



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

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

THIS MEETING WILL BE CONDUCTED VIA TELECONFERENCE [SEE EXECUTIVE ORDER N-29-20 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, February 18, 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: 813 7063 8874 Password: 800226 For help joining a Zoom meeting, see: https://support.zoom.us/hc/en-us/articles/201362193	HENRY LEVY, CHAIR	EX-OFFICIO
	TARRELL GAMBLE, VICE-CHAIR	APPOINTED
	OPHELIA BASGAL	APPOINTED
	KEITH CARSON	APPOINTED
	ELIZABETH ROGERS	ELECTED

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, February 18, 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

External Audit:

1. **Presentation, discussion, and possible motion to approve the external audit scope of work and timeline of services for the Financial Statements ended December 31, 2020, performed by Williams Adley & Co. LLP.**

- Audrey Elbert, Partner
- Kenneth Yu, Senior Manager
Williams, Adley & Company, LLP
- Margo Allen

Recommendation:

The Audit Committee recommends to the Board of Retirement that the Board approve the external audit scope of work and timeline of services for the Financial Statements ended December 31, 2020, to be performed by Williams Adley & Co. LLP.

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

External Audit

1. **2021 Audit Committee Work Plan (Proposed)** - Margo Allen

Internal Audit

1. **Review of Annual Risk Assessment** - Harsh Jadhav
2. **Presentation of the 2021 Internal Audit Plan (Proposed)** - Harsh Jadhav
3. **Review Completed Audits** - Harsh Jadhav

Trustee Comment:

Future Discussion Items:

Establishment of Next Meeting Date:

April 15, 2021, at 1:00 pm

**EXECUTIVE DEPARTMENT
STATE OF CALIFORNIA**

EXECUTIVE ORDER N-29-20

WHEREAS on March 4, 2020, I proclaimed a State of Emergency to exist in California as a result of the threat of COVID-19; and

WHEREAS despite sustained efforts, the virus continues to spread and is impacting nearly all sectors of California; and

WHEREAS the threat of COVID-19 has resulted in serious and ongoing economic harms, in particular to some of the most vulnerable Californians; and

WHEREAS time bound eligibility redeterminations are required for Medi-Cal, CalFresh, CalWORKs, Cash Assistance Program for Immigrants, California Food Assistance Program, and In Home Supportive Services beneficiaries to continue their benefits, in accordance with processes established by the Department of Social Services, the Department of Health Care Services, and the Federal Government; and

WHEREAS social distancing recommendations or Orders as well as a statewide imperative for critical employees to focus on health needs may prevent Medi-Cal, CalFresh, CalWORKs, Cash Assistance Program for Immigrants, California Food Assistance Program, and In Home Supportive Services beneficiaries from obtaining in-person eligibility redeterminations; and

WHEREAS under the provisions of Government Code section 8571, I find that strict compliance with various statutes and regulations specified in this order would prevent, hinder, or delay appropriate actions to prevent and mitigate the effects of the COVID-19 pandemic.

NOW, THEREFORE, I, GAVIN NEWSOM, Governor of the State of California, in accordance with the authority vested in me by the State Constitution and statutes of the State of California, and in particular, Government Code sections 8567 and 8571, do hereby issue the following order to become effective immediately:

IT IS HEREBY ORDERED THAT:

1. As to individuals currently eligible for benefits under Medi-Cal, CalFresh, CalWORKs, the Cash Assistance Program for Immigrants, the California Food Assistance Program, or In Home Supportive Services benefits, and to the extent necessary to allow such individuals to maintain eligibility for such benefits, any state law, including but not limited to California Code of Regulations, Title 22, section 50189(a) and Welfare and Institutions Code sections 18940 and 11265, that would require redetermination of such benefits is suspended for a period of 90 days from the date of this Order. This Order shall be construed to be consistent with applicable federal laws, including but not limited to Code of Federal Regulations, Title 42, section 435.912, subdivision (e), as interpreted by the Centers for Medicare and Medicaid Services (in guidance issued on January 30, 2018) to permit the extension of

otherwise-applicable Medicaid time limits in emergency situations.

2. Through June 17, 2020, any month or partial month in which California Work Opportunity and Responsibility to Kids (CalWORKs) aid or services are received pursuant to Welfare and Institutions Code Section 11200 et seq. shall not be counted for purposes of the 48-month time limit set forth in Welfare and Institutions Code Section 11454. Any waiver of this time limit shall not be applied if it will exceed the federal time limits set forth in Code of Federal Regulations, Title 45, section 264.1.
3. Paragraph 11 of Executive Order N-25-20 (March 12, 2020) is withdrawn and superseded by the following text:

Notwithstanding any other provision of state or local law (including, but not limited to, the Bagley-Keene Act or the Brown Act), and subject to the notice and accessibility requirements set forth below, a local legislative body or state body is authorized to hold public meetings via teleconferencing and to make public meetings accessible telephonically or otherwise electronically to all members of the public seeking to observe and to address the local legislative body or state body. All requirements in both the Bagley-Keene Act and the Brown Act expressly or impliedly requiring the physical presence of members, the clerk or other personnel of the body, or of the public as a condition of participation in or quorum for a public meeting are hereby waived.

In particular, any otherwise-applicable requirements that

- (i) state and local bodies notice each teleconference location from which a member will be participating in a public meeting;
- (ii) each teleconference location be accessible to the public;
- (iii) members of the public may address the body at each teleconference conference location;
- (iv) state and local bodies post agendas at all teleconference locations;
- (v) at least one member of the state body be physically present at the location specified in the notice of the meeting; and
- (vi) during teleconference meetings, a least a quorum of the members of the local body participate from locations within the boundaries of the territory over which the local body exercises jurisdiction

are hereby suspended.

A local legislative body or state body that holds a meeting via teleconferencing and allows members of the public to observe and address the meeting telephonically or otherwise electronically, consistent with the notice and accessibility requirements set forth below, shall have satisfied any requirement that the body allow

members of the public to attend the meeting and offer public comment. Such a body need not make available any physical location from which members of the public may observe the meeting and offer public comment.

Accessibility Requirements: If a local legislative body or state body holds a meeting via teleconferencing and allows members of the public to observe and address the meeting telephonically or otherwise electronically, the body shall also:

- (i) Implement a procedure for receiving and swiftly resolving requests for reasonable modification or accommodation from individuals with disabilities, consistent with the Americans with Disabilities Act and resolving any doubt whatsoever in favor of accessibility; and
- (ii) Advertise that procedure each time notice is given of the means by which members of the public may observe the meeting and offer public comment, pursuant to subparagraph (ii) of the Notice Requirements below.

Notice Requirements: Except to the extent this Order expressly provides otherwise, each local legislative body and state body shall:

- (i) Give advance notice of the time of, and post the agenda for, each public meeting according to the timeframes otherwise prescribed by the Bagley-Keene Act or the Brown Act, and using the means otherwise prescribed by the Bagley-Keene Act or the Brown Act, as applicable; and
- (ii) In each instance in which notice of the time of the meeting is otherwise given or the agenda for the meeting is otherwise posted, also give notice of the means by which members of the public may observe the meeting and offer public comment. As to any instance in which there is a change in such means of public observation and comment, or any instance prior to the issuance of this Order in which the time of the meeting has been noticed or the agenda for the meeting has been posted without also including notice of such means, a body may satisfy this requirement by advertising such means using "the most rapid means of communication available at the time" within the meaning of Government Code, section 54954, subdivision (e); this shall include, but need not be limited to, posting such means on the body's Internet website.

All of the foregoing provisions concerning the conduct of public meetings shall apply only during the period in which state or local public health officials have imposed or recommended social distancing measures.

All state and local bodies are urged to use sound discretion and to make reasonable efforts to adhere as closely as reasonably possible to the provisions of the Bagley-Keene Act and the Brown Act, and other applicable local laws regulating the conduct of public meetings, in order to maximize transparency and provide the public access to their meetings.

IT IS FURTHER ORDERED that as soon as hereafter possible, this Order be filed in the Office of the Secretary of State and that widespread publicity and notice be given of this Order.

This Order is not intended to, and does not, create any rights or benefits, substantive or procedural, enforceable at law or in equity, against the State of California, its agencies, departments, entities, officers, employees, or any other person.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 17th day of March 2020.



GAVIN NEWSOM
Governor of California

ATTEST:

ALEX PADILLA
Secretary of State



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: February 18, 2021

TO: Members of the Audit Committee

FROM: Margo Allen, Fiscal Services Officer

SUBJECT: **Williams, Adley & Co. LLP., 2020 Financial Statement External Audit**

The Fiscal Services Department has reviewed the 2021 external audit scope of work and timeline of services to be performed by Williams, Adley, & Co. LLP, ACERA is prepared to commence with its annual financial statement audit for year ended December 31, 2020. The allotted time frame of the audit field work is approximately 60 days, ending approximately the third week in April 2021.

Throughout the audit period, bi-weekly status meetings with the Fiscal Services Department will be conducted. Likewise, status meetings with Senior Managers will also be scheduled on an as needed basis. The Fiscal Services Officer will oversee the audit process and is responsible for ensuring the completeness and accuracy of all financial information provided to Williams, Adley, & Co. LLP.

Recommendation

Staff recommends that the Audit Committee recommend to the Board of Retirement that the Board approve the 2020 Financial Statement External Audit Scope of Work and Timeline of Services to be performed by Williams, Adley & Co. LLP.



ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Audit and Communications Plan for the Year Ended
December 31, 2020



Confidence Earned

Agenda

- ▶ Engagement Team
- ▶ Auditor Responsibilities
- ▶ Management Responsibilities
- ▶ Audit Committee Responsibilities
- ▶ Our Risk-Based Approach
- ▶ Areas of Significant Risk
- ▶ Areas of Audit Emphasis
- ▶ Timeline
- ▶ New GASB Reporting Standards

Engagement Team

- ▶ Audrey F. Elbert, CPA, Engagement Partner
 - ▶ Has overall responsibility for the engagement, including service levels and adherence to timelines. Responsible for the engagement, including the content of reports and compliance with firm and professional standards.
- ▶ Ini Babalola, CISA, Manager
 - ▶ Will be the primary contact for the day to day audit procedures. She will serve as the primary liaison between ACERA staff and WACO staff in order to achieve the daily audit objectives.
- ▶ Kenneth Yu, CPA, Senior Manager
 - ▶ Primarily responsible for the achievement of engagement objectives and quality control of the audit procedures performed and the reports issued.
- ▶ Robert Griffin, CPA, Technical Review Partner
 - ▶ Primary responsibility is to provide an independent view of the engagement team's judgments related to auditing and technical accounting matters. He will also provide consultation on technical issues and serve as a liaison to GASB, AICPA, and other authoritative sources.

Auditor Responsibilities

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

Management Responsibilities

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

Audit Committee Responsibilities

- ▶ Meet periodically with the auditors to discuss audit progress and findings.
- ▶ Resolve conflicts between auditors and management, if necessary.
- ▶ Review auditor's findings and recommendations and evaluate management's response.

Our Risk-Based Approach

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

Areas of Significant Risk

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

Other Areas of Audit Emphasis

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

Timeline

- ▶ Planning and client assistance - January / February 2021
- ▶ Fieldwork - Mid February - April 2021
- ▶ Presentation of Audit Results to Audit Committee - May 2021
- ▶ Reporting Deadlines
 - ▶ State Controller's Report - June 30, 2021
 - ▶ CAFR to GFOA - June 30, 2021
- ▶ Management Letter Comments - June 2021
- ▶ GASB 68 & 75 reports - June 2021

New GASB Reporting Standards

New pronouncements for 2020

GASB Statement No. 87, *Leases*, issued in June 2017


The objective of this Statement is to improve accounting and financial reporting for leases by governments to better meet the information needs of financial statement users. ACERA is implementing this Statement for FY 2020.



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: February 18, 2021

TO: Members of the Audit Committee

FROM: Margo Allen, Fiscal Services Officer 

SUBJECT: **Proposed 2021 Audit Committee Work Plan**

The proposed 2021 Audit Committee Work Plan is attached for your consideration and review. The main action and topical discussion items for 2021 are listed below for quick reference:

- February 18, 2021, Williams, Adley & Co. LLP. will present the external audit scope of work and timeline.
- April 15, 2021
 - Presentation and discussion of the Government Accounting Standards Board (GASB) Statement No. 67 and No. 74 Valuations and addendums as of December 31, 2020 (Segal); and,
 - Presentation of staff recommendation for selection of a Board Approved Service Provider for ACERA's External Auditor for financial years ending 2021-2025, per ACERA's Service Provider Policy, p.3, IV(B)(2).
- May 20, 2021:
 - External auditor's report and presentation of the December 31, 2020 audited financial statements;
 - Recommend adoption of the GASB Statement No. 67 and No. 74 Valuations and addendums as of December 31, 2020; and
 - Report on the status of the External Auditor search for financial years ending 2021-2025.
- June 18, 2020:
 - Adoption of the audited Schedules of Employer Allocations and Schedules of Pension and OPEB Amounts by Employer; and
 - Presentation of the GASB Statement No. 68 and No. 75 Valuations and Employer Schedules as of December 31, 2020.

Throughout the year, ACERA's Chief Internal Auditor will review the progress of the internal audit plan, present new internal audit initiatives, and review completed audits. As the need arises, agenda items may be changed or added to the work plan during the year.



2021 Audit Committee Work Plan (Proposed)

	Action Items	Information Items	Staff Items
Feb 18 – 1:00 PM <i>(3rd Thurs, same day as Board Meeting)</i>	External Audit <ul style="list-style-type: none"> • Presentation, discussion, and possible motion to approve the external audit scope of work and timeline of services for the Financial Statements ended December 31, 2020, performed by the external audit firm Internal Audit <ul style="list-style-type: none"> • None 	<i>External Audit</i> <ul style="list-style-type: none"> • Audit Committee Work Plan (Proposed) <i>Internal Audit</i> <ul style="list-style-type: none"> • Review of Annual Risk Assessment • Presentation of the 2021 Internal Audit Plan • Review completed audits 	
Apr 15 – 1:00 PM <i>(3rd Thurs, same day as Board Meeting)</i>	<i>External Audit</i> <ul style="list-style-type: none"> • Presentation of staff recommendation for selection of a Board Approved Service Provider for ACERA’s External Auditor for financial years ending 2021-2025, per ACERA’s Service Provider Policy, p.3, IV(B)(2) <i>Internal Audit</i> <ul style="list-style-type: none"> • None 	<i>External Audit</i> <ul style="list-style-type: none"> • Presentation and discussion of the GASB Statement No. 67 Valuation and addendum as of December 31, 2020 (Segal) • Presentation and discussion of the GASB Statement No. 74 Valuation and addendum as of December 31, 2020 (Segal) <i>Internal Audit</i> <ul style="list-style-type: none"> • Progress report on the Internal Audit Plan • Review complete audits 	The GASB Statements No. 67 and No. 74 Valuations and addendums are presented at the April committee meeting, and brought back in May for concurrent approval with the audited financial statement. <ul style="list-style-type: none"> • Participating Employers meeting (TBD) with Segal and Williams Adley to present: <ul style="list-style-type: none"> ○ Actuarial Valuation as of December 31, 2020 ○ GASB Statement No. 67 and No. 74 Valuations and addendums as of December 31, 2020

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



2021 Audit Committee Work Plan (Proposed)

	Action Items	Information Items	Staff Items
<p>May 20 – 1:00 PM (3rd Thurs, same day as Board Meeting)</p>	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • Discussion and possible motion to recommend approval of the December 31, 2020 Audited Financial Statements and Independent Auditor’s Report • Discussion and possible motion to recommend adoption of the Government Accounting Standards Board (GASB) Statement No. 67 Actuarial Valuation and addendum as of December 31, 2020 • Discussion and possible motion to recommend adoption of the Government Accounting Standards Board (GASB) Statement No. 74 Actuarial Valuation and addendum as of December 31, 2020 <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • None 	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • Report on the status of the External Auditor search for financial years ending 2021-2025 <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • Progress Report on the Internal Audit Plan • Review completed audits 	

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



2021 Audit Committee Work Plan (Proposed)

Action Items	Information Items	Staff Items
<p>Jun 17 – 1:00 PM (3rd Thurs, same day as Board Meeting)</p>	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • Discussion and possible motion to adopt the audited Schedules of Employer Allocations and Schedules of Pension Amounts by Employer with Related Notes, <i>based on the Addendum to GASB Statement No. 67 Valuation as of December 31, 2020</i> • Discussion and possible motion to adopt the audited Schedules of Employer Allocations and Schedules of OPEB Amounts by Employer with Related Notes, <i>based on the Addendum to GASB Statement No. 74 Valuation as of December 31, 2020</i> <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • None 	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • Presentation of the 2020 Auditor’s Observations and Recommendations (if any) • Recommendation to receive and file the Observations and Recommendations from external auditor (if any) • Presentation and discussion of the GASB Statement No. 68 Valuation and Employer Schedules as of December 31, 2020 • Presentation and discussion of the GASB Statement No. 75 Valuation and Employer Schedules as of December 31, 2020 <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • Progress Report on the Internal Audit Plan • Review completed audits
<p>Oct 21 - 1:00 PM (3rd Thurs, same day as Board Meeting)</p>	<p><i>External Audit</i></p> <ul style="list-style-type: none"> • None <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • None 	<p><i>External Audit</i></p> <p><i>Internal Audit</i></p> <ul style="list-style-type: none"> • Progress Report on the Internal Audit Plan • Review completed audits

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



MEMORANDUM TO THE AUDIT COMMITTEE

DATE: February 18, 2021

TO: Members of the Audit Committee

FROM: Harsh Jadhav, Chief of Internal Audit *SN for HS*

SUBJECT: The Proposed 2021 Internal Audit Program

Executive Summary

The Audit Committee meeting in February 2021 will feature the proposed 2021 Internal Audit Program, discussion on the risk assessment process, a presentation of the completed Pension Benefits Calculation Audit, and a cybersecurity update.

The annual risk assessment is complete. The Internal Audit Department has reassessed the internal controls and risks identified by management to determine how changes in business processes, laws, pension practices, and the organizational structure have affected the risk ranking for 2021. Based on the risk assessment results, the Internal Audit Department plans to conduct three internal audits, one policy audit, complete the Alameda Health System (AHS) Employer audit, implement three special projects, and provide staff training fraud.

This year's key objective will be to assist management in reviewing internal controls related to key workflows used in the upgraded pension administration system. The Internal Audit Department will also work closely with PRISM to conduct a Cybersecurity and Data Security Self-Assessment.

Performing a self-assessment of the incident response procedures, security management process, IT infrastructure, and cybersecurity training allows the agency to uncover gaps, potential weaknesses, and threats that could undermine the security of sensitive information. Furthermore, it is a vital readiness step to ensure the infrastructure and IT environment supports the upgraded pension system.

Staff continues to promote fraud awareness through their contributions to the ACERA Connection Newsletter, fraud training, and serving as resources for strengthening organization-wide internal controls.

2021 Audit Schedule

Internal Audit Plan (2021)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
Felony Forfeiture Policy	Policy Audit	Caxton	Not Started				
Pension Benefits Calculation Audit	Internal Audit	Caxton	In Progress				
Cash Management (Positive Pay) Audit	Internal Audit	Caxton	Not Started				
Prevent Member Identity Theft Audit	Internal Audit	Lyndon	Not Started				
Employer Audit - Alameda Health	Employer Audit	Caxton/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	Not Started				
Internal Controls Review - PAS Project	Special Project	Lyndon/Harsh	Not Started				
Operations Manual Update	Special Project	Lyndon	In Progress				
Cybersecurity and Data Security Self-Assessment	Special Project	Vijay/Harsh	In Progress				

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

Review – 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 (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 – 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 – Pension Administration System Internal Controls Review

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 - 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 - Operation Manual Update

The Internal Audit Department is updating 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.

Summary

We are working through the COVID-19 challenges and focused on meeting the 2021 Audit Program objectives. This year the program includes five audits/reviews and three special projects. 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.



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



Internal Audit Department 2021 Internal Audit Plan

February 18, 2021

Agenda

1. Annual Risk Assessment Process
2. Proposed Internal Audit Plan – 2021
3. Results of the Pension Benefits
Calculation Audit
4. Cybersecurity Update

Annual Internal Audit Risk Assessment Process

1. Reviewed the strategic objectives of each department and current and potential risks the departments were concerned about. Risks covered benefits, fiscal operations, investments, legal, IT, actuarial and human resources.
2. Discussed potential control weaknesses, new business processes introduced in the current year, staffing changes, and new legislative mandates which may impact the current business.
3. Reviewed potential cybersecurity risks related to privacy and data security.
4. Considered risks for fraud and compliance issues.
5. We summarized the key risks from each department to help prioritize our audit effort and develop the Internal Audit Plan for 2021.

Identified Internal Audit Risks

- Succession Planning
- Cross-Training and Documentation
- Remote Workers

- Project Risk – PAS, Great Plains Upgrade
- Cybersecurity
- Disaster Preparedness

Operations

Technology

Benefits

Investments

- Member Identity Theft
- Overpayments (i.e., death, retirement, etc.)

- Technology Tools
- Cross Communication with Other Depts.

Proposed 2021 Internal Audit Plan

Internal Audit Plan (2021)	Service Line	Assigned	Status	Q1	Q2	Q3	Q4
Felony Forfeiture Policy	Policy Audit	Caxton	Not Started				
Pension Benefits Calculation Audit	Internal Audit	Caxton	In Progress				
Cash Management (Positive Pay) Audit	Internal Audit	Caxton	Not Started				
Prevent Member Identity Theft Audit	Internal Audit	Lyndon	Not Started				
Employer Audit - Alameda Health	Employer Audit	Caxton/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	Not Started				
Internal Controls Review - PAS Project	Special Project	Harsh/Team	Not Started				
Operations Manual Update	Special Project	Lyndon	In Progress				
Cybersecurity and Data Security Self-Assessment	Special Project	Vijay/Harsh	In Progress				

Pension Benefits Calculation Audit

- **Objective:** is to sample and review how pension benefits were calculated and paid to retirees.
- **Results:** **EFFECTIVE**
- **Recommendation:** Revise the existing documented procedure to provide more information on how the vacation sell should be included in the final average salary calculation.
- **Note:** This will be a continuous audit which will be part of the audit program every year.

The SolarWinds Hack

February 18, 2021

Vijay Jagar

What it Was

1. A supply-chain attack
2. From where?
3. How?
4. Who was impacted?



What it Means

1. What it means for ACERA
2. What it means for the US
3. What it means globally



Questions





MEMORANDUM TO THE AUDIT COMMITTEE

DATE: February 18, 2021

TO: Members of the Board of Retirement

FROM: Harsh Jadhav, Chief of Internal Audit *DW for HS*

SUBJECT: Results of the Pension Benefits Calculation Audit

EXECUTIVE SUMMARY

Each year, Alameda County Employees' Retirement Association (ACERA) receives new retirement applications from members ready to retire. The Retirement Specialists (RS) prepare the 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 calculation's complexity. In this audit, we reviewed and reperformed the calculations prepared by staff to ensure the accuracy of the retirement benefits due to the member.

AUDIT CONCLUSION

We found the process was **EFFECTIVE**.

RECOMMENDATION

We are happy to report the positive results of the audit and recommend staff to consider the following:

1. We recommend that the Benefits Department clarify its procedures to standardize how vacation sold is included in the FAS calculation.



Alameda County Employees' Retirement Association
Internal Audit Department

Pension Benefits Calculation Audit Year 2020

**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 Specialist (RS) has correctly accounted for valid service credit in pension benefit calculations, including reciprocity with 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 RS 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 Calculation: 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

RISK LEVEL

High-Risk Controls:

Controls 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 resources 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 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. Still, they 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:

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. Note that reliance can be placed on the remediated control, once retested by internal audit, typically in the following audit cycle.

EXECUTIVE SUMMARY

Each year, Alameda County Employees' Retirement Association (ACERA) receives new retirement applications from members ready to retire. The Retirement Specialists (RS) prepare the 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 calculation's complexity. In this audit, we reviewed and reperformed the calculations prepared by staff to ensure the accuracy of the retirement benefits due to the member.

- (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 RS to manually adjust the retirement benefit worksheet to correctly compute the monthly pension benefit allowance.

AUDIT OBJECTIVE

The objective of this operational audit is to test if the Retirement Specialist (RS) used the correct payroll information, member's years of service, reciprocity (if applicable), vacation sell, court orders, or any unusual scenarios, to compute member's Final Average Salary (FAS) and the monthly retirement benefit/allowance.

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 RS followed the standard departmental procedures and internal controls. This audit scope focused primarily on recent retirement application cases in the years 2018 and 2019.

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 opinion regarding whether the RS is performing the Retirement Pension Benefit Calculation function in accordance with the CERL and PEPRA laws and regulations.

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.

We performed audit testing of key controls in the following identified business process:

Retirement Service Credit

This control is used to validate whether the RS has correctly accounted for valid service credit in pension benefit calculations, including reviewing reciprocity service credit from other eligible public retirement systems and service credit earned through paying off Service Purchase Contracts (SPC).

Final Average Salary (FAS) Calculation

This control is used to verify if RS has correctly calculated the FAS amount for the benefit calculation. This includes using the correct pay periods of salary information and sold vacation allowed by the laws and member's bargaining unit's Memorandum of Understanding (MOU).

Monthly Retirement Pension Allowance Calculation

This control is used to verify the monthly retirement pension benefit/allowance's accuracy and whether it is according to the member's choice of benefits option.

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, which we believed 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. 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. 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.

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, when applying professional judgment, circumstances justify deviation. 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. Consulting services generally involve two parties:

- (1) The person or group offering the advice - the internal auditor
- (2) The person or group seeking and receiving the advice - the engagement client.

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 members' files to examine their retirement applications, including any unique situations applied to them, such as reciprocity 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 is to validate whether RS has correctly accounted for valid service credit in the pension benefit calculations, including reciprocity with another eligible public retirement system and service credit earned through paying off SPC.

Risk:

The risk that the RS 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:



Our review of the selected samples found that RS did account for the valid retirement service credit, including the payoff SPC added service credit, in the monthly pension allowance calculation. In one of the samples, a divorce order court required the member's account balance and the retirement service credit to be split in a certain way with the ex-spouse. Indeed, the RS had reduced the member's account balance and retirement service credit accordingly. No systemic errors were noted.

CONTROL 2 – FINAL AVERAGE SALARY CALCULATION

Risk Level - Medium

Audit Results – Effective

Control:

This control examines if RS has used the correct pay periods salary information and vacation sell allowed by different MOUs and the limits by PEPRA to compute 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 RS incorrectly computed the FAS and the results would be either inflated or understated member's monthly pension benefit allowance for life.

Test Results:



Our review of the selected samples verified that the RS staff selected the proper pay periods and salary records based on the membership tier for the FAS calculation.

We learned that the salary information and vacation sell information printed on the PG Final "Retirement Benefit Estimate" worksheet did not always reflect how the payroll information was being used to compute the FAS. We verified that the FAS was computed on a separate Excel spreadsheet, which precisely showed the calculation. We recommended the Benefits Department consider revising their existing documented procedure to provide more information on how the vacation sell should be included in the FAS calculation.

In two of the selected samples, the members had their last employment with other reciprocal agencies. The RS used the higher FAS from the reciprocal agencies instead of ACERA's to calculate the monthly pension allowance. We had consulted with ACERA Legal Department and confirmed that it is the correct approach.

Recommendations	Business Owner
1. We recommend that the Benefits Department clarify its procedure documentation to standardize how vacation sold is included in the FAS calculation.	<ul style="list-style-type: none">ACERA Benefits Department

CONTROL 3 – MONTHLY PENSION ALLOWANCE CALCULATION

Risk Level - Medium

Audit Results – Effective

Control:

This control examines if RS 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 RS 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:



We noted that even in those unique scenarios, such as divorces, SPC, and reciprocity, the RS correctly inputted service credit and FAS into Pension Gold for monthly pension allowance calculation. From the selected samples, the pension allowance payments were paid according to the member's retirement allowance option selection.

CONCLUSION

We focused our audit on the manual process and decision-making that are made during the process of the monthly pension allowance calculation to uncover any internal control weaknesses.

In conclusion, we found the process was **EFFECTIVE**. Based on the samples selected, we found no significant errors or internal control weaknesses. In addition, the calculations complied with the CERL as added, impacted, or amended by PEPR. Our only recommendation will be to consider updating the documented procedures and training to standardize how vacation sold is included in the FAS calculation.

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 Department for explaining the processes and Legal Department for clarifying the laws throughout the audit process.