



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

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

**THIS MEETING WILL BE CONDUCTED VIA TELECONFERENCE
[SEE GOV'T CODE § 54953(e) AND LETTER ATTACHED AT THE END OF THIS 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 21, 2021
1:00 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. https://zoom.us/join Meeting ID: 889 7271 0595 Password: 820684 For help joining a Zoom meeting, see: https://support.zoom.us/hc/en-us/articles/201362193 Call-in Number: 1 669 900 6833	HENRY LEVY, CHAIR	TREASURER
	TARRELL GAMBLE, VICE-CHAIR	APPOINTED
	OPHELIA BASGAL	APPOINTED
	KEITH CARSON	APPOINTED
	DARRYL WALKER	ELECTED GENERAL¹

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.

¹ Trustee Walker is filling the vacancy created by Trustee Rogers' retirement. See Gov't Code §§ 31524, 31520.1(b).

AUDIT COMMITTEE/BOARD MEETING

NOTICE and AGENDA, Page 2 of 2 - Thursday, October 21, 2021

Call to Order: 1:00 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:

None

Establishment of Next Meeting Date:

TBD



OFFICE OF THE AGENCY DIRECTOR

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San Leandro, CA 94577
TEL (510) 618-3452
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September 23, 2021

The Honorable Board of Supervisors
County Administration Building
1221 Oak Street
Oakland, CA 94612

**SUBJECT: RECEIVE AND ACCEPT THE RECOMMENDATION OF THE HEALTH CARE SERVICES AGENCY
DIRECTOR FOR CONTINUED SOCIAL DISTANCING AT ALL BOARD OF SUPERVISORS
MEETINGS AND BOARD COMMITTEE MEETINGS**

Dear Board Members:

RECOMMENDATION

Receive and accept the recommendation of the Health Care Services Agency Director for continued social distancing at all meetings of the full Board of Supervisors and at all Board of Supervisors Committee meetings.

DISCUSSION/SUMMARY

In light of the continued state of emergency related to COVID-19, the Health Care Services Agency (HCSA) Director recommends that your Board continue to impose the social distancing measures that were initially adopted in March 2020 for all meetings of the Board of Supervisors and Board Committee meetings, until your Board – in consultation with the HCSA Director – concludes that such measures are no longer necessary. The HCSA Director makes this recommendation to comply with newly enacted urgency legislation establishing new requirements for teleconferenced (remote) meetings under the Ralph M. Brown Act.

This recommendation is based on the continued threat of COVID-19 to the community, the unique characteristics of public governmental meetings (such as the increased mixing associated with bringing together people from across the community, the need to enable those who are immunocompromised or unvaccinated to be able to safely continue to fully participate in public governmental meetings, and the challenges with fully ascertaining and ensuring compliance with vaccination and other safety recommendations at such meetings), and the continued increased safety protection that social distancing provides as one method to reduce the risk of COVID-19 transmission.

BACKGROUND

On March 4, 2020, Governor Newsom issued an Executive Order proclaiming a state of emergency in California as a result of the COVID-19 pandemic. This emergency declaration remains in effect. On March 17, 2020, Governor Newsom issued Executive Order N-29-20, which allowed local agencies subject to the Brown Act to hold their meetings remotely, without providing a physical location for

members of the public to gather and participate, so long as there were telephonic means to allow public participation and protect citizens' statutory and constitutional rights. Your Board held its first telephonic meeting with no in-person public participation on April 21, 2020 and has continued the practice since. On June 11, 2021, Governor Newsom issued Executive Order N-08-21 which similarly governed the convening of public meetings and modified the permissions of Executive Order N-29-20 to allow for continued use of teleconferenced meetings by local agencies subject to the Brown Act.

On September 16, 2021, Governor Newsom signed into law Assembly Bill 361 (AB 361, Chapter 165, Statutes of 2021), which amended the Brown Act to allow for continued use of teleconferenced meetings by Brown Act bodies without providing a physical meeting location for the public through January 31, 2024, under certain conditions. The permitting conditions include factors such as a continued declaration of emergency, and a local official recommending measures for social distancing.

As HCSA and the Health Officer have reported to your Board, the highly transmissible SARS-CoV-2 B.1.617.2 (Delta) variant has been circulating in the County of Alameda since April 2021. While the risk for COVID-19 infection is highest among unvaccinated residents (and the vaccination rates in our County are relatively high) over one-third of COVID-19 infections are among fully vaccinated persons. Among vaccinated persons, older adults are at the highest risk for severe illness resulting from COVID-19 infection.

Accordingly, the HCSA Director recommends that social distancing measures adopted in the early days of the pandemic remain in place for meetings of your Board and Board Committees. This recommendation is consistent with the Division of Occupational Safety and Health of California's (Cal/OSHA) Emergency Temporary Standards, which require employers to train and instruct employees that the use of social distancing helps combat the spread of COVID-19 (8 Cal. Code Regs. 3205(c)(5)(D)). Under the requirements of AB 361, no later than 30 days after the September 28 meeting, and again every 30 days thereafter for as long as this recommendation remains in place, your Board will need to reconsider the state of emergency, and whether (a) the emergency directly impacts the ability of members to safely meet in person; or (b) social distancing measures are still recommended at Board and Board Committee meetings.

FINANCING

Acceptance of this recommendation will have no impact on net County cost.

VISION 2026 GOAL

Acceptance of this recommendation will prevent potential spread of COVID-19 in the Board's public meetings, and thus advances the 10X Vision 2026 Goal pathway of **Accessible Infrastructure** in support of our shared visions of a **Thriving & Resilient Population** and **Safe & Livable Communities**.

Sincerely,

DocuSigned by:

CB284AE84C50405...

Colleen Chawla, Director
Health Care Services Agency



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: October 21, 2021

TO: Members of the Audit Committee

FROM: Harsh Jadhav, Chief of Internal Audit ds
HJ

SUBJECT: Progress on the 2021 Internal Audit Program

Executive Summary

The Audit Committee meeting in October 2021 will feature a status update on the 2021 Internal Audit Program and the presentation of the completed audits. This quarter, we will report the Pension Benefits Calculation Audit and the Alameda Health Systems PEPRA Employer Audit results. In addition, Vijay Jagar will provide an update on progress made on the Cybersecurity and Data Security Self-Assessment. A summary of the key recommendations from the Safe and Check Processing Review will be presented at the next Audit Committee meeting. I am also happy to report that we had a nice turnout for our annual fraud training for ACERA staff. Lyndon Coggin covered several important topics, including the Fraud Triangle and the Three Lines of Defense Model.

2021 Audit Schedule

Internal Audit Plan (2021)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
Felony Forfeiture Policy Audit	Policy Audit	Caxton	Not Started				
Cash Management (Positive Pay) Audit	Internal Audit	Caxton	Cancelled				
Prevent Member Identity Theft Audit	Internal Audit	Lyndon	In Progress				
Pension Benefits Calculation Audit	Internal Audit	Caxton	Completed				
Employer Audit - Alameda Health System	Employer Audit	Caxton/Harsh	Completed				
Internal Controls Review (PAS Project)	Special Project	Lyndon/Caxton	In Progress				
Safe and Check Processing Review	Special Project	Caxton	Completed				
Workers Compensation Contributions and Service Credit Review	Special Project	Caxton	Not Started				
Estimator Form Review	Special Project	Lyndon	Not Started				
Operations Manual Update	Special Project	Lyndon	Completed				
Cybersecurity and Data Security Self-Assessment	Special Project	Vijay/Harsh	In Progress				
2021 Annual Risk Assessment	Administration	Harsh	Completed				
2022 Annual Risk Assessment	Administration	Harsh	Not Started				
Fraud Hotline Management	Administration	Lyndon	Continuous				
Fraud Training	Administration	Lyndon/Caxton	Completed				

2021 Audit Program

Policy Audits

Audit - Felony Forfeiture Policy

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 and Reviews

Audit – Cash Management (Positive Pay)

The purpose of the audit is to identify internal control weaknesses and recommend strategies to improve cash management. The Positive Pay process is a bank control that systematically compares checks presented for payment to the issued-check files to detect serial numbers and dollar amounts that don't match. This audit will review the payee validation process to ensure ACERA has implemented the necessary internal controls to safeguard against fraud.

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 – Pension Benefits Calculation Audit

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).

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.

Special Projects

Special Project – Internal Controls Review (PAS 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 plans to roll out the Pension Gold (Version 3) to the organization.

Special Project – Safe and Check Processing

Staff requested a review of the process for receiving, handling, and maintaining uncashed checks in the safe. The review examined the procedures for both the front desk staff and fiscal services staff responsible for the custody of the checks and for tracking the location of each check from the time it is received.

Special Project - Workers Compensation Contributions and Service Credit Review

Staff requested a review of ACERA's process for collecting member and employer contributions on pay that results in a service credit, specifically how contributions are collected for Worker's Compensation Pay.

Special Project - Estimator Form Calculation Validation

Staff requested a review of the Death Benefit Estimate Form to verify the calculations on the form are accurate, and the source data used as input for the form is correct.

Special Project - Operation Manual Update

The Internal Audit Department updates the existing department operations manual to reflect changes in the department operations, internal audit best practices, and audit procedures. The objective is to ensure documentation exists for business continuity and as training for new internal audit employees.

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.

Summary

We have made great strides in meeting the 2021 Audit Program objectives, and our internal audit staff have done an excellent job delivering high-level results through the pandemic. We want to acknowledge the Board of Retirement for their ongoing support and guidance. The Internal Audit staff continues to partner with management, work with our participating employers, service the Board of Retirement, and protect our members.



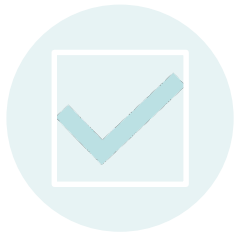
**Alameda County Employees' Retirement Association
Internal Audit Department**



Internal Audit Department 2021 Internal Audit Plan

October 21, 2021

Agenda



Progress on the
Internal Audit Plan



Results of the
AHS PEPRA
Compliance Audit



Results of the
Pension Benefits
Calculation Audit



Presentation on
the Cybersecurity
and Data Security
Self-Assessment
Plan



2021 Internal Audit Plan

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Fraud Hotline Management	Administration	Lyndon	Continuous				
Fraud Training	Administration	Lyndon/Caxton	Completed				

Alameda Health System (AHS) Audit Results



Audit Objective

The objective of this compliance audit is to determine if the employer's payroll data and payroll processes, and other reporting requirements comply with PEPRA and the CERL as it relates to PEPRA.

Tested Internal Controls

Eligibility

- 1) Determined if an eligible newly hired employee is submitting enrollment forms to ACERA.
- 2) Determined if ineligible employees are being reported as eligible to participate in ACERA's defined benefit plan.

Eligible Compensation

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

Post-Retirement Employment

- 1) Determined if a former employee retired on or after January 1, 2013, the employee was separated for 180 days or more from their official retirement date before coming back to work.
- 2) Determined if a retired employee returning to work complies with PEPRA by working less than 960 hours within a fiscal year.
- 3) Determined if post-employment positions compensation was not less than the minimum nor exceeded the maximum, paid by the employer to other employees performing comparable duties.

Testing Results

TEST	RESULT	REMEDIATED
EMPLOYEES HIRED FOR RETIREMENT BENEFIT-ELIGIBLE POSITIONS WERE PROPERLY ENROLLED INTO ACERA'S PENSION PLAN	PASS	
CONFIRM NEW EMPLOYEES HIRED IN THE YEAR 2013 WERE ENROLLED IN THE NEW TIER IV PLAN	PASS	
VERIFY THAT THE EMPLOYER REPORTED PENSIONABLE PAY CODES CORRECTLY TO ACERA	EXCEPTION NOTED	REMEDIATED
VERIFY PENSIONABLE COMPENSATION REPORTED IN THE ORIGINAL PAYROLL REGISTER MATCHES THE RECORDS IN PENSION GOLD	PASS	

Testing Results

TEST	RESULT	REMEDIED
REVIEW PEPRA PENSIONABLE COMPENSATION LIMITS FOR NEW PEPRA TIER MEMBERS HIRED ON OR AFTER 1/1/2013	PASS	
REVIEW IRS 401(A)(17) PENSIONABLE COMPENSATION LIMITS FOR EMPLOYEES HIRED ON OR AFTER 1/1/1996	EXCEPTION NOTED	REMEDIED
REVIEW PENSIONABLE SALARY INCREASES FOR UNUSUAL ITEMS	PASS	
REVIEW VACATION SELL ACCORDING TO DIFFERENT BARGAINING UNIT'S MEMORANDUM OF UNDERSTANDING (MOU)	EXCEPTION NOTED	REMEDIED

Testing Results

TEST	RESULT	REMEDIED
REVIEW IF THE EMPLOYER FULFILLED THE PEPPRA POST-RETIREMENT REQUIREMENTS	PASS	
REVIEW IF THE RETIRED ALAMEDA HEALTH SYSTEM EMPLOYEES WITH THE POST-RETIREMENT EMPLOYMENT ARE CLASSIFIED AS INDEPENDENT CONTRACTORS	PASS	
REVIEW IF RETIRED ACERA MEMBERS WERE IN COMPLIANCE WITH THE PEPPRA RULES ESTABLISHED FOR RETIRED ANNUITANTS	EXCEPTION NOTED	REMEDIED

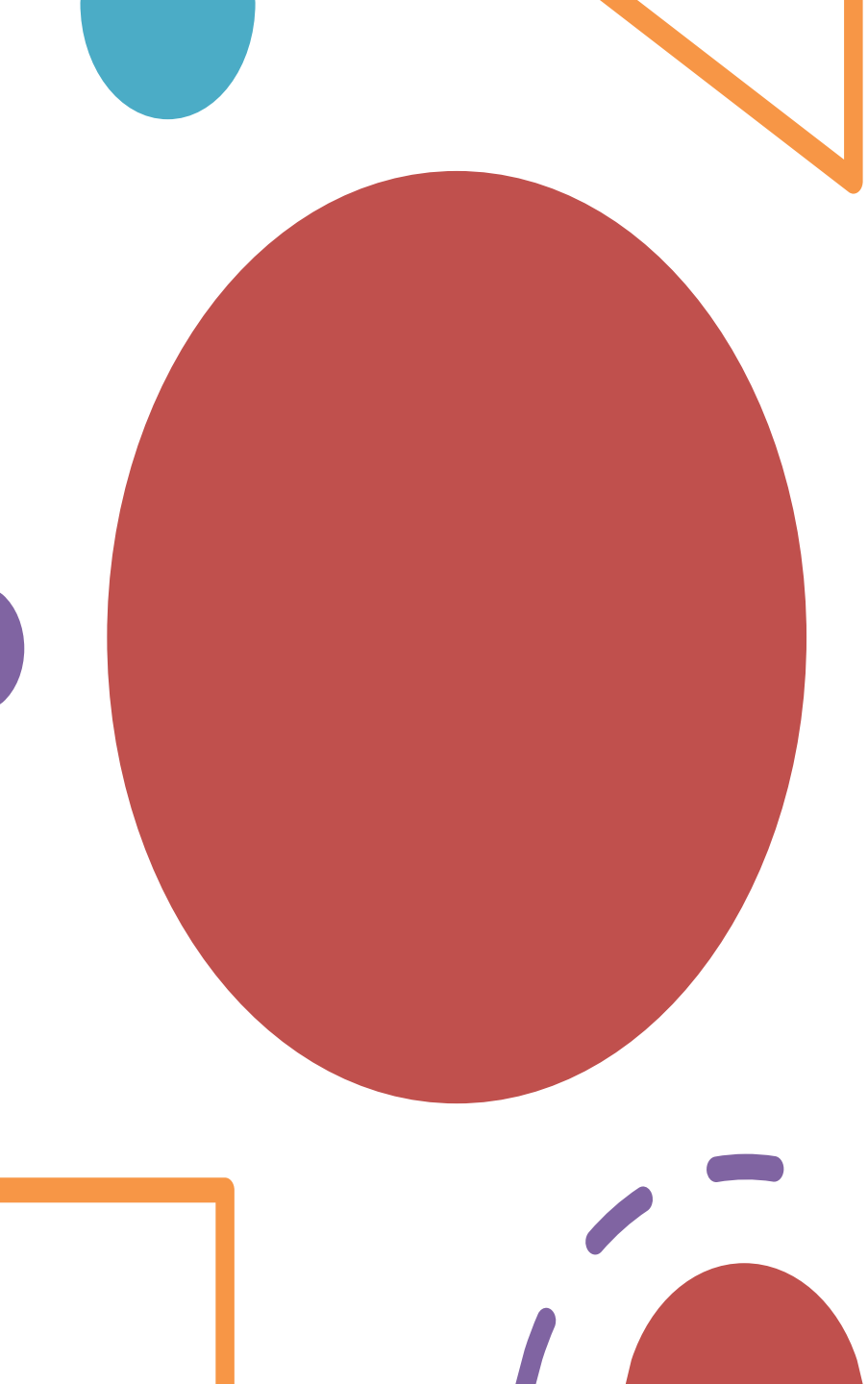
All 11 tests resulted in a pass, or the exceptions were remediated.





Conclusion

In conclusion, we found the Alameda Health System's payroll data, payroll process, and other reporting requirements were generally **compliant** with PEPRA and the CERL as impacted by PEPRA. Any exceptions were remediated or in the process of remediation.



Pension Benefits Calculation Audit (2021)

Audit Objective

The objective of this audit is to test the accuracy of the member's Final Average Salary (FAS) and the monthly retirement benefit/allowance, based on the payroll information, member's years of service, reciprocity (if applicable), vacation sell, court orders, or other items.

Testing Results

TEST	RESULT	REMEDIED
<p>THIS CONTROL VALIDATES WHETHER RETIREMENT TECHNICIAN (RT) HAS CORRECTLY ACCOUNTED FOR VALID SERVICE CREDIT IN PENSION BENEFIT CALCULATIONS, INCLUDING RECIPROCITY SERVICE CREDIT FROM ANOTHER ELIGIBLE PUBLIC RETIREMENT SYSTEM AND SERVICE CREDIT EARNED THROUGH PAYING OFF THE SERVICE PURCHASE CONTRACT.</p>	PASS	
<p>THIS CONTROL EXAMINED IF THE RT USED THE CORRECT PAY PERIOD'S SALARY INFORMATION AND VACATION SELL PER THE MEMBER'S MEMORANDUM OF UNDERSTANDING (MOU) AND ASSOCIATED PEPRA LIMITATIONS WITH COMPUTING THE MONTHLY PENSION ALLOWANCE.</p>	PASS	

Testing Results

TEST	RESULT	REMEDIATED
THIS CONTROL EXAMINES IF THE RT HAS USED THE PROPER MEMBER'S SERVICE CREDIT INFORMATION AND FINAL AVERAGE SALARY TO COMPUTE THE MONTHLY PENSION ALLOWANCE.	PASS	
THIS CONTROL IS USED TO VERIFY THE ACCURACY OF PENSION GOLD (PG) CONFIGURATION IN THE CALCULATION OF THE PENSION BENEFIT REDUCTION AMOUNT FOR THOSE MEMBERS WITH THE SOCIAL SECURITY INTEGRATED PLAN	PASS	

All 4 tests resulted in a pass, or the exceptions were remediated





Conclusion

We audited the accuracy of the monthly pension allowance calculation and found no exceptions or internal control weaknesses. We found the process was **EFFECTIVE**.

- Cybersecurity and Data Security Self-Assessment Plan



Objective

The objectives of this cybersecurity self-assessment is to conduct a technical analysis that determines the effectiveness of cybersecurity controls and to determine ACERA's overall cyber-maturity.

ACERA Cybersecurity Audit

	2021 2H	2022 1H	2022 2H	2023 1H	2023 2H	2024 1H
Access Control	REPORT	REMEDiate				
Account Management	TEST	REPORT	REMEDiate			
Continuity		TEST	REPORT	REMEDiate		
Configuration Management			TEST	REPORT	REMEDiate	
Monitoring and Malware				TEST	REPORT	REMEDiate

Questions






MEMORANDUM TO THE AUDIT COMMITTEE

DATE: October 21, 2021

TO: Members of the Board of Retirement

FROM: Harsh Jadhav, Chief of Internal Audit  ^{DS}

SUBJECT: Results of the Alameda Health System (AHS) PEPRA Compliance Audit

AUDIT OBJECTIVE

Pursuant to Government Code Sections 31543, the Board of Retirement (“Board”) 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 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 plan for the employer audit of the Alameda Health System (AHS).

The objective of this compliance audit was to determine if the employer’s payroll data and payroll processes, and other reporting requirements comply with PEPRA and the CERL as it relates to PEPRA. A review of applicable PEPRA legislation, applicable ACERA Policy, and the CERL as impacted by PEPRA was conducted to accomplish the objective. The participating employer’s documents and procedures were examined, and key personnel from the employing agencies were interviewed to understand the employer’s business process and practices.

SCOPE AND STRATEGY

With the Board of Retirement’s approval, the Internal Audit Department engaged with the participating employer to perform a limited scope audit related to compliance with PEPRA and ACERA policies. After reviewing the employer’s completed risk assessment matrix and interviewing the employer’s management team, we understood the control environment and identified the highest risk areas. Subsequently, we used this information to determine the scope of the audit.

We audited the employer’s payroll and enrollment data from January 1, 2016, to June 30, 2017. In addition, a sample of the compensation records for dates prior to January 1, 2016, were selected to test compliance with PEPRA Section 7522.32, which requires retirement benefits to be determined using the highest average annual pensionable compensation earned by the member during a period of at least 36 consecutive months. To meet this audit’s testing objective, we strategically sampled and examined the payroll records of individual employees from the total population of active, terminated, or retired employees on payroll during 2016 and the first half of 2017.

We conducted the on-site fieldwork in October 2018, where we worked with the AHS’s Payroll Department’s staff to perform a process walk-through and examine the employer’s

payroll system and payroll data flow. We also reviewed the AHS's payroll reporting process for full-time employees, job classification codes, and pay rate schedules. In addition, we compared certain payroll records against ACERA's Pension Gold Database (PG) records to identify if there were variances in reported pensionable pay. We also verified that the employer had internal controls in place for specific payroll processes, such as vacation sell and payroll transmittal reconciliations.

CONCLUSION

In conclusion, we found the Alameda Health System's payroll data, payroll process, and other reporting requirements were generally **compliant** with PEPRA and the CERL as impacted by PEPRA. Any exceptions were remediated or in the process of remediation. 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.

RECOMMENDATIONS

We are happy to report the positive results of the audit and recommended the following to ensure the organization continues to remain compliant.

1. We recommend that the Alameda Health System management team work with the ACERA Benefits Department to develop a timeline to provide all required payroll information, including the adjusted pensionable wage amounts and related employer and employee retirement contributions. Inaccurate Pension Gold pensionable wage records may cause an overpayment or underpayment of retirement benefits.
2. We recommended that the Alameda Health System management team develop a special payroll report to monitor their employees' accumulative annual vacation sell and hours total based on the MOU rules for all different bargaining units. AHS should also consider establishing a new process to have payroll staff review the new vacation sell reports to ensure the vacation sell is allowed by MOU as part of the bi-weekly payroll closing procedure.
3. We recommended that the Alameda Health System management team and the ACERA Benefits Department review the process to monitor those ACERA retirees working in their retirement-eligible positions to ensure compliance with the PEPRA regulations and limitations regarding retired annuitants.
4. ACERA retirees may be impacted by PEPRA when they retire from any of the ACERA participating employers. We recommend that Alameda Health System should inform their employees to update their personnel files to reflect whether they are a member of ACERA or a retiree collecting retirement/pension benefits from ACERA. This information should be updated whenever an employee's employment status changes, especially those working at AHS but having ACERA membership through any participating employer.
5. We recommend that the ACERA Benefits Department continue to educate members about the potential impacts to their retirement benefits from PEPRA post-retirement employment limitations.



Alameda County Employees' Retirement Association
Internal Audit Department

Alameda Health System

**AUDIT TO VERIFY COMPLIANCE WITH THE PUBLIC EMPLOYEES'
PENSION REFORM ACT (PEPRA) AND ACERA POLICY**



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

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CONTROL SUMMARY

KEY CONTROLS

#	Control	Risk Level	Effectiveness
1	ACERA Membership Eligibility and Enrollment: This control is used to validate whether the participating employer properly enrolls eligible employees into ACERA's pension plan and whether new employees submit the required membership enrollment forms to ACERA.	High	Effective
2	Eligible Compensation: This control is used to verify if the employer reports the correct pensionable compensation to ACERA and if the employer complies with the PEPRA's pensionable compensation limits for new employees hired after January 1, 2013. It will also examine if the employer complies with the pensionable compensation limits specified in Section 401(a) (17) of Title 26 of the United States Code.	High	Effective
3	Post-Retirement Employment: This control is used to verify if retired ACERA employees who retired on or after January 1, 2013, and are returning to work after retirement complies with the PEPRA post-retirement employment restrictions.	High	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 process, 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 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 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 plan for the employer audit of the Alameda Health System (AHS).

AUDIT OBJECTIVE

The objective of this compliance audit is to determine if the employer’s payroll data and payroll processes, and other reporting requirements comply with PEPRA and the CERL as it relates to PEPRA. A review of applicable PEPRA legislation, applicable ACERA Policy, and the CERL as impacted by PEPRA was conducted to accomplish the objective. The participating employer’s documents and procedures were examined, and key personnel from the employing agencies were interviewed to understand the employer’s business process and practices.

SCOPE AND STRATEGY

With the Board of Retirement’s approval, the Internal Audit Department engaged with the participating employer to perform a limited scope audit related to compliance with PEPRA and ACERA policies. After reviewing the employer’s completed risk assessment matrix and interviewing the employer’s management team, we understood the control environment and identified the highest risk areas. Subsequently, we used this information to determine the scope of the audit.

We audited the employer’s payroll and enrollment data from January 1, 2016, to June 30, 2017. In addition, a sample of the compensation records for dates prior to January 1, 2016, were selected to test compliance with PEPRA Section 7522.32, which requires retirement benefits to be determined using the highest average annual pensionable compensation earned by the member during a period of at least 36 consecutive months. To meet this audit’s testing objective, we strategically sampled and examined the payroll records of individual employees from the total population of active, terminated, or retired employees on payroll during 2016 and the first half of 2017.

We conducted the on-site fieldwork in October 2018, where we worked with the AHS’s Payroll Department’s staff to perform a process walk-through and examine the employer’s payroll system and payroll data flow. We also reviewed the AHS’s payroll reporting process for full-time employees, job classification codes, and pay rate schedules. In addition, we compared certain payroll records against ACERA’s Pension Gold Database (PG) records to identify if there were variances in reported pensionable pay. We also verified that the employer had internal controls in place for specific payroll processes, such as vacation sell and payroll transmittal reconciliations.

We performed audit testing in the following areas:

Eligibility

- 1) Determined if an eligible newly hired employee is submitting enrollment forms to ACERA.
- 2) Determined if ineligible employees are being reported as eligible to participate in ACERA's defined benefit plan.

Eligible Compensation

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

Post-Retirement Employment

- 1) Determined if a former employee retired on or after January 1, 2013, the employee was separated for 180 days or more from their official retirement date before coming back to work.
- 2) Determined if a retired employee returning to work complies with PEPRA by working less than 960 hours within a fiscal year.
- 3) Determined if post-employment positions compensation was not less than the minimum nor exceeded the maximum, paid by the employer to other employees performing comparable duties.

AUDIT LIMITATIONS

The PEPRA regulations are still largely untested, which made the interpretation of specific statutes difficult. To mitigate this ambiguity, we solicited AHS representatives and ACERA's Legal and Benefits Departments' assistance to provide guidance on certain legislation's intent and application. 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 high-risk areas.

Furthermore, to be efficient in audit testing, we sampled records that represented 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 internal auditing 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.

CONTROLS TESTED

CONTROL 1 – ACERA MEMBERSHIP ELIGIBILITY AND ENROLLMENT

Risk Level - High

Audit Results – Effective

Control:

The participating employer is required to enroll employees eligible to receive retirement benefits from ACERA and submit a new member's payroll record and retirement contribution to ACERA in a timely manner. This control is used to validate whether the participating employer properly enrolls eligible employees into ACERA's pension plan and whether new employees submit the required membership enrollment forms to ACERA.

Risk:

The participating employer may not correctly enroll eligible employees into ACERA's pension plan or incorrectly enter ineligible employees. Moreover, PEPRA sections 7522.02 and 7522.04 require employees hired on or after January 1, 2013, should be enrolled in a new Tier IV retirement plan unless an exception applies.

TEST 1: EMPLOYEES HIRED FOR RETIREMENT BENEFIT-ELIGIBLE POSITIONS WERE PROPERLY ENROLLED INTO ACERA'S PENSION PLAN

We requested and examined the employer's payroll data file, which included the population of employees for a particular pay period, regardless of employment type (full-time or part-time) or whether the employee was eligible for retirement benefits.

We then verified with the Alameda Health System (AHS) that employees were correctly enrolled if they had a job classification eligible for retirement benefits, payroll information in the transmittal files was reported timely to ACERA, and ineligible employees were excluded from retirement benefits. Due to the AHS-sponsored legislative Assembly Bill 1008 allowing those employees working at specific facilities to be excluded from ACERA membership, we reviewed AHS's internal controls on monitoring ACERA's membership enrollment and dis-enrollment for their employees changing job classification or facilities.

Test Results:



No exceptions noted.

TEST 2: CONFIRM NEW EMPLOYEES HIRED IN THE YEAR 2013 WERE ENROLLED IN THE NEW TIER IV PLAN

Employees hired on and after January 1, 2013, should be enrolled in the new Tier IV retirement plan unless an exception is applied. We tested new employees hired after 2013 to

verify they were enrolled in the correct retirement plan tier. We also sampled the receipt of the Member Enrollment Questionnaire (MEQ) by ACERA as an additional confirmation.

Our testing confirmed that new employees who the Alameda Health System hired after January 1, 2013, were properly enrolled in the new Tier IV or Tier II plan, if an exception to Tier IV enrollment was applied. We did not rely on the MEQ forms' received from new members for testing because the employer was not collecting MEQ forms on ACERA's behalf.

Test Results:



No exceptions noted.

CONTROL 2 – ELIGIBLE PENSIONABLE COMPENSATION

Risk Level - High

Audit Results – Partially Effective

Control:

This control examines the accuracy of the employer's reporting of pensionable wages to ACERA, including PEPRA compensation limits and the IRS code Section 401(a)(17) compensation limit. It also included examining the employer's original payroll registers, ACERA Pension Gold records, and the employer's data in their payroll system.

Risk:

Certain pay items reported to ACERA as pensionable compensation are "Non-Pensionable Compensation." There is a risk that employers may inaccurately report non-pensionable compensation to ACERA as pensionable.

A risk also exists that the employer can be out of compliance if their employees receive pensionable compensation, which exceeds the compensation limits described in PEPRA Section 7522.10 for employees hired on or after January 1, 2013. In addition to the new PEPRA compensation limits, PEPRA Section 7522.42 reiterates the existing pensionable compensation limit for all members hired on or after July 1, 1996, as prescribed under IRS Code Section 401(a)(17) of Title 26 of the United States Code.

TEST 1: VERIFY THAT THE EMPLOYER REPORTED PENSIONABLE PAY CODES CORRECTLY TO ACERA

We reviewed the pensionable compensation for active, terminated, and retired employees for the full year 2016 and the first half of the year in 2017. We compared the pensionable compensation between the extracted data from the Alameda Health System payroll system and ACERA's Pension Gold (PG) system to identify any variances in the reported data. We also sampled records with more substantial deviations to confirm that differences were due to timing adjustments or part of the ordinary course of business (i.e., adjustments made to prior year payroll). We also compared the employer's Pay Code Listing report with ACERA's Pay Items Listing on ACERA's website to confirm if the ACERA Board approved all the pensionable codes listed in employers' Pay Code Listing of Retirement.

Finally, we sampled and drilled down to the sampled employees' paycheck details in Alameda Health System's payroll system to determine if any pensionable pay codes were not previously reviewed by ACERA and subsequently approved by the ACERA Board of Retirement.

Test Results:



We noticed that a small number of pensionable pay codes and non-pensionable pay codes did not match the pensionable pay codes list approved by the Board of Retirement. In some cases, pensionable compensation reported to ACERA was either understated or overstated.

We had discussed this finding with the Alameda Health System management team representatives and realized the Alameda Health System payroll department had also identified the same issue and had corrected those pay codes for payroll data in the second half of the year 2017 going forward. However, pensionable compensation reported before the correction may not have been fixed in Pension Gold.

AHS has implemented internal controls to address ACERA coverage and the contributions requirements related to:

- 1) Delays in coding if a new pay code is pensionable or not
- 2) Retroactive union coverage of formerly unrepresented AHS CORE employees

In addition, their Labor Relations team will continue to remind the different unions at each negotiation that:

- 1) ACERA Board approval timeline of any new pay code takes at least 2 to 3 months; which means they will need to inform their members that, even if they wish to implement payment of a new pay code immediately, the time required for ACERA's Retirement Board to approve a new pay code may result in retroactive contributions that ACERA must collect from the union's members
- 2) If the union insists on covering their members retroactively, then ACERA must collect retroactive contributions from the union's members.

Recommendations	Business Owner
1. The Alameda Health System management team should work with the ACERA Benefits Department to develop a timeline to provide all required payroll information, including the adjusted pensionable wage amounts and related employer and employee retirement contributions. Our concern is that Pension Gold's pensionable wage records' inaccuracy may cause either an overpayment or underpayment of retirement benefits.	<ul style="list-style-type: none"> • Alameda Health System • ACERA Benefits Department

TEST 2: VERIFY PENSIONABLE COMPENSATION REPORTED IN THE ORIGINAL PAYROLL REGISTER MATCHES THE RECORDS IN PENSION GOLD

The purpose of this test was to confirm the employer's payroll system had correctly transferred data into the transmittal files submitted to ACERA. First, we sampled payroll data to determine if the pensionable compensation in the employer's actual payroll registers/transmittal files matched the information reported in the Pension Gold records. Then, we selected a sample of the Alameda Health System employees with pensionable compensation reported in the original payroll registers/transmittal files and matched it to the payroll data in the employer's payroll system. During our on-site visit in October 2018, we verified the employer's payroll system contained the same pensionable compensation data.

Test Results:



No exceptions noted.

TEST 3: REVIEW PEPRA PENSIONABLE COMPENSATION LIMITS FOR NEW PEPRA TIER MEMBERS HIRED ON OR AFTER 1/1/2013

PEPRA Section 7522.10 (a), (c), and (d) (1) defined the pensionable compensation limits that could be used to calculate retirement benefits for new members hired on or after January 1, 2013. We tested a sample of the Alameda Health System employees hired from 2013 to 2017 to determine if their annual compensation complied with the PEPRA compensation limits. In 2015 and 2016, the limits were \$117,020 for those who participated in the federal retirement system and were eligible to receive social security; \$140,424 for those not eligible to participate in the federal retirement system. We also tested and verified that after wages reached the PEPRA pensionable compensation limits, retirement contributions had stopped transmitting into Pension Gold.

Test Results:



No exceptions noted.

TEST 4: REVIEW IRS 401(A)(17) PENSIONABLE COMPENSATION LIMITS FOR EMPLOYEES HIRED ON OR AFTER 1/1/1996

PEPRA Section 7522.04 and 7522.42 (a) states that participating employers are governed by Section 401 (a) of Title 26 of the United States Code, and compensation taken into account under the plan for any year shall not exceed the amount permitted under Section 401(a)(17).

We selected a sample of pay records of employees who were hired after January 1, 1996, with annual wage of more than \$265,000, and confirmed their annual pensionable compensation did not exceed the maximum limit (the limits were \$265,000 for years 2015 and 2016; \$270,000 for year 2017). After the employee's wages reached the IRS 401(a) 17 pensionable compensation limits, we also verified that retirement contributions had stopped

transmitting into Pension Gold. We also sampled pay records of employees hired before July 1, 1996 to verify the employer continued to make retirement contributions since these 401(a)(17) wages limits did not apply for employees hired before that date.

Test Results:



We found one exception of an employee hired **before** January 1, 1996, where the 401(a)(17) wage limits should not apply. The exception resulted in employee and employer retirement contributions inadvertently stopping when the pensionable compensation reached the maximum limit. For those employees hired **on or after** January 1, 1996, the employer did apply the limited wage amount accordingly.

This exception was subsequently remediated with the Fiscal Services Department issuing a debit memo to AHS and collecting the underpayment of employer contributions on behalf of the member. In addition, the ACERA Benefits Department notified the member, and purchase contracts were set up to collect the missed/under contributions.

AHS remediated the exception by creating a compensation workaround in their system.

TEST 5: REVIEW PENSIONABLE SALARY INCREASES FOR UNUSUAL ITEMS

We scanned the annual pensionable compensation for any unusual pay items or unusual payroll activity. We found no exceptions.

Test Results:



No exceptions noted.

TEST 6: REVIEW VACATION SELL ACCORDING TO DIFFERENT BARGAINING UNIT'S MEMORANDUM OF UNDERSTANDING (MOU)

During our on-site fieldwork at the Alameda Health System Payroll Department Oakland office, we reviewed whether the employer had internal controls on monitoring the vacation sell payroll activities and followed their internal procedures. We selected a sample of Tier II members to test the vacation sell transactions in 2015, 2016, and 2017 to identify if the vacation sell transactions complied with the employees' bargaining unit's Memorandum of Understanding (MOU). We verified whether employees were selling vacations according to the employee's bargaining unit MOU rules. We confirmed that if an employee were retiring, the Alameda Health System would process and pay any unused vacation with their last paycheck and transmit the required compensation earnable and retirement contributions information to ACERA.

Test Results:

 **Partially Effective**

We sampled the vacation sell transactions and found exceptions where the vacation sell transactions did not fulfill the MOU requirements. The main cause for the discrepancies was that each MOU used different accounting periods for vacation accruals and vacation sales. Some MOUs used the fiscal year for the vacation sale calculation, and others used the calendar year. After consulting with the ACERA Legal Department, the Final Average Salary (FAS) vacation sale for the pension benefits calculation should be based on the rules stated in each bargaining unit MOU.

We consulted with AHS about their internal controls and procedures. We determined that the employer lacked adequate documented procedures and reporting tools to assist their payroll staff's review in ensuring the vacation sell transactions complied with the MOU. AHS stated the challenge is that each MOU is not consistent with specifying whether vacation sell calculations are based on a fiscal or calendar year. Their Payroll team would prefer the calendar year since it coincides with the employees' W-2. Their Labor Relations team will continue to try and request a more consistent fiscal or calendar year with each negotiation.

Recommendations	Business Owner
1. Alameda Health System management team should develop a special payroll report to monitor their employees' accumulative annual vacation sell and hours total based on the MOU rules for all different bargaining units. They should also consider establishing a new process to have payroll staff review the new vacation sell reports to ensure the vacation sell is allowed by MOU as part of the bi-weekly payroll closing procedure.	<ul style="list-style-type: none"> Alameda Health System

CONTROL 3 - POST-RETIREMENT EMPLOYMENT

Risk Level - High

Audit Results -Effective

TEST 1: REVIEW IF THE EMPLOYER FULFILLED THE PEPRA POST-RETIREMENT REQUIREMENTS

PEPRA Section 7522.56 applies to any person who is receiving a pension benefit from a public retirement system. The retired member shall not serve or be employed through a contract directly by a public retirement system from which the retiree receives the benefit without reinstatement from retirement, except as permitted by Section 7522.56, such as:

- 1) The retired person shall not be eligible to be employed within 180 days following the date of retirement.
- 2) Appointments of the retired person authorized under this section shall not exceed a total for all employers in that public retirement system of 960 hours or other equivalent limit, in a calendar or fiscal year, depending on the system.

- 3) The employee's pay rate shall not be less than the minimum nor exceed the maximum, paid by the employer to other employees performing comparable duties.

We tested the employer's internal controls in monitoring their retired employees' post-retirement employment activities and the Alameda Health System policy of limiting the term of the post-retirement employment for not more than one year. After discussing the issue with the employer, the employer remediated the problem by terminating non-qualified post-retirement employment.

Test Results:



No exceptions noted.

TEST 2: REVIEW IF THE RETIRED ALAMEDA HEALTH SYSTEM EMPLOYEES WITH THE POST-RETIREMENT EMPLOYMENT ARE CLASSIFIED AS INDEPENDENT CONTRACTORS

We examined 2016 and 2017 1099 MISC reports provided by the employer. We compared them to the ACERA Pension Gold System's information to discover any retired members working for this participating employer as an independent contractor who has not met the PEPRA requirements.

Test Results:



No exceptions noted.

TEST 3: REVIEW IF RETIRED ACERA MEMBERS WERE IN COMPLIANCE WITH THE PEPRA RULES ESTABLISHED FOR RETIRED ANNUITANTS

PEPRA Section 7522.56 (b) states: "A retired person shall not serve, be employed by, or be employed through a contract directly by, a public employer in the same public retirement system from which the retiree receives the benefit without reinstatement from retirement, except as permitted by this section." In addition, the AHS-sponsored legislative Assembly Bill (AB) 1008 allows employees working at specific facilities to be excluded from ACERA membership.

We determined that ACERA required and only captured the payroll data from participating employers for retirement-eligible members in the Pension Gold system. Therefore, we requested AHS provide payroll data, including those working under AHS's AB1008 or other retirement-eligible positions. We created a database query to match AHS active and retired employees to the ACERA retirees in the Pension Gold system.

Through our testing, we noted that certain employees were working at two participating employers simultaneously, which could lead to a control gap if the employee retires at one employer and fails to notify the other. Therefore, we ran a second query to compare the AHS active and retired members to all active members working at all participating employers to determine which active members worked simultaneously at two ACERA employers.

Test Results:



The test objective was to identify retirees working in ACERA retirement-eligible positions and if they complied with the PEPRA rules and limitations for the retired annuitants.

We determined that AHS was effectively monitoring their retired AHS employees in ACERA retirement-eligible positions. However, we discovered a small number of employees who worked full-time at another ACERA employer and worked part-time at AHS. Although this situation is rare, we asked AHS to establish a process to identify and monitor these employees to ensure they notify AHS of their retirement from the other participating employer.

We relied on the memorandum of understanding (MOU) to establish which positions were entitled to ACERA retirement benefits. In addition, the Health and Safety Code section 101851 was designed to give AHS the ability to include or exclude employees from ACERA membership through the MOU process. The MOUs were typically assigned to AHS employees based on their job class and the facility location where they were employed. Since certain AHS facilities do not offer ACERA retirement benefits, we focused only on those employees working at facilities offering ACERA retirement benefits.

We found eight ACERA members who previously worked or were currently working at AHS and Alameda County simultaneously. Five of those employees worked in an AHS facility that did not participate in the ACERA retirement plan and were not subject to the return-to-work rules. Two members had retired with ACERA before December 2018 but continued to work with AHS in ACERA retirement-eligible positions without any breaks in services. PEPRA Section (b) requires the employer to observe a break in service of 180 days before hiring the member back to work. One member had worked with both AHS and Alameda County but had retired from both employers.

AHS staff remediated the issue by monitoring the two retired annuitants subject to the return to work rules. Due to the Governor's Order which suspended the requirement to monitor and track a retired annuitant's hours during the COVID crisis, hours are not required to be tracked. Once the order lifts, AHS will go back to monitoring retired annuitants to ensure they do not exceed the maximum of 960 hours per fiscal year.

In the case of the one active employee with both AHS and Alameda County, that member is not subject to the return to work rules until they retire. AHS understands that when the member retires from Alameda County, the member will be subject to the 180-day waiting period (assuming she does not retire during the COVID crisis). AHS will continue to monitor the member's retirement status.

Recommendations	Business Owner
<p>1. Alameda Health System management team and the ACERA Benefits Department should review the process to monitor those ACERA retirees working in their retirement-eligible positions to ensure compliance with the PEPRA regulations and limitations regarding retired annuitants.</p>	<ul style="list-style-type: none"> • Alameda Health System • ACERA Benefits Department
<p>2. ACERA retirees may be impacted by PEPRA when they retire from any of the ACERA participating employers. We recommend the Alameda Health System inform their employees to update their personnel files to reflect whether they are a member of ACERA or a retiree collecting retirement/pension benefits from ACERA. This information should be updated whenever an employee's employment status changes, especially those working at AHS but having ACERA membership through any participating employers.</p>	<ul style="list-style-type: none"> • Alameda Health System
<p>3. We recommend that the ACERA Benefits Department continue to educate members about the potential impacts to their retirement benefits from PEPRA post-retirement employment limitations, regardless of whether they choose to work for their primary employer or other employers participating ACERA pension plan.</p>	<ul style="list-style-type: none"> • ACERA Benefits Department

CONCLUSION


In conclusion, we found the Alameda Health System's payroll data, payroll process, and other reporting requirements were generally **compliant** with PEPRA and the CERL as impacted by PEPRA. Any exceptions were remediated or in the process of remediation. 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 would like to recognize the Alameda Health System's management team and staff for their cooperation throughout this audit process.



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: October 21, 2021

TO: Members of the Board of Retirement

FROM: Harsh Jadhav, Chief of Internal Audit  ^{DS}

SUBJECT: Results of the Pension Benefits Calculation Audit (2021)

AUDIT OBJECTIVE

The objective of this audit was to test the accuracy of the member's Final Average Salary (FAS) and the monthly retirement benefit/allowance, based on the payroll information, member's years of service, reciprocity (if applicable), vacation sell, court orders, or other items.

AUDIT SCOPE

ACERA's Internal Audit Department performed a limited scope audit of the Retirement Pension Benefit Calculation process. The audit scope was based on the Internal Audit Department's understanding of the business process and areas deemed the highest risk. We focused on the Final Average Salary (FAS) calculation, the Pension Benefit Monthly Allowance calculation, and whether the Retirement Technician (RT) followed the standard departmental procedures and internal controls. This audit scope focused primarily on data from retirement application cases in recent years

AUDIT CONCLUSION

We audited the accuracy of the monthly pension allowance calculation and found no exceptions or internal control weaknesses. No recommendations for improvement were made. The process was deemed **EFFECTIVE**.



Alameda County Employees' Retirement Association
Internal Audit Department

Pension Benefits Calculation Audit Year 2021

**AUDIT TO VERIFY ACCURACY OF MEMBER'S RETIREMENT
PENSION BENEFIT**



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

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CONTROL SUMMARY

KEY CONTROLS

#	Control	Risk Level	Effectiveness
1	Retirement Service Credit: This control is used to validate whether the Retirement Technician (RT) has correctly accounted for valid service credit in pension benefit calculations, including reciprocity service credit from other eligible public retirement systems and service credit earned through paying off Service Purchase Contract (SPC).	Medium	Effective
2	Final Average Salary (FAS) Calculation: This control is used to verify if the RT has correctly calculated the FAS amount for the benefit calculation. This includes using salary information from the proper pay periods and the suitable vacation sales allowed by the laws and member's bargaining unit's Memorandum of Understanding (MOU).	Medium	Effective
3	Monthly Retirement Pension Allowance Matched the Benefits Option Selected by the Member: This control is used to verify the accuracy of the monthly retirement pension benefit/allowance and whether it is in accordance with the member's choice of benefits option.	Medium	Effective
4	Pension Gold (PG) Correctly Calculated the Pension Benefit Reduction for the Social Security Integrated Plan: This control is used to verify the accuracy of PG's configuration in calculating the pension benefit reduction amount for those members with the social security integrated plan.	High	Effective

RISK LEVEL

High-Risk Controls:

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 failure could result in a material weakness. Material weakness includes material misstatements in the financial statements, significant process errors, and ACERA resource misuse.

Medium-Risk Controls:

Controls associated with important 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 on a regular basis. A medium-risk control failure could result in a significant deficiency and a material weakness in some instances. Significant deficiencies can include staff competency, lack of consistent business process, 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. Still, they are unlikely to cause a material misstatement unless several low-risk controls fail 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:

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

Remediated/In Remediation:

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

EXECUTIVE SUMMARY

Each year Alameda County Employees' Retirement Association (ACERA) receives more than 400 new retirement applications. Retirement Technician (RT) performs a calculation to determine a member's monthly pension benefit allowance through retirement. In most cases, the calculation is straight-forward, but certain elements can increase the complexity in the calculation, including:

- (1) Reciprocity and Final Average Salary (FAS) from other retirement agencies;
- (2) Excessive unused vacation balances and vacation sells allowed by different Memorandum of Understandings (MOU);
- (3) Added retirement service credit from paying off the Service Purchase Contract (SPC);
- (4) Election of different retirement allowance options;
- (5) Domestic Relationship Order (DRO);
- (6) IRS 401(a)17 wage limits;
- (7) PEPRA wage limits.

Each of the above scenarios may require the RT to manually adjust the retirement benefit worksheet to correctly compute the Final Average Salary (FAS).

In addition, we examined the automated calculation performed by the Pension Gold (PG) system. The PG system applies the years of service credit, pension benefit fraction at the age of retirement, social security reduction factor, and FAS entered by the RT to compute the non-integrated portion of monthly pension benefit allowance and the social security benefit reduction amount for the integrated portion of benefits.

AUDIT OBJECTIVE

The objective of this audit is to test the accuracy of the member's Final Average Salary (FAS) and the monthly retirement benefit/allowance, based on the payroll information, member's years of service, reciprocity (if applicable), vacation sell, court orders, or other items.

SCOPE AND STRATEGY

ACERA's Internal Audit Department performed a limited scope audit of the Retirement Pension Benefit Calculation process. The audit scope was based on the Internal Audit Department's understanding of the business process and areas deemed the highest risk. We focused on the Final Average Salary (FAS) calculation, the Pension Benefit Monthly Allowance calculation, and whether the RT followed the standard departmental procedures and internal controls. This audit scope focused primarily on data from retirement application cases in recent years.

The audits were performed by ACERA's Internal Audit staff, having adequate technical training and proficiency as auditors. In all matters relating to the audit, independence and objectivity were maintained by the auditor or auditors. Due professional care was exercised in the performance of the audit and the preparation of the report. In planning the engagement, a sufficient understanding of the internal controls was obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed. Sufficient appropriate evidential matter was obtained through inspection, observation, inquiries, and confirmations to provide a reasonable basis for an audit opinion.

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

AUDIT LIMITATIONS

Since the interpretation of certain law statutes required professional knowledge, to mitigate this ambiguity, audit department solicited the assistance of ACERA's Legal and Benefits Departments to provide guidance on the intent and application of specific legislation. Due to certain resource constraints, the audit was limited in scope to focus on the highest risk areas, which may not represent a comprehensive review of all high-risk areas.

Further, to be efficient in the audit testing, we sampled records that represented the population. Whenever a random sampling approach is used, a sampling risk arises from the possibility that the auditor's conclusions from testing the sample may differ from the conclusions drawn if the entire population had been tested. 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 the audit scope. Finally, please 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.

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, and structure, and by persons within or outside the organization. While differences may affect internal auditing practice in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the 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*, conformance 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 standards, internal auditors and the internal audit activity must conform to the *Standards* and may conform with the other standards if they are more restrictive.

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 as well as 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 nature and scope of the assurance engagement are determined by the internal auditor. There are generally three parties involved in assurance services:

- (1) The person or group directly involved with the entity, operation, function, process, system, or other subject matter - the process owner
- (2) The person or group making the assessment - the internal auditor
- (3) The person or group using the assessment - the user.

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Finally, the 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 ACERA Department or qualified consultant. Hence, no part of the Internal Audit Report should be construed as legal, actuarial, or investment advice.

CONTROLS TESTED

We randomly sampled and selected member files to examine their retirement applications, including any unique situations applied to them, such as reciprocity services from other retirement agencies, Service Purchase Contract (SPC), DRO, or court order. We re-calculated the number of years of retirement service credit, FAS, and the monthly pension allowance as a baseline, comparing it to the actual member records for its accuracy.

CONTROL 1 – RETIREMENT SERVICE CREDIT

Risk Level - Medium

Audit Results – Effective

Control:

The number of years of retirement service credit is one of the three factors in the formula to compute the monthly pension allowance for life. This control validates whether RT has correctly accounted for valid service credit in pension benefit calculations, including reciprocity service credit from another eligible public retirement system and service credit earned through paying off SPC.

Risk:

The risk that the RT incorrectly included or omitted member's service credit and the results would be either inflate or understate the member's monthly pension benefit allowance for life.

Test Results:



No exceptions were noted.

Test Notes:

Our review of the selected samples found that the RT did include the correct retirement service credit, including the payoff SPC added service credit, in the monthly pension allowance calculation. No systemic errors were noted.

CONTROL 2 – FINAL AVERAGE SALARY CALCULATION

Risk Level - Medium

Audit Results – Effective

Control:

This control examined if the RT used the correct pay period's salary information and vacation sell per the member's Memorandum of Understanding (MOU) and associated PEPRA limitations with computing the monthly pension allowance. The FAS could also be capped by the IRS 401(a) 17 limit of Title 26 of the United States Code or the PEPRA new tier wage limits.

Risk:

The risk that the RT incorrectly computed the FAS and the results would be either inflated or understated member's monthly pension benefit allowance for life.

Test Results:



No exceptions were noted.

Test Notes:

The member's annual salary was higher than the 401(a) 17 limits in one sample record. The RT correctly used the only salary records up to the FAS calculation's 401(a) 17 limits.

**CONTROL 3 – MONTHLY PENSION ALLOWANCE MATCHED BENEFITS OPTION
SELECTED BY THE MEMBER**

Risk Level - Medium

Audit Results – Effective

Control:

This control examines if RT has used the proper member's service credit information and FAS to compute the monthly pension allowance. Since there were many pension allowance payment options for members to choose from, we also checked if the actual payments matched the member's choice in the member's file.

Risk:

The RT incorrectly computed the monthly pension allowance or paid the benefit using the wrong payment option, leading to an overpayment or underpayment to the member.

Test Results:



Test Notes:

We noted that there were no errors in the calculation even in those unique scenarios, such as the SPC or 401(a) 17 salary limits. The RT used the correct data to input service credit and the FAS information into the Pension Gold system. From the selected sample, we determined the pension allowance payments were paid in accordance with the member's retirement allowance option selection.

**CONTROL 4 – PENSION GOLD (PG) CORRECTLY CALCULATED THE PENSION
BENEFIT REDUCTION FOR THE SOCIAL SECURITY INTEGRATED PLAN**

Risk Level - High

Audit Results – Inconclusive

Control:

This control is used to verify the accuracy of PG's configuration in calculating the pension benefit reduction amount for those members with the social security integrated plan.

Risk:

The automated calculation for pension benefits in PG was incorrect.

Test Results:



Test Notes:

Based on the Pension Benefit Allowance formula provided by the Benefits Department, we manually re-calculated the pension benefit allowance amount and compared it to the PG calculated amount. We found no material differences.

The formula used by the Benefits Department and in PG was:

$(FAS \times \text{Years of Service} \times \text{Age factor from 37 ACT section 31676.12 or 31676.1}) - (\text{Years of Service} \times \text{Social Security Age Reduction Factor})$

We further inquired about the source of this formula and where it was referenced in the CERL to ensure that the social security reduction calculation for integrated plan pension benefits was accurate. The Legal Department referred us to review Gov't Code § 31808.7 for General Tier 1 and Gov't Code § 31808 for General Tier 2. We tested samples based on the legal interpretation from legal counsel to re-perform the pension allowance calculation and found no material differences.

CONCLUSION

We audited the accuracy of the monthly pension allowance calculation and found no exceptions or internal control weaknesses. We found the process was **EFFECTIVE**. We performed one test to ensure the PG system had the correct pension benefit formula built into the programming. It is vital to ensure the formulas or rate tables used in the PG system comply with the CERL.

Please note that 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. We want to thank the Benefits and Legal Departments for assisting us during the audit.