



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

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

THIS MEETING WILL BE CONDUCTED VIA TELECONFERENCE [EXECUTIVE ORDER N-29-20]

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 15, 2020
1:00 p.m.

LOCATION	COMMITTEE MEMBERS	
ACERA C.G. "BUD" QUIST BOARD ROOM 475 14 TH STREET, 10 TH FLOOR OAKLAND, CALIFORNIA 94612-1900 MAIN LINE: 510.628.3000 FAX: 510.268.9574 https://zoom.us/join Webinar ID: 849 7693 9216 Passcode: 341006 For help joining a Zoom meeting, see: https://support.zoom.us/hc/en-us/articles/201362193	TARRELL GAMBLE, CHAIR	APPOINTED
	HENRY LEVY, VICE-CHAIR	EX-OFFICIO
	DALE AMARAL	ELECTED SAFETY
	OPHELIA BASGAL	APPOINTED
	KEITH CARSON	APPOINTED

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.

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 15, 2020

Call to Order: 1:00 p.m.

Public Comment:

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

External Audit:

None

Internal Audit:

None

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

External Audit

None

Internal Audit

- 1. Progress report on the Internal Audit Plan** - Harsh Jadhav
- 2. Review completed audits** - Harsh Jadhav
- 3. Cybersecurity Review** -Vijay Jagar/Harsh Jadhav

Trustee Comment:

Future Discussion Items

External Audit

None

Internal Audit

None

Establishment of Next Meeting Date

February 2021.



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



Internal Audit Department 2020 Internal Audit Plan

October 15, 2020

Agenda

1. Progress on the Internal Audit Plan
2. Results of the Retiree Payroll Deduction Audit
3. Cybersecurity Update

Proposed 2020 Internal Audit Plan

Internal Audit Plan (2020)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
Retiree Payroll Deduction Policy Audit	Policy Audit	Lyndon/Harsh	Completed				
Felony Forfeiture Policy Audit	Policy Audit	Caxton	Postponed				
Member Identity Theft Audit	Internal Audit	Lyndon	Not Started				
Cash Management (Positive Pay) Audit	Internal Audit	Caxton	Postponed				
Final Year Salary Calculation Audit	Internal Audit	Caxton	In Progress				
Cybersecurity Incident Response Review	Internal Audit	Harsh	Postponed				
Employer Audit - Alameda Health	Employer Audit	Caxton/Harsh	In Progress				
Employer Audit - Superior Courts	Employer Audit	Caxton	Completed				
2020 Annual Risk Assessment	Administration	Harsh	Completed				
2021 Annual Risk Assessment	Administration	Harsh	Not Started				
Fraud Hotline Management	Administration	Lyndon	In Progress				
Fraud Training	Administration	Lyndon/Caxton	In Progress				
Enterprise Risk Management	Special Project	Margo/Harsh	Postponed				
Cybersecurity and Data Security Self-Assessment	Special Project	Vijay/Harsh	In Progress				
Internal Audit Internship Program	Special Project	Vicki/Harsh	Postponed				

RETIREE PAYROLL DEDUCTION POLICY AUDIT



Audit Objective

The Board of Retirement has enacted the Retiree Payroll Deduction Policy, which guides the administration of pension benefits by listing approved benefits and prohibiting the assignment of benefits for any other purpose. This audit reviewed whether deductions made from retiree's checks were consistent with the policy.

Results

We are happy to report that compliance with the policy is effective.

Recommendations

1. We recommended that the written Retiree Payroll Deduction Policy be updated to reflect that unions would qualify as "recognized retiree organizations." Management confirmed that the policy would be updated as part of the governance process, the next time it is up for review.
2. We recommended reviewing the business process to ensure important Board decisions are updated and reflected in ACERA policies.

Cybersecurity Update

- COVID-19 Cybersecurity Challenges for ACERA:
 - Changes in communication
 - Changes in software used
 - Changes in hardware used
 - Evolving attacks from cybercriminals



Results of ACERA's Cybersecurity External Audit

- 3 Phases
 1. Technical attack from the outside
 2. Technical attack from the inside
 3. Social Engineering Attack



Questions





MEMORANDUM TO THE AUDIT COMMITTEE

DATE: October 15, 2020

TO: Members of the Audit Committee

FROM: Harsh Jadhav, Chief of Internal Audit

SUBJECT: Progress on the 2020 Internal Audit Program

Executive Summary

After the initial challenges of working through the COVID19 crisis, the Internal Audit Department is back on track with the 2020 Internal Audit Program. Steady progress was made on the Alameda Health Systems PEPRA Employer Audit and the Final Year Salary Calculation Audit. The Retiree Payroll Deduction Audit was completed, and results will be presented at the October committee meeting.

The Internal Audit Department has also collaborated with the PRISM Department to improve the organization’s cybersecurity defenses by preparing for a cybersecurity self-assessment. With the increased threat level in a remote environment, the PRISM Department has implemented several new controls and security enhancements to protect the organization and its members. Staff continues to promote fraud awareness through their contributions to the ACERA Connection Newsletter and serving as resources for strengthening organization-wide internal controls.

2020 Audit Schedule

Internal Audit Plan (2020)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
Retiree Payroll Deduction Policy Audit	Policy Audit	Lyndon/Harsh	Completed				
Felony Forfeiture Policy Audit	Policy Audit	Caxton	Postponed				
Member Identity Theft Audit	Internal Audit	Lyndon	Not Started				
Cash Management (Positive Pay) Audit	Internal Audit	Caxton	Postponed				
Final Year Salary Calculation Audit	Internal Audit	Caxton	In Progress				
Cybersecurity Incident Response Review	Internal Audit	Harsh	Postponed				
Employer Audit - Alameda Health	Employer Audit	Caxton/Harsh	In Progress				
Employer Audit - Superior Courts	Employer Audit	Caxton	Completed				
2020 Annual Risk Assessment	Administration	Harsh	Completed				
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Fraud Training	Administration	Lyndon/Caxton	In Progress				
Enterprise Risk Management	Special Project	Margo/Harsh	Postponed				
Cybersecurity and Data Security Self-Assessment	Special Project	Vijay/Harsh	In Progress				
Internal Audit Internship Program	Special Project	Vicki/Harsh	Postponed				

The agency-wide enterprise risk management process to understand and address entity-level risk as a component of strategic planning was put on hold and will resume in 2021. We also postponed implementing the Internal Audit Internship Program until 2021.

2020 Audit Program

Policy Audits

Audit - Retiree Payroll Deduction Policy

The purpose of this audit is to review compliance with the ACERA Retiree Payroll Deduction Policy. This policy provides guidance on the administration of pension benefits by listing approved benefit deductions and prohibiting the assignment of benefits for any purpose other than those authorized by statute.

Audit - Felony Forfeiture Policy (Postponed)

The purpose of the audit is to review compliance with the ACERA 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 all public employees convicted of felonies on or after January 1, 2013. The audit also examines participating employer compliance by selecting employers to determine if the employer implemented effective procedures to report felony forfeitures to ACERA.

Internal Audits

Audit – Prevent Member Identity Theft

The purpose of this audit is 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.

Audit – Cash Management Process Review (Postponed)

The purpose of the audit is to identify internal control weaknesses and recommend strategies to improve cash management. Since cash management is an organization-wide process, the impact of having effective internal controls is crucial to meeting ACERA's mission of providing ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services. The organization must ensure adequate funds to meet daily operational needs, funding for investments, and retiree payroll.

Audit – Final Pensionable Salary Calculation

The purpose of the audit is to sample retired members to verify if the final pensionable salary calculation was accurate. The amount of final pensionable salary depends on member type and membership tier. It is a function of the highest salary earned over the qualifying period (i.e., the highest salary earned over 36 months for Tier II General Members).

Audit – Cybersecurity Incident Response Review (Postponed)

The purpose of this audit is to test ACERA's organization-wide cybersecurity incident response plan. ACERA has implemented the CIS control framework, which includes basic, foundational, and organizational controls that collectively form a defense-in-depth set of best practices that mitigate the most common attacks against systems and networks. This audit would examine whether the incident response plans would allow the business to recover critical functions within an acceptable time frame adequately.

Employer Audits

Audit – PEPRA Employer Audit of Alameda Health System

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

Audit – PEPRA Employer Audit of Superior Courts of California

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

Special Projects

Special Project - Enterprise Risk Assessment (Postponed)

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 roles out the enterprise risk assessment process to the organization.

Special Project -Cybersecurity and Data Security Self-Assessment

The objective of this special project 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.

Special Project -Internal Audit Internship Program (Postponed)

The objective of this special project will be to establish an internship program. An internship program would allow the department to hire a student to work on audits during the summer. We expect the student to gain valuable audit experience through their application of audit knowledge learned in the classroom. In addition, we hope to increase the awareness of challenging opportunities and a career path in local government.

Summary

We are working through the COVID-19 challenges and focused on meeting the 2020 Audit Program objectives. This year the program includes five audits/reviews and one key initiative. 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.



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: October 15, 2020

TO: Members of the Board of Retirement

FROM: Harsh Jadhav, Chief of Internal Audit

SUBJECT: Results of the Retiree Payroll Deduction Policy Audit

EXECUTIVE SUMMARY

The Board of Retirement has enacted the Retiree Payroll Deduction Policy, which guides the administration of pension benefits by listing approved benefits and prohibiting the assignment of benefits for any other purpose. This audit examined the agency's compliance with the policy and provide reasonable assurance that the assignment of an ACERA's member's retirement benefits were only permitted for purposes enumerated under Government Code sections 31452 and 31452.5.

AUDIT CONCLUSION

Based on the results of the audit testing, we concluded that ACERA is in compliance with the Retiree Payroll Deduction Policy.

RECOMMENDATIONS

We are happy to report the positive results of the audit, and recommend the following, to ensure the organization continues to remain compliant with the policy.

1. We recommended that the written Retiree Payroll Deduction Policy also be updated to reflect that unions would qualify as "recognized retiree organizations." Management confirmed that the policy would be updated as part of the governance process, the next time it is up for review.
2. We recommended reviewing the process to ensure important Board decisions are updated and reflected in ACERA policies.



Retiree Payroll Deduction Policy Audit Report

Compliance Audit
Audit Year 2020

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RETIREE PAYROLL DEDUCTION POLICY AUDIT REPORT

TABLE OF CONTENTS

	<u>Page #</u>
1.0 GENERAL INFORMATION	2
1.1 Purpose	2
1.2 Scope.....	2
1.3 Audit Steps	2
1.4 Risk Level Definitions.....	3
1.5 Audit Conclusion Definitions	3
1.6 Identified Risks – Low-Risk.....	4
1.7 Reasonable Basis for Conducting an Audit & Course Changes	4
1.8 Audit Conclusion	4
1.9 Recommendations.....	4

1.0 GENERAL INFORMATION

The Board of Retirement has enacted the Retiree Payroll Deduction Policy, which guides the administration of pension benefits by listing approved benefits and prohibiting the assignment of benefits for any other purpose. This audit will review whether deductions made from the retiree's checks are consistent with that policy.

1.1 Purpose

Retirement benefits are not assignable, except as permitted in 1) Government Code section 31452 for family law related orders, permitted by section 704.110 of the Code of Civil Procedure; 2) as permitted in Government Code section 31452.5 for specific deductions approved by the Board of Retirement and 3) as permitted by federal law for Internal Revenue Service (IRS) levies. The ACERA Deduction Policy sets forth what deductions are allowable for ACERA retirees and beneficiaries. This audit will test the agency's compliance with the Retiree Payroll Deduction Policy and provide reasonable assurance that the assignment of an ACERA's member's retirement benefits is only permitted for purposes enumerated under Government Code sections 31452 and 31452.5.

1.2 Scope

ACERA's Internal Audit Department will test preselected payroll periods to determine if the deductions for those periods are compliant with the Retiree Payroll Deduction policy. 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. This audit scope will be limited to a review of payroll deduction transactions that occurred in 2019. 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

The audit steps that will be as follows:

- Review the Retiree Payroll Deduction Policy.
- Select a sample of monthly retiree payroll for audit purposes.
- Compare the deductions in the policy list with the deductions taken on the payroll report samples.
- Discuss any exceptions discovered during the audit and make recommendations for either remediation or process improvement.
- Prepare an audit report draft for management review.
- Complete the final audit report.

1.4 Risk Level Definitions

High-Risk:

These controls are associated with critical processes within an organization. Typically they are related to overall monitoring controls or valued in key or numerous processes. They can be controls that had significant findings in previous years. A high-risk control failing 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:

These controls are associated with essential processes within an organization, where a deficiency in the control could cause financial loss or breakdown in process, 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 failing could result in a significant deficiency, and in some instances, a material weakness. Significant deficiencies can include staff competency or lack of business process.

Low-Risk:

These controls are 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. Still, they are unlikely to cause a material misstatement, unless there is a failure of several low-risk controls within the same process.

1.5 Audit Conclusion Definitions

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.

1.6 Identified Risks – Low-Risk

1. Non-compliance with the Retiree Payroll Deduction Board policy.
2. Opportunities for process improvement and strengthen internal controls.
3. Lack of proper and complete documented procedures.
4. Inadequate staff training

1.7 Reasonable Basis for Conducting an Audit & Course Changes

We plan to perform this audit between March 2020 and July 2020. The audit will be conducted 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. We may modify the overall audit strategy and the audit plan if circumstances change significantly during the audit, including changes in risk levels, changes to the business process, and final judgment on litigation.

1.8 Audit Conclusion

Based on the results of the audit testing, we concluded that compliance with the Retiree Payroll Deduction Policy is **EFFECTIVE**.

1.9 Recommendations

Ten years ago, the retiree groups affiliated with certain unions asked ACERA to have deductions taken from the retiree payroll to collect dues. This matter was brought forth to the Board of Retirement for approval, and it was approved to change the policy to include union dues as an allowable policy deduction.

1. We recommend that the written Retiree Payroll Deduction Policy also be updated to reflect that unions would qualify as "recognized retiree organizations." Management confirmed that the policy would be updated as part of the governance process, the next time it is up for review.
2. We recommend reviewing the process to ensure important Board decisions are updated and reflected in ACERA policies.