reporting felony cases?	Currently not being done
#6	Is your agency able to notify/plan to notify all cases to ACERA within 90 days of an employee's date of conviction?	No, HRS only receives arrest/conviction records for NEW HIRES. HRS only receives subsequent arrest records for certain County classification - not all, and we do not receive conviction records post-hire for any classifications. (from Joe Angelo 3-11-2022 email); Lisa Johnson at Auditor office also forwarded an opinion letter from Jessica Chia, Associate County Counsel: "We advise the Auditor Agency to identify potential gaps and areas of improvement for staying in compliance by entering into discussions with HRS and the DA's office and/or conducting an audit of these departments to find out what their current processes are and the results of their processes thus far."
#7	Are there any recommendations to improve the communication process for reporting felony convictions to ACERA?	What authority does HRS have with respect to receiving conviction information post-employment? HRS is also not sure what authority HRS would reference in requesting conviction information from law enforcement agencies for current employees, or much less, retirees. (from Joe Angelo 3-11-2022)

**Survey Results:**



**In Remediation**

At the time of the audit, Alameda County had no comprehensive reporting process for felony convictions. Alameda County has informed us that they are working internally to build a reporting process for felony convictions.

Subsequently, Alameda County has made excellent progress in remediating the process by sharing education about the felony reporting process with the different county departments. We have provided Alameda County with a liaison from the District Attorney's office to assist them with tracking terminated employees who are facing a felony conviction.

<b>Recommendations</b>	<b>Business Owner</b>
1. We recommend that Alameda County continue to develop an internal process to report felony convictions to ACERA. The process should be documented and updated on a regular basis.	• Alameda County
2. We recommend that ACERA develop a standard process for managing a reported felony, including establishing a primary point of contact, providing the status of a convicted employee back to the employers, and communicating legal updates and best practices.	• ACERA
3. Educating the county departments about the felony reporting process is a good first step. We also recommend that Alameda County create a formal tracking and reporting mechanism for potential felons to ensure timely reporting to ACERA.	• Alameda County

## CONTROL 2 – AUDIT SURVEY OF THE ALAMEDA HEALTH SYSTEM (AHS)

Risk Level - Medium

<u>PEPRA Felony Forfeiture Survey Results</u>		Alameda Medical Center (AHS)
#1	Does agency have a written document for reporting convicted job-related felony employee to ACERA?	No, AHS needs to further discuss with their internal departments and legal counsel. (4-20-2022 emails & meeting)
#2	Any procedure in monitoring and reporting any potential felon(s)?	
#3	Since January 1, 2013, how many job-related felony cases has your agency had?	
#4	Have any of those cases not been notified or communicated to ACERA?	
#5	Who is your main contact person(s) at ACERA fo reporting felony cases?	
#6	Is your agency able to notify/plan to notify all cases to ACERA within 90 days of an employee's date of conviction?	
#7	Are there any recommendations to improve the communication process for reporting felony convictions to ACERA?	

**Survey Results:**



**In Remediation**

At the time of the audit, Alameda Health System (AHS) did not have a comprehensive reporting process for felony convictions. They planned to discuss the process with their legal counsel and develop a reporting process internally.

Subsequently, AHS has been taking steps to remediate the findings and has made excellent progress in working towards developing a reporting process and communicating with ACERA staff to get clarification on ACERA's procedures.

<b>Recommendations</b>	<b>Business Owner</b>
1. We recommend that Alameda Health System (AHS) continue to develop an internal process to report felony convictions to ACERA.	<ul style="list-style-type: none"><li>• Alameda Health System</li></ul>
2. We recommend that ACERA develop a standard process for managing a reported felony, including establishing a primary point of contact, providing the status of a convicted employee back to the employers, and communicating legal updates and best practices.	<ul style="list-style-type: none"><li>• ACERA</li></ul>
3. An important part of the process is monitoring terminated employees facing felony charges. We recommend working closely with the District Attorney's liaison to ensure felony reporting is completed in a timely manner.	<ul style="list-style-type: none"><li>• Alameda Health System</li><li>• ACERA</li></ul>

## CONTROL 3 – AUDIT SURVEY OF THE SUPERIOR COURT OF CALIFORNIA

Risk Level - Medium

<u>PEPRA Felony Forfeiture Survey Results</u>		The Superior Court
#1	Does agency have a written document for reporting convicted job-related felony employee to ACERA?	Yes
#2	Any procedure in monitoring and reporting any potential felon(s)?	Yes
#3	Since January 1, 2013, how many job-related felony cases has your agency had?	0
#4	Have any of those cases not been notified or communicated to ACERA?	N/A
#5	Who is your main contact person(s) at ACERA for reporting felony cases?	Sandra Duenas
#6	Is your agency able to notify/plan to notify all cases to ACERA within 90 days of an employee's date of conviction?	Yes, We can plan to notify, but cannot guarantee we will be informed of a felony conviction within 90 days unless the Court is directly involved in the litigation/case, especially for former employees. That said, we will do whatever we can to comply with the law in every case.
#7	Are there any recommendations to improve the communication process for reporting felony convictions to ACERA?	As a Court, we understand that convictions may not be reported in a timely manner due to multi-agency/state-wide factors. The Court will do everything possible to follow this legal requirement. We also hope that ACERA will consider that there are factors outside of an employer's control that may create barriers to ideal compliance.

**Survey Results:**



**Effective**

No exceptions noted.

<b>Recommendations</b>	<b>Business Owner</b>
1. We recommend that the Superior Court of California continue to work with ACERA to strengthen communication and build a mechanism to track employees charged with a felony.	<ul style="list-style-type: none"><li>• The Superior Court</li></ul>
2. We recommend that ACERA develop a standard process for managing a reported felony, including establishing a primary point of contact, providing the status of a convicted employee back to the employers, and communicating legal updates and best practices.	<ul style="list-style-type: none"><li>• ACERA</li></ul>
3. An important part of the process is monitoring terminated employees facing felony charges. We recommend working closely with the District Attorney's liaison to ensure felony reporting is completed in a timely manner.	<ul style="list-style-type: none"><li>• The Superior Court</li><li>• ACERA</li></ul>

## CONTROL 4 – AUDIT SURVEY OF THE HOUSING AUTHORITY (HACA)

Risk Level – Medium

<u>PEPRA Felony Forfeiture Survey Results</u>		Housing Authority (HACA)
#1	Does agency have a written document for reporting convicted job-related felony employee to ACERA?	No
#2	Any procedure in monitoring and reporting any potential felon(s)?	No
#3	Since January 1, 2013, how many job-related felony cases has your agency had?	0
#4	Have any of those cases not been notified or communicated to ACERA?	N/A
#5	Who is your main contact person(s) at ACERA fo reporting felony cases?	Kathy Foster David Nelson
#6	Is your agency able to notify/plan to notify all cases to ACERA within 90 days of an employee's date of conviction?	Yes
#7	Are there any recommendations to improve the communication process for reporting felony convictions to ACERA?	No

**Survey Results:**



The Housing Authority understands its PEPRA reporting requirements and intends to report felony convictions if it happens. We expect the process and controls will be fully documented with a tracking mechanism to ensure felony convictions are reported in a timely fashion after the Housing Authority can hire a resource who can be responsible for this task.

Note that the Housing Authority has lost its Human Resources Manager and plans to hire a replacement soon.

Recommendations	Business Owner
1. We recommend that the Housing Authority implement and document its felony reporting procedures and establish a mechanism to track employees charged with a felony offense through resolution.	<ul style="list-style-type: none"><li>• Housing Authority</li></ul>
2. We also recommend that the Housing Authority communicates with ACERA to understand each agency's role in the process.	<ul style="list-style-type: none"><li>• Housing Authority</li><li>• ACERA</li></ul>
3. We recommend that ACERA develop a standard process for managing a reported felony, including establishing a primary point of contact, providing the status of a convicted employee back to the employers, and communicating legal updates and best practices.	<ul style="list-style-type: none"><li>• ACERA</li></ul>
4. An important part of the process is monitoring terminated employees facing felony charges. We recommend working closely with the District Attorney's liaison to ensure felony reporting is completed in a timely manner.	<ul style="list-style-type: none"><li>• Housing Authority</li><li>• ACERA</li></ul>

## CONTROL 5 – AUDIT SURVEY OF LIVERMORE AREA RECREATION PARK AND DISTRICT (LARPD)

Risk Level – Medium

<u>PEPRA Felony Forfeiture Survey Results</u>		Livermore Area Recreation & Park District (LARPD)
#1	Does agency have a written document for reporting convicted job-related felony employee to ACERA?	Yes
#2	Any procedure in monitoring and reporting any potential felon(s)?	Yes
#3	Since January 1, 2013, how many job-related felony cases has your agency had?	0
#4	Have any of those cases not been notified or communicated to ACERA?	N/A
#5	Who is your main contact person(s) at ACERA fo reporting felony cases?	No specific contact person
#6	Is your agency able to notify/plan to notify all cases to ACERA within 90 days of an employee's date of conviction?	Yes
#7	Are there any recommendations to improve the communication process for reporting felony convictions to ACERA?	Inform us who the appropriate person at ACERA is for us to report any future felony convictions to

**Survey Results:**



**Effective**

No exceptions noted.

Recommendations	Business Owner
1. An important part of the process is monitoring terminated employees facing felony charges. We recommend working closely with the District Attorney's liaison to ensure felony reporting is completed in a timely manner.	<ul style="list-style-type: none"><li>• LARPD</li><li>• ACERA</li></ul>
2. We recommend that ACERA develop a standard process for managing a reported felony, including establishing a primary point of contact, providing the status of a convicted employee back to the employers, and communicating legal updates and best practices.	<ul style="list-style-type: none"><li>• ACERA</li></ul>

## CONTROL 6 – AUDIT SURVEY OF FIRST FIVE ALAMEDA COUNTY (FIRST 5)

Risk Level - Medium

### PEPRA Felony Forfeiture Survey Results

<u>PEPRA Felony Forfeiture Survey Results</u>		First 5 Alameda County
#1	Does agency have a written document for reporting convicted job-related felony employee to ACERA?	Yes
#2	Any procedure in monitoring and reporting any potential felon(s)?	Yes
#3	Since January 1, 2013, how many job-related felony cases has your agency had?	0
#4	Have any of those cases not been notified or communicated to ACERA?	N/A
#5	Who is your main contact person(s) at ACERA fo reporting felony cases?	Sandra Duenas
#6	Is your agency able to notify/plan to notify all cases to ACERA within 90 days of an employee's date of conviction?	Yes
#7	Are there any recommendations to improve the communication process for reporting felony convictions to ACERA?	Is there a designated person/role that this information should be reported?

**Survey Results:**



**Effective**

No exceptions noted.

Recommendations	Business Owner
1. An important part of the process is monitoring terminated employees facing felony charges. We recommend working closely with the District Attorney's liaison to ensure felony reporting is completed in a timely manner.	<ul style="list-style-type: none"><li>• First Five</li><li>• ACERA</li></ul>
2. We recommend that ACERA develop a standard process for managing a reported felony, including establishing a primary point of contact, providing the status of a convicted employee back to the employers, and communicating legal updates and best practices.	<ul style="list-style-type: none"><li>• ACERA</li></ul>

**CONCLUSION**

In conclusion, we found that employers were at different stages in designing and implementing their felony reporting process. Some agencies had a fully documented and functioning process, and others were still completing the design. The survey has served to remind the participating employers of their PEPRA responsibility for timely reporting employees convicted of job-related felonies to ACERA. It also helped us examine the employers' understanding and preparedness. We found employers generally understood their compliance requirements of the laws, and some had a written procedure for it. Others were still working on developing their reporting processes. There are challenges with implementing a robust reporting process since limited guidance is available.

Based on the survey results and discussion with employers, the employers had no evidence of any unreported job-related felonies. Note that we did find a case where an employee self-reported their conviction to ACERA. From the survey, some employers reported that they were unsure of the correct person or department to report a felony. Subsequently, it was determined that felonies would be reported to the Legal Department.

ACERA's Felony Forfeiture Policy (last updated in September 2020) is on the ACERA website under "Board Policies" and is subject to review every three years. We recommend that ACERA consider updating the Employer Handbook to provide more detailed instructions about the employer's reporting requirements and explain what happens once a felony is reported to ACERA and the employer's continued responsibility.

We limited this review to the areas specified in the scope section of this report. Any findings, recommendations, and conclusions outlined in this report were based on information made available or otherwise obtained when this report was prepared. If the employer disagrees with the findings in this report, they have the right to appeal. All appeals must be made to ACERA Internal Audit Department in writing following the timeline stated in the Audit of Employer Compensation and Retirement Information Policy. We want to recognize all participating employers' management teams and staff for their cooperation throughout this survey.