



Audit Committee Agenda

REGULAR MEETING

TUESDAY, MAY 14, 2024

TIME: 9:00 A.M.

MEETING LOCATION:

LACERS Boardroom
977 N. Broadway
Los Angeles, California 90012

Important Message to the Public

An opportunity for the public to address the Committee in person from the Boardroom and provide comment on items of interest that are within the subject matter jurisdiction of the Committee or on any agenda item will be provided at the beginning of the meeting and before consideration of items on the agenda.

Members of the public who do not wish to attend the meeting in person may listen to the live meeting via one-way audio on Council Phone by calling (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside) or (310) 547-CITY (San Pedro Area).

Disclaimer to Participants

Please be advised that all LACERS Committee meetings are recorded.

LACERS Website Address/link:

www.LACERS.org

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Committee in advance of the meeting may be viewed by clicking on LACERS website at www.LACERS.org, at LACERS' offices, or at the scheduled meeting. In addition, if you would like a copy of a public record related to an item on the agenda, please call (213) 855-9348 or email at lacers.board@lacers.org.

Chair:	Thuy Huynh
Committee Members:	Elizabeth Lee Janna Sidley
Manager-Secretary:	Neil M. Guglielmo
Executive Assistant:	Ani Ghoukassian
Legal Counselor:	City Attorney's Office Public Pensions General Counsel Division

Notice to Paid Representatives

If you are compensated to monitor, attend, or speak at this meeting, City law may require you to register as a lobbyist and report your activity. See Los Angeles Municipal Code §§ 48.01 *et seq.* More information is available at ethics.lacity.org/lobbying. For assistance, please contact the Ethics Commission at (213) 978-1960 or ethics.commission@lacity.org.

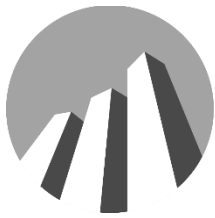
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[**CLICK HERE TO ACCESS BOARD REPORTS**](#)

- I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA
- II. [APPROVAL OF MINUTES FOR THE MEETING OF DECEMBER 12, 2023 AND POSSIBLE COMMITTEE ACTION](#)
- III. [RESULTS OF INTERNAL AUDIT'S OPERATIONAL RISK ASSESSMENT SURVEY AND PROPOSED WORKPLAN THROUGH FISCAL YEARS 2024-26 AND POSSIBLE COMMITTEE ACTION](#)
- IV. OTHER BUSINESS
- V. NEXT MEETING: The next Audit Committee Meeting is not scheduled at this time and will be announced upon scheduling. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings.
- VI. ADJOURNMENT



Board of Administration Agenda

SPECIAL MEETING

TUESDAY, MAY 14, 2024

TIME: 9:00 A.M.

MEETING LOCATION:

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977 N. Broadway
Los Angeles, California 90012

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President: Annie Chao
Vice President: Sung Won Sohn

Commissioners: Thuy Huynh
Elizabeth Lee
Gaylord "Rusty" Roten
Janna Sidley
Michael R. Wilkinson

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghokassian

Legal Counsel: City Attorney's Office
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Counsel Division

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- I. PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA

- II. APPROVAL OF MINUTES FOR THE MEETING OF DECEMBER 12, 2023 AND POSSIBLE COMMITTEE ACTION
- III. RESULTS OF INTERNAL AUDIT'S OPERATIONAL RISK ASSESSMENT SURVEY AND PROPOSED WORKPLAN THROUGH FISCAL YEARS 2024-25 AND POSSIBLE COMMITTEE ACTION
- IV. OTHER BUSINESS
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- VI. ADJOURNMENT

MINUTES OF THE SPECIAL MEETING
BOARD OF ADMINISTRATION
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

Dec 12, 2023

9:35 a.m.

PRESENT:	Chair:	Thuy Huynh
	Committee Members:	Elizabeth Lee Janna Sidley
	Vice President: Commissioners:	Sung Won Sohn Gaylord "Rusty" Roten Michael R. Wilkinson
	Legal Counselor:	Anya Freedman
	Manager-Secretary:	Neil M. Guglielmo
	Executive Assistant:	Ani Ghokassian

The Items in the Minutes are numbered to correspond with the Agenda.

Vice President Sohn and Commissioner Roten joined the meeting at 9:35 a.m., and Commissioner Wilkinson joined the meeting at 9:39 a.m., and this was a Special Meeting of the Board of Administration. Any votes were taken by Audit Committee members only.

I

PUBLIC COMMENTS AND GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION AND COMMENTS ON ANY SPECIFIC MATTERS ON THE AGENDA – Chair Huynh asked if there were any public comments on matters within the Committee's jurisdiction, to which there were no public comment cards received.

Commissioner Wilkinson joined the meeting at 9:39 a.m.

II

APPROVAL OF MINUTES FOR THE MEETING OF JULY 11, 2023 AND POSSIBLE COMMITTEE ACTION – Committee Member Lee moved approval and Committee Member Sidley stated that she desired to abstain, and adopted by the following vote: Ayes, Committee Members Lee, Sidley, and Chair Huynh -3; Nays, None.

III

PRESENTATION OF LACERS' AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2023 BY EXTERNAL AUDITOR MOSS ADAMS LLP AND POSSIBLE COMMITTEE ACTION – Melani Rejuso, Departmental Audit Manager, and Kory Hoggan, Engagement Partner, and Aaron

Hamilton, Senior Manager, with Moss Adams LLP, presented and discussed this item with the Committee for 20 minutes. Committee Member Lee moved approval, and adopted by the following vote: Ayes, Committee Members Lee, Sidley, and Chair Huynh -3; Nays, None.

IV

OTHER BUSINESS – There was no other business.

V

NEXT MEETING: The next Audit Committee Meeting is not scheduled at this time and will be announced upon scheduling. Please continue to view the LACERS website for updated information on public access to Board/Committee meetings.

VI

ADJOURNMENT – There being no further business before the Committee, Chair Huynh adjourned the meeting at 10:03 a.m.

Thuy Huynh
Chair

Neil M. Guglielmo
Manager-Secretary



LACERS
 LA CITY EMPLOYEES'
 RETIREMENT SYSTEM



REPORT TO AUDIT COMMITTEE

From: Maria Melani Rejuso, Departmental Audit Mgr
Maria Melani Rejuso

MEETING: May 14, 2024

ITEM: III

SUBJECT: RESULTS OF INTERNAL AUDIT’S OPERATIONAL RISK ASSESSMENT SURVEY AND PROPOSED WORKPLAN THROUGH FISCAL YEARS 2024-26 AND POSSIBLE COMMITTEE ACTION

ACTION: CLOSED: CONSENT: RECEIVE & FILE:

Recommendations

That the Audit Committee review the results of the operational risk assessment survey conducted by Internal Audit and approve the proposed two-year Workplan FY 2024-26 to address potential control risks identified in the survey responses.

Executive Summary

In October through November 2023, Internal Audit initiated and launched a department-wide Operational Risk Assessment Survey to understand what the staff and the Board view as potential risks to LACERS operations and mission and identify audit areas to prioritize.

The results of the survey (see Attachment A) were reviewed and considered in developing the “Proposed Audit Workplan” through Fiscal Years 2024-26. According to International Standards for the Professional Practice of Internal Auditing an operational survey, such as the one initiated by Internal Audit, is an appropriate risk-based methodology that may be used in developing Audit Workplan.

Proposed Audit Workplan

Based on the results of the survey, Internal Audit is proposing the following areas for internal controls assessment as part of its Workplan, through Fiscal Years 2024-26. The Workplan is flexible to accommodate changes as the Management, Audit Committee and the Board see fit. Preliminary reviews or planning (see Attachment B) were conducted for these proposed audit areas, to determine whether they are worth proposing for Substantive or Detailed Audits.

1. Review of selected Financial Balance Sheet and Income Statement Accounts and perform Trend Analyses

On an annual basis, External audit reviews LACERS financial accounts. However, because their materiality level threshold is usually set high, other financial accounts that fall below the threshold amounts are in some cases being left out. An in-depth review of these financial accounts will be conducted, such as cash and short-term investments, refunds of retirement contributions, entries making up the fair value appreciation (depreciation) including gains/losses in investments, and composition of receivables and liabilities.

Cash and Short-term Investments

Review cash and short-term investments to assess the adequacy and effectiveness of controls for these accounts and gain a better understanding of processes related to cash and short-term investments including deposits and disbursements from the cash treasury account, budget approval and usage of cash related to building operations, and investment strategy for short-term investment funds. Cash and short-term investments for the last three fiscal years were comprised of the following:

Type of Cash and Short-Term Investment	FY23	FY22	FY21
Cash with City Treasurer	\$4,718,000	\$4,191,000	\$3,377,000
Cash in Building Operating Account	\$2,284,000	\$0	\$0
Collective STIF	\$331,854,000	\$140,193,000	\$297,145,000
International STIF	\$29,072,000	\$194,115,000	\$655,393,000
Future Contracts Initial Margin and Collaterals	\$59,860,000	\$89,888,000	\$119,569,000
Total	\$427,788,000	\$428,387,000	\$1,075,484,000

Refer to the attached planning memorandum for Cash and Short-term Investments for further details of this analysis and preliminary findings.

Refunds of Contributions

Review the process related to refunds of contributions to determine if controls were adequate and effective and refunds were accurately reported. This includes determining if refunds made have the necessary requirements and authorizations such as proper documentation and working status, reviewing calculation of total refunds to determine if these were accurately reflected within the PGold system, and reviewing amounts paid out to determine if these matched the calculated refund amounts. Refunds of contributions are comprised of:

- Accumulated Contributions Paid to Beneficiary
- DRO (Domestic Relations Order) Lump Sum
- Larger Annuity Refund
- Miscellaneous Refund
- Termination Refund of Contributions

- Survivor Contributions Death Refund
- Survivor Contributions Refund
- Unused Contributions

Type of Refund	Tier 1	Tier 3	FY23 Total
Accumulated Contributions Paid to Beneficiary	\$3,490,511.79	\$111,286.09	\$3,601,797.88
DRO (Domestic Relations Order) Lump Sum	\$287,094.11	\$0	\$287,094.11
Larger Annuity Refund	\$395,563.39	\$5,328.47	\$400,891.86
Miscellaneous Refund	\$9,300.90	\$5,009.36	\$14,310.26
Termination Refund of Contributions	\$3,534,188.01	\$2,612,706.28	\$6,146,894.29
Survivor Contributions Death Refund	\$47,769.21	\$0	\$47,769.21
Survivor Contributions Refund	\$928,690.93	\$0	\$928,690.93
Unused Contributions	\$2,386,206.12	\$0	\$2,386,206.12
Manual Disbursements and Adjustments	\$(21,093.46)	\$604,067.80	\$582,974.34
Total	\$11,058,231	\$3,338,398	\$14,396,629

As a part of our review, we also analyzed the ratio of Refunds to Fiduciary net position by comparing LACERS' ratio with other similarly sized retirement funds, e.g., LAFPP and SDCERS. Refer to the attached planning memorandum for Refund of Contributions for further details of this analysis and preliminary findings.

Net Appreciation (depreciation) in Fair Value of Investments, including Gains or Losses on Sales

Review the entries comprising net appreciation in fair value of investments, including gains or losses on sales by obtaining journal entry supports related to financial futures, commissions/brokerage fees, unrealized and realized gain/loss, and derivatives to gain a better understanding of the nature of the entries and determine whether controls related to these entries are adequate and working effectively.

	FY23	FY22	FY21
Net Appreciation (depreciation) in Fair Value of Investments, including Gains or Losses on Sales	\$1,181,447,000	\$(2,245,698,000)	\$5,013,637,000

Refer to the attached planning memorandum for Net Appreciation (Depreciation) in Fair Value of Investments, including Gains or Losses on Sales for further details of this analysis and preliminary findings.

Receivables

Assess controls over receivables and gain a better understanding of the composition of receivables. Receivables for the last three fiscal years were comprised of the following:

Type of Receivable	FY23	FY22	FY21
Accrued Investment Income	\$89,225,000	\$79,684,000	\$70,733,000
Proceeds from Sales of Investments	\$93,978,000	\$135,169,000	\$150,900,000
Other Accrued Receivables	\$12,662,000	\$10,863,000	\$9,707,000
Total	\$195,865,000	\$225,716,000	\$231,340,000

As part of our review of receivables, we investigated the nature of the receivables to determine whether related controls were adequate and working effectively. We noted that receivables were largely related to investments including proceeds from sale of investments as well as dividends, interest, fixed income, and distributions. Other receivables were primarily related to accrued member retirement contributions resulting from payroll cut-off at year-end closing. We also analyzed the year-over-year change by type of receivable.

Refer to the attached planning memorandum for Receivables for further details of this analysis and preliminary findings.

Liabilities

Review the adequacy of controls over liabilities and gain a better understanding of the composition of liabilities. Liabilities for the last three fiscal years were comprised of the following:

Type of Liability	FY23	FY22	FY21
Accounts Payable and Accrued Expenses	\$93,665,000	\$88,838,000	\$59,315,000
Accrued Investment Expense	\$8,819,000	\$19,982,000	\$13,765,000
Purchases of Investments	\$145,060,000	\$204,713,000	\$431,604,000
Security Lending Collateral Payable	\$210,806,000	\$515,988,000	\$275,940,000
Total	\$458,350,000	\$829,521,000	\$780,624,000

As part of our review of liabilities, we investigated the nature of liabilities and assessed its' related controls. We noted that liabilities were largely related to investments, including

purchases of investments and fees such as swap liabilities and investment purchase fees. Liabilities also included security lending collateral payable which is a short-term arrangement where our bank custodian lends out LACERS' securities to various brokers and takes collateral as part of the agreement. Other liabilities primarily comprised of year-end adjustment (true-up adjustment) to the City's contributions received at the beginning of the fiscal year. We also analyzed the year-over-year change by type of liabilities.

Refer to the attached planning memorandum for Liabilities for further details of this analysis and preliminary findings.

2. Medical Subsidies & Health Insurers' Billing Payments-

Review the accuracy of medical/dental subsidy benefits provided to retirees and their beneficiaries, including payments made to health insurers/providers.

As shown in the tables below, changes between Premiums and the number of Enrolled Members were not directly proportional between the periods shown. We will review in detail the reasons for those changes, including the effects of the pandemic- and if cost changes were justifiable and consistent with Board-approved rates. We will also review how timely health and dental providers remove members from their billings once members have been terminated by LACERS.

**MEDICARE AND NON-MEDICARE PREMIUM AND SUBSIDIES
BASED ON JUNE PAYROLL**

	<i>Insurance Premium</i>	<i>Insurance Subsidy</i>
Medicare 2021		
<i>Retiree</i>	5,572,979.83	5,138,403.06
<i>Survivor</i>	570,587.23	547,514.29
Non Medicare 2021		
<i>Retiree</i>	6,578,914.53	6,151,794.09
<i>Survivor</i>	184,200.88	151,511.39
Grand Total	\$12,906,682.47	\$11,989,222.83

	<i>Insurance Premium</i>	<i>Insurance Subsidy</i>
Medicare 2022		
<i>Retiree</i>	5,116,826.69	4,732,671.15
<i>Survivor</i>	530,540.23	508,790.09
Non Medicare 2022		
<i>Retiree</i>	5,652,362.48	5,299,809.02
<i>Survivor</i>	181,865.98	150,737.89
Grand Total	\$12,590,577.01	\$11,774,357.52

	<i>Insurance Premium</i>	<i>Insurance Subsidy</i>
Medicare 2023		
<i>Retiree</i>	5,285,695.25	4,873,366.47

Survivor	534,206.69	513,986.00
Non Medicare 2023		
Retiree	5,624,069.51	5,223,067.39
Survivor	166,893.29	137,960.96
Grand Total	\$12,768,208.12	\$11,871,416.93

**ENROLLED MEMBERS BY HEALTH PROVIDER
BASED ON JUNE PAYROLL**

Provider	Count of Plan 2021	Count of Plan 2022	Count of Plan 2023
<i>Kaiser</i>			
Senior Adv.	7,194	7,385	7,431
Anthem Med. Suppl.	3,442	3,671	3,912
Kaiser HMO	2,672	2,501	2,304
Anthem PPO	1,160	1,135	1,123
Anthem HMO	944	923	895
UHC HMO	752	727	677
SCAN HMO	516	493	487
Grand Total	16,680	16,835	16,829

**DENTAL PREMIUM AND SUBSIDIES
BASED ON JUNE PAYROLL**

Dental 2021	Insurance Premium	Insurance Subsidy
Retiree	971,507.50	546,141.21
Survivor	73,359.38	
Grand Total	\$1,044,866.88	\$546,141.21

Dental 2022	Insurance Premium	Insurance Subsidy
Retiree	983,521.93	554,945.21
Survivor	76,185.46	
Grand Total	\$1,059,707.39	\$554,945.21

Dental 2023	Insurance Premium	Insurance Subsidy
Retiree	989,464.63	549,514.01
Survivor	76,588.42	
Grand Total	\$1,066,053.05	\$549,514.01

**ENROLLED MEMBERS BY DENTAL PROVIDER
BASED ON JUNE PAYROLL**

Dental Count	Count of Plan 2021	Count of Plan 2022	Count of Plan 2023
Delta PPO	13,536	13,879	14,053
DeltaCare HMO	3,452	3,397	3,271

Grand Total	16,988	17,276	17,324
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Refer to the attached planning memorandum for Subsidies for further details of this analysis and preliminary findings.

3. Service Purchase or Government service buy-back-

Review the service purchase process to determine whether costs to purchase are consistent with applicable codes and rules, purchased service years are correctly reflected in the members' accounts, deductions (if any) are properly set up and collected, and remaining loan balance related to purchased service are properly accounted for in the LACERS Retirement System (PGold) and in LACERS financial statements. The services purchased comprised of:

- Back Contributions
- DWP service
- Government Service Buyback (GSB) including Public Service Buyback (PSB)
- Missing Military service
- Workers Compensation service
- Others

	FY 2023	FY 2022	FY 2021
Members that Purchased Service	167	252	260
Purchase Cost	\$2,921,582	\$3,335,239	\$3,043,362
Total Yrs. of Service Purchased	391	450	430

Refer to the attached planning memorandum for Service Purchase for further details of this analysis and preliminary findings.

INTERNAL AUDIT'S PERIODIC VERIFICATIONS & REVIEWS

It should be noted that although some control areas (shown below) were identified in the Survey, the proposed Workplan does not include them because they are already part of Internal Audit's periodic verification process. Control areas that are being checked and verified on a regular basis are as follows.

a) CyberSecurity (Network Vulnerability and Penetration Testing)

Internal Audit has a recurring contract with a vendor that conduct the following tests on a regular basis:

- Internal Vulnerability scan- once a year, the recent one was conducted December 2023

- External Vulnerability scans- quarterly- four scans were conducted in calendar year 2023 and first quarter of 2024
- Penetration Testing- once a year, the recent one was conducted December 2023
- Active Directory Scans- once a year, last conducted in 2023

b) Investment Advisor Fees- investment advisors

Internal Audit periodically reviews the accuracy of investment advisor fees. The most recent reviews were completed in December 2023 and it showed that the fees billed by investment advisors during the last three fiscal years were consistent with their contracts' stipulated terms on fees. It should be noted that the investment advisors retained by LACERS are on a fixed-fee basis. Between fiscal years 2021 and 2023, the

- General Consulting Fees range from \$450K to \$465K per annum,
- Private Equity Consulting Fees range from \$750K to \$775K per annum,
- Private Credit Consulting Fees were set at \$325K per annum (started April 2023), and
- Real Estate Consulting Fees were set at \$215K per annum

The Actual Advisory fees reported in LACERS financial statements were as follows:

Advisory Fees and Expense (In Thousands)			
	FY 2023	FY 2022	FY 2021
Private Equity Consulting Fees	\$856	\$762	\$750
Real Estate Consulting Fees	\$215	\$215	\$215
General and Other Consulting Fees	\$466	\$465	\$419
Total	\$1,537	\$1,442	\$1,384

c) Retirement allowance determination and set up

On a monthly basis, Internal Audit determines whether newly added retirement allowance benefits are properly set-up and allowance amounts are calculated consistent with applicable codes and benefit plan provisions.

d) Retirement Payroll or Benefit Allowance Payments

A process is in place to verify monthly retirement payroll to identify any out of ordinary changes in retirement allowances from prior month and to determine whether the newly added and newly terminated benefits during the month are accounted for properly.

e) Investment Wire Transfers or transactions

On a monthly basis, Internal Audit reviews the adequacy of supporting documentation and

approvals for wire transfers or funds going out of LACERS bank accounts for investment-related purposes.

f) Private Equity investments' Internal Rates of Return

Bi-annually, Internal Audit works with the Private Equity Advisor to select funds for IRR (Internal Rate of Return) verifications. The funds are rotated for this purpose.

g) Active Employees' Retirement Contributions vs. Actual LACERS receipts

Biweekly or every payday, Internal Audit compares and reconciles Citywide payroll-deducted Employees' Retirement contributions (*reported in PaySR, the City's payroll system*) with the actual remittances or deposits into the LACERS bank account for the same payroll period.

h) Investment Management Fees

Internal Audit reviews management fees on a periodic basis, the last review was made in 2022. Over 300 Private Equity and Real Estate Funds were being rotated for purposes of reviewing the management fees.

i) 977 operations and expenses (including renovation costs)-

Internal Audit periodically verifies 977 Building operating costs including the ones for renovation/repairs and has so far found them to be adequately supported and properly authorized. In addition, annually, LACERS External Audit covers 977 building costs and expenses (including renovations & repairs) in their scope and has found the controls over the 977 building operating expenses to be in order.

j) Members' Data security and Change Control

On a quarterly basis, Internal Audit evaluates changes in members' and beneficiaries' information such as bank account numbers, date of birth, social security number and date of hire to determine whether supporting documentations warrant those changes.

On top of the periodic audits described above, Internal Audit coordinates two Annual Financial Statements Audits, as well as the Internal Controls survey by the CAO/Controller's Office (annually) and Management Audit by the Controller's Office (every five years). Moreover, Internal Audit tracks more than 130 contractors disclosures (bi-annually), and conducts verifications of retirees/beneficiaries over 90 years old in the Social Security Administration website, to ensure LACERS is not paying benefits to deceased retirees and beneficiaries.

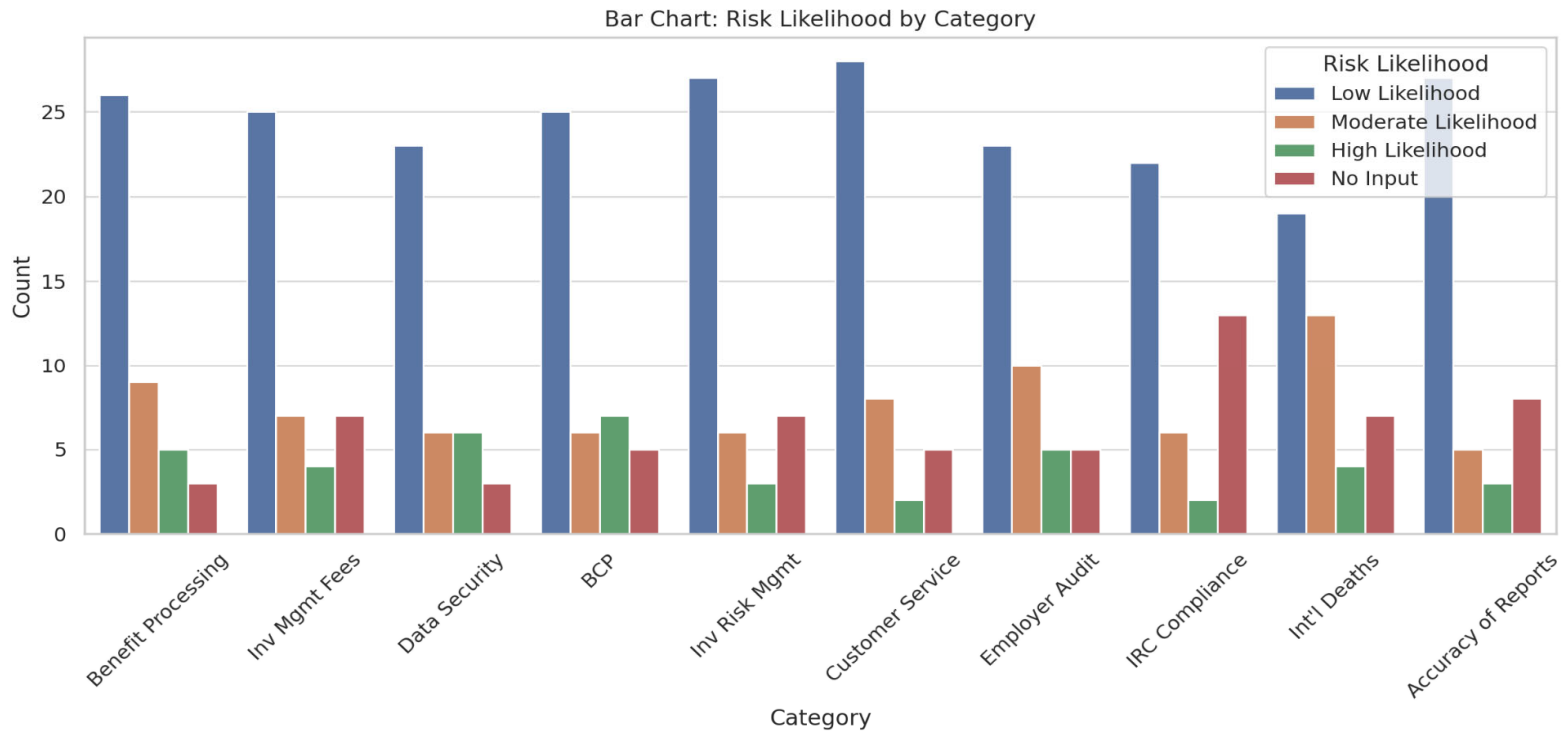
Prepared By: Maria Melani Rejuso, Departmental Audit Manager

MFR/NMG/ct/mh

Attachments: A- Internal Audit's Operational Risk Assessment Survey conducted in Oct-Nov 2023
B- Planning Memos for Proposed Audits Included in the Workplan FY's 2024-2026



The chart visualizing the risk analysis across various categories. It displays the counts of "Low Likelihood," "Moderate Likelihood," and "High Likelihood" for each category. This visual representation provides a clear overview of the distribution of risks in each area.





Recommended Future Audits Per Survey respondents.

- 1- **Cyber security**
- 2- **Accuracy of Medical Subsidy & Health Insurer Billings**
- 3- **Service Purchase Process**
- 4- **Building, equipment and supplies**
- 5- **Investment Advisors' Billings**
- 6- **Accuracy of Clty's payroll data**
- 7- **Accuracy of Financial Reporting**

- 8- **Wellness Program**
- 9- **Health unit**
- 10- **Benefit Determination & Setup Process**
- 11- **Systems Access & Change Management Control Review**
- 12- **Pension Administration System**
- 13- **Data Conversion**
- 14- **Post-Implementation Review**
- 15- **Investment Due Diligence Process**
- 16- **Wire Transfer Process**
- 17- **Contribution Transmittal Process**
- 18- **Member & Employer Contributions**
- 19- **Retiree Payroll**

Auditor's Comments

There is a Process in Place
Reviewed Back in 2016

Work in process

Annually Done By External Auditors - However, Internal Audit will do a more in-depth analyses

Reviewed Back in 2016

Being Done Monthly

An Audit on Pgold has been Recently Completed in 2022

An Audit on Pgold has been Recently Completed in 2022

An Audit on Pgold has been Recently Completed in 2022

Part of External Audit's Annual Audit Process

Being Done Monthly

Being Done Biweekly

Being Done Biweekly

Being Done Monthly



Comments By Survey Respondents.

1-I rated cybersecurity as High Likelihood weakness given the widespread cyber hacking of establishments such as hospitals, municipalities, MGM, software companies, etc.

I rated Employer Audit as critical because of errors experienced with the HRP systems testing.

2-HRP - Concerns over inaccuracy within Clty's payroll data

3-Keep up the high level of attention to cyber security threats particularly on ransomware attacks. Regularly hold testing to fight social engineering attacks. Do regular penetration testing. Improve controls to stop cyber criminals from impersonating members to attempt to steal pension direct deposits.

4-2024 manual reconciliation of Kaiser billing due to subsidization of premium by 115 Trust

5-Anything relating to and for the building, equipment and supplies, including office equip/supplies for staff of all levels

6-LACERS does a great job overall. The upcoming HRP /workday thing is a big concern which could moderately to highly impact LACERS' ability to efficiently deliver accurate and timely benefits to its membership. Systems team does an excellent job at keeping things to low risk. I am not familiar with investments to know what is risky and what is not. Sometimes the items I see presented to the board I wonder how accurate they are, but don't know how to fact check them. I have no idea with IRC is, it's not spelled out nor does it have a definition.

7-Alot of LACERS staff is not aware/ involved in the areas taking survey for in the above questions.

8-Anything related to and involving money should be audited.

9-During SIP, benefits processing was expedited, subject to post-audit by RSD. Was audit complete, and what errors found/corrected? If none/minimal what can be learned and applied back to the organization?

10-I have no direct knowledge of the areas listed. Am not able to provide a thoughtful response.

11-Where is our safe?

12-I am not involve in most items above.

13-try to advertise to members that MSC is to help them with their retirement benefits, they have an impression that MSC is a customer service section and many times they demand to speak with a specialist from other units and refuse to get assistance by MSC staff. Other callers call upset about their health insurance not covering the full price of some of their medication.



Other Significant Risks

1-None are super high priority except for the upcoming HRP which once online if it doesn't work benefits could be negatively impacted immediately.

2-I would suggest health unit.

3-City adoption of new payroll system

4- I would like to see a full accounting and audit of the 977 N. Broadway construction costs as the project has completed and identification of any persistent issue with building equipment, e.g. elevator, HVAC, etc.



Here are the detailed counts of risk likelihood for each category:

- | | |
|---|--|
| <p>1. **Benefit Processing**</p> <ul style="list-style-type: none"> - Low Likelihood: 26 - Moderate Likelihood: 9 - High Likelihood: 5 - No Input: 3 | <p>6. **Customer Service**</p> <ul style="list-style-type: none"> - Low Likelihood: 28 - Moderate Likelihood: 8 - High Likelihood: 2 - No Input: 5 |
| <p>2. **Investment Management Fees**</p> <ul style="list-style-type: none"> - Low Likelihood: 25 - Moderate Likelihood: 7 - High Likelihood: 4 - No Input: 7 | <p>7. **Employer Audit**</p> <ul style="list-style-type: none"> - Low Likelihood: 23 - Moderate Likelihood: 10 - High Likelihood: 5 - No Input: 5 |
| <p>3. **Data Security**</p> <ul style="list-style-type: none"> - Low Likelihood: 23 - Moderate Likelihood: 6 - High Likelihood: 6 - No Input: 3 | <p>8. **IRC Compliance**</p> <ul style="list-style-type: none"> - Low Likelihood: 22 - Moderate Likelihood: 6 - High Likelihood: 2 - No Input: 13 |
| <p>4. **Business Continuity Planning (BCP)**</p> <ul style="list-style-type: none"> - Low Likelihood: 25 - Moderate Likelihood: 6 - High Likelihood: 7 - No Input: 5 | <p>9. **International Deaths**</p> <ul style="list-style-type: none"> - Low Likelihood: 19 - Moderate Likelihood: 13 - High Likelihood: 4 - No Input: 7 |
| <p>5. **Investment Risk Management**</p> <ul style="list-style-type: none"> - Low Likelihood: 27 - Moderate Likelihood: 6 - High Likelihood: 3 - No Input: 7 | <p>10. **Accuracy of Reports**</p> <ul style="list-style-type: none"> - Low Likelihood: 27 - Moderate Likelihood: 5 - High Likelihood: 3 - No Input: 8 |

PLANNING MEMORANDUM

AUDIT OF CASH AND SHORT-TERM INVESTMENTS

May 14, 2024

I. Background

The Board has the responsibility for the investment of LACERS funds, and should discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims, as prescribed by Article XI Section 1106(c) of the City Charter.

LACERS considers investments with a maturity of 12 months or less to be short-term investments. The carrying value of cash and short-term investments on June 30, 2023, for the Retirement Plan and Postemployment Health Care Plan included approximately \$4,718,000 held in LACERS general operating accounts with the City Treasurer, \$2,284,000 in building operating account with LACERS building property management and short-term investments funds (STIF) of \$420,786,000 for a total of \$427,788,000. The amounts held by the City Treasurer are pooled with the monies of other City agencies and invested by the City Treasurer's office. These assets are not individually identifiable. On June 30, 2023, short-term investments included collective STIF of \$331,854,000, international STIF of \$29,072,000, and future contracts initial margin and collaterals of \$59,860,000. We've represented these amounts in the table below:

Type of Cash and Short-Term Investment	FY23 Total
Cash with City Treasurer	\$4,718,000
Cash in Building Operating Account	\$2,284,000
Collective STIF	\$331,854,000
International STIF	\$29,072,000
Future Contracts Initial Margin and Collaterals	\$59,860,000
Total	\$427,788,000

II. Objective

The primary objective of this audit is to assess LACERS' management controls (internal controls) over Cash and Short-Term Investments. Examples of controls we want to see are: periodic reconciliation of bank accounts, supervisory review of transactions, and adequacy of supporting documentations.

III. Scope

To audit the current control processes and transactions that transpired during FY23.

IV. Interviews Conducted and Documents Reviewed

To gain an understanding of the processes related to Cash and Short-Term investments and the flow of transactions, we inquired the Principal Accountant who oversees the entries and reconciliation for cash with the City Treasurer, the administration team that oversees the budget for the building operating account, and the investment and fiscal/accounting team that reviews and records entries for STIF.

V. Processes involved related to Cash and Short-term Investments

Per inquiry of the parties mentioned in *Section IV. Interviews Conducted and Documents Reviewed* as well as observation and limited testing of Cash and Short-Term Investments, we documented the process as follows:

Cash with the Treasurer

Cash with the Treasurer is composed of coins, currency, checks, electronic fund transfers, and credit card transactions that are debited to LACERS Fund 800 – City Treasury Account. All cash received by the Accounts Receivable/Revenue Unit is deposited through an automated banking system called Remote Deposit Capture (RDC). The Cash is composed of the following transactions:

- Disability loan repayment
- Member prepaid health premium
- Interest income
- Member contribution
- Family death benefit premium
- Larger annuity contributions
- Collection of overpayments of benefits to deceased members
- Wire transfers from Custodian Bank

The Accounts Receivable Unit records cash receipts by accessing the General Accounting Database. The supporting documentation researched, gathered, and collected is attached in the database when recording the cash receipts. Supporting documentation can vary based on the type of cash received.

Revenue/receipts can be tracked in the Cash Receipt Daily Detail Report and is matched to the deposit along with allocation that is processed and verified by the supervisor.

The official cash receipts are issued to payers and copies are provided to Service Processing Section (SPS) or LACERS as applicable (e.g. contributions such as service purchase related) for their records in updating member's account in Pension Administration System (PAS).

Each Accounting Unit is responsible for preparing and submitting monthly Journal Entries (JE) to the Financial Accounting and Reporting Unit supervised by the Principal Accountant. The Financial Reporting Unit reviews the JE's before recording in the Microsoft Dynamics GP General Ledger (GL) System. The Chief Accountant performs final review before posting the batch entry. And, lastly the Trial Balance is routed to the preparers of the JEs for their final review and signature.

All invoices for payments are reviewed and approved by the responsible Division Heads. Cash disbursements are processed and approved through the Financial Management System (FMS) and Division Heads follow the Controller Manual for the policies and procedures. The General Accounting Unit reviews transactions for accuracy and compliance with the accounts codes before entering the financial transaction in the FMS.

The Principal Accountant performs a monthly reconciliation for the petty cash fund and submits a quarterly bank certification to the Office of Finance.

Lastly, we noted that there is no cash reconciliation process for the Cash Treasury Account and LACERS cash account balance. Conducting a monthly cash reconciliation is a good practice not only to track transactions that transpired in both accounts, but also to identify and reconcile any discrepancies between balances.

Cash in Building Operating Account

On April 2023, LACERS moved to its new headquarters building that was originally purchased in October 2019 and had undergone renovations before being put into use. LACERS engages a building management company, Cushman & Wakefield, responsible for the upkeep of the building. The property management proposes budgets, subject to LACERS' Board approval, to cover the maintenance and improvements of the building.

The budget is determined based on Property Management's anticipated expenditures for the covered period. LACERS' Administration Unit reviews the proposed budget and discusses any recommended changes with the Property

Management. Once reviewed by the Administration Unit, the proposed budget is sent to the General Manager for review and approval. Upon approval by the General Manager and the Board, the Investment team then disburses and moves the approved amounts from LACERS bank account with Northern Trust to LACERS' Building Cash Account.

On a monthly basis, property management submits to LACERS the 977 building operations' financial statements including Balance Sheet, Income Statement, Budget Comparison vs Cash Flow, and trial balances. These financial statements are reviewed by Administration to determine the reasonableness of expenses incurred for each month. In addition, Administration performs a flux analysis on the budgeted amounts vs the actual on a weekly basis and meets with property management to discuss any large variances. However, we noted that there is no formal review or approval process for use of funds made by property management after the budget has been approved.

Short-Term Investment Funds

Funds of LACERS are invested pursuant to the LACERS' investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. The System has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. Short-Term Investments are a part of LACERS investment portfolio and are managed by LACERS' custodian bank Northern Trust.

On a daily basis, cash from over a hundred accounts is invested into STIF for the day. LACERS then receives a payout once a month from the custodian bank that varies based on the amount of cash invested and performance of the market for that month. Investments made for the STIF are under the discretion of Custodian Bank's investment fund managers. The LACERS investment team performs an informal flux analysis to see if interest received for the month is reasonable based on the performance of the markets but does not do a formal review of the investments made by the Custodian Bank's investment managers. However, the Investment team has regular check-ins with the bank's investment fund managers related to performance as well as guidelines on investments being made. Investment fund managers also perform a reconciliation of the expected performance against the actual performance shown in the custodian bank's reports.

On a monthly basis, Fiscal Accounting records, through journal entries, changes in STIF market values using the monthly Portfolio Summary provided by Northern Trust.

Analysis of Significant Changes Over the Last Three Fiscal Years

We performed a year-over-year trending analysis of cash and short-term investments to identify significant changes over the last three fiscal years. Changes over 15% were investigated further to determine if changes were reasonable. We represented the year-over-year change in the table below:

Type of Cash and Short-Term Investment	FY23	FY22	FY21	FY23 vs FY22 change	FY22 vs FY21 change
Cash with City Treasurer	\$4,718,000	\$4,191,000	\$3,377,000	13%	24%
Cash in Building Operating Account	\$2,284,000	\$0	\$0	100%	-
Collective STIF	\$331,854,000	\$140,193,000	\$297,145,000	137%	-53%
International STIF	\$29,072,000	\$194,115,000	\$655,393,000	-85%	-70%
Future Contracts Initial Margin and Collaterals	\$59,860,000	\$89,888,000	\$119,569,000	-33%	-25%
Total	\$427,788,000	\$428,387,000	\$1,075,484,000	0%	-60%

Cash with City Treasurer

“Cash with City treasurer” account is used to pay for LACERS expenses and invoices such as payments to vendors, office supplies, events, etc. Our analysis showed that the significant increase in this account from FY2021 to FY2022 was to cover the anticipated expenses in the new building headquarters, as well as the increase in the number of LACERS staff.

Cash in Building Operating Account

As previously mentioned, “Cash in Building Operating Account” is used to disburse funds to Property Management for any repairs, maintenance, and capital improvements related to the new building. This cash account was set up when the new building was put into use in 2023, as LACERS headquarters.

Collective/International STIF and Future Contracts/Collaterals

For purposes of analyzing changes, we aggregated the balances for “Collective and International STIF” accounts as both investments hold a combination of domestic and international stocks. Based on our inquiry, the higher than usual aggregated STIF balances in FY21 was the effect of holding more liquid investments, an investment strategy invoked by LACERS at the height of Covid-

19 pandemic to counter the volatilities of the markets. Similarly, future contracts and collaterals were higher in FY21 to hedge risks when the market is down. The notes from board meetings and review of market trends from FY21 and onwards, supported our trend analysis.

VI. Fraud Potential

During the course of our review of internal controls, we considered the potential of fraud related to Cash and Short-Term Investments. We did not find any signs of fraud or receive any allegations of fraud in the areas we are proposing to audit.

VII. Preliminary Observations

Based on our preliminary review of the processes related to cash and short-term investments, we found opportunities to improve controls. As this was a result of limited testing during the planning phase of our audit, we will confirm our preliminary findings in the next substantive audit phase.

1. Reconciliation of Cash and investment accounts on a periodic basis is a good practice to implement to ensure balances stated in both the Treasury Account and Northern Trust Accounts match with LACERS books or account balances, and that any discrepancies are investigated timely.
2. For cash maintained in LACERS "Building operating account", it is a good practice for LACERS staff to review and approve expenses disbursed by property management (e.g., to pay vendor invoices and other fees), above a certain threshold amount, to ensure they are being used for intended purposes.

VIII. Reliability of Systems and Data

During the course of our review of data, we evaluated the system controls and concluded that we can rely on the integrity of information generated by the Department's financial systems.

IX. Proposed Staffing, Budget, and Estimated Milestones

Auditor assigned: Colin Tran, Internal Auditor II
Planning Phase- February 2024
Detailed/Substantive Phase- Starting May 2024
Management/Board discussion- May 2024

PLANNING MEMORANDUM

AUDIT OF REFUND OF CONTRIBUTIONS

May 14, 2024

I. Background

According to Los Angeles Charter and Administrative Code *Section 1162 - Contribution of Members*, each Member shall pay a contribution, by salary deduction, at the rate of contribution established by ordinance. Plan Members then have a vested right to their own contributions and accumulated interest posted to their accounts.

Every Member is entitled to a refund of contributions and is to be paid their accumulated contributions either upon their separation from the City service, upon the Member's death before retirement for his or her unused contributions, or upon the Member's death after retirement. Generally, after five years of employment, Members are eligible for future retirement benefits, which increase with length of service. Refund of contributions by each type of refund is shown below for FY23 by tier.

Type of Refund	Tier 1	Tier 3	FY23 Total
Accumulated Contributions Paid to Beneficiary	\$3,490,511.79	\$111,286.09	\$3,601,797.88
DRO (Domestic Relations Order) Lump Sum	\$287,094.11	\$0	\$287,094.11
Larger Annuity Refund	\$395,563.39	\$5,328.47	\$400,891.86
Miscellaneous Refund	\$9,300.90	\$5,009.36	\$14,310.26
Termination Refund of Contributions	\$3,534,188.01	\$2,612,706.28	\$6,146,894.29
Survivor Contributions Death Refund	\$47,769.21	\$0	\$47,769.21
Survivor Contributions Refund	\$928,690.93	\$0	\$928,690.93
Unused Contributions	\$2,386,206.12	\$0	\$2,386,206.12
Manual Disbursements and Adjustments	\$(21,093.46)	\$604,067.80	\$582,974.34
Total	\$11,058,231	\$3,338,398	\$14,396,629

For Members with a vested right to their contributions, we described the more material and common types of refunds that can be initiated by members as follows:

- **Accumulated Contributions Paid To Beneficiary** - When an active member passes away, their accumulated contributions are paid to his/her beneficiary.

- **Termination Refund** - Upon termination or separation from the City, the Member has the option of receiving their contributions and accumulated interest refunded.
- **Survivor Contributions Refund** - Upon retiring, Members with a single filing status maybe get a refund of contribution for the Survivor portion of their contribution.
- **Unused Contributions** - Beneficiaries upon death of a Member after retirement will be entitled to any unused contributions of the Member.

II. Objective

The primary objective of this audit is to assess LACERS' management controls (internal controls) over refund of contributions.

III. Scope

To audit the current control processes and transactions that transpired during FY23. For purposes of this audit, we focused on the most material refunds as well as refunds that required more investigation. These refunds included the following types:

- Termination Refunds
- Accumulated Contributions Paid to Beneficiary
- Unused Contributions
- Miscellaneous Refunds
- Survivor Contributions Refund
- Manual Disbursements and Adjustments

These refunds made up \$13.7M out of \$14.4M of refunds of contributions as of FY23. We noted that the other refunds followed a similar process and there were no significant differences.

IV. Interviews conducted and Documents Reviewed

To gain an understanding of the Refund of Retirement Contributions process and flow of transactions, we interviewed the Benefits Determination Unit (BDU) and Survivors Benefit Unit (SBU) who both process the request for Refund of Retirement Contributions and Accounting/Payroll who finalize and pay the requests for payment and record the entries.

V. Processes involved related to Refund of Contributions

Per inquiry of SBU, BDU, payroll, and accounting as well as observation and limited testing of the refund of contributions process, we documented the process as follows:

Refunds by Living Members (Refunds, Miscellaneous Refunds, Survivor Contribution Refund)

Once a Member initiates a refund of contributions, BDU will process their refund by checking all relevant documents. Living members can request a refund upon separation from the City or if they are filing as single by the time of retirement, they can receive a refund for their Survivor Contribution. BDU reviews the following documents after initiation of request: distribution election form, W9, Form 41, rollover form, and waiver of benefits form. While reviewing these documents, BDU will look for the following items in these documents were applicable:

- Proper signature by requestor
- Person initiating the refund is person within the documents
- Notarization of form
- Correct address to send refund
- Correct tax withholdings
- Matching information to systems (PensionGold/PGold, PaySR, etc.)
- Status of Member (terminated, retired, etc.)

When documentation has been reviewed by BDU, a supervisor will do one last review of the required documents and prepare a memo stating their review of all members set up for refund in that batch. The memo and all required documents are then uploaded to the Public Lump Sum shared folder for accounting and payroll to process.

Refunds for Deceased Members (Accumulated Contributions, Accrued Allowance, Unused Contributions, Funeral Allowance)

When a Member passes away, typically someone close to the Member notifies SBU of the passing of the member which will initiate the process for refunds of contributions. SBU will begin an audit related to the death of the member to verify they are deceased. Once the audit is completed and information is sent to a supervisor within SBU, the refund of contribution process may begin.

If the Member passes away prior to retirement, the survivors will have different benefit options depending on the years of service of the deceased member. If the beneficiary/survivor decides on or is given a refund of contributions/possible limited pension, SBU will review the following documents once notified of a refund of contributions: Affidavit and Claim form, W9, survivor benefit election form and

rollover form. While reviewing these documents, BDU will look for the following items in these documents were applicable:

- Proper signature by beneficiary
- Person initiating the refund is the appropriate beneficiary
- Notarization of form
- Correct address to send refund
- Correct tax withholdings
- Matching information to systems (PGold, PaySR, etc.)
- Confirmation of the requestor's relationship to the deceased Member (Birth certificate, social security, etc.)

If the Member passes away after retirement, the beneficiary will be entitled to any unused contributions, \$2,500 in Funeral Expense Allowance, and any accrued but unpaid Retirement Allowance for the month of death and up to the date of death. The process to receive the refund of contributions in this situation is similar to when the Member passes away prior to retirement. In both cases, if a beneficiary is not designated, refunds of contributions and other benefits will be paid in the order provided by the Plan.

When documentation has been reviewed by SDU, a supervisor will do one last review of required documents. All required documents are then uploaded to the Public Lump Sum shared folder for accounting and payroll to process.

Processing by Accounting/Payroll

Before processing the refund of contributions, accounting will check for the memo of approval from BDU and perform a check for dollar amount, tax amounts, necessary approval, name of payee, and type of benefit for all refunds. Once their review is complete, accounting will begin the process of initiating the Lumpsum Payroll with approval from a supervisor and stamp all required documents as "PAID",

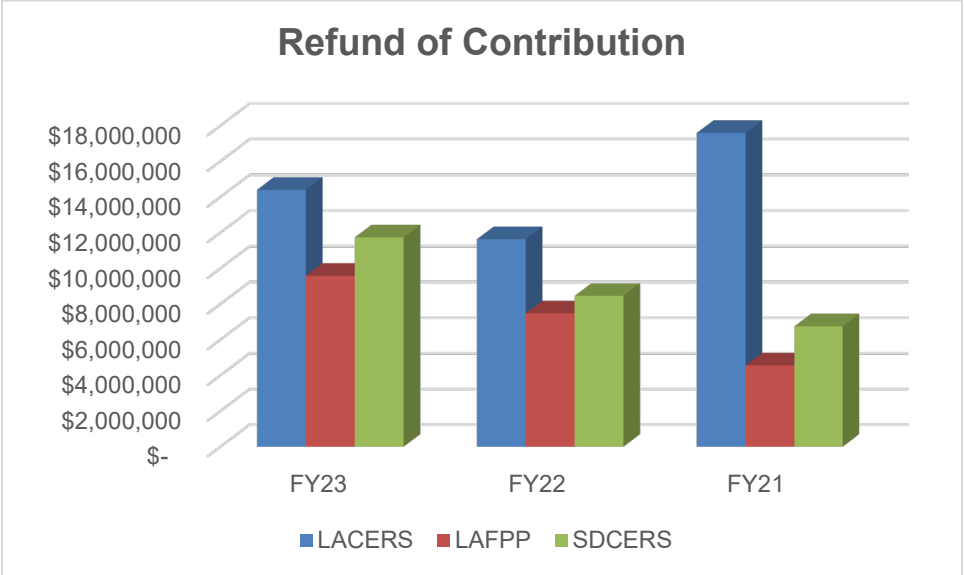
Accounting then prepares the journal entry for the lump sum payroll. This entry uses reports from PGold and is reconciled with the payroll register to ensure there are no variances. Prepared entries are then reviewed by the Principal Accountant before being posted.

When needed, manual disbursements and adjustments are made when errors are identified after the lump sum payroll has been posted but before the lump sum check is cashed. This is possibly due to issues such as incorrect tax withholdings or voided checks. We will further review these manual entries as part of our substantive testing but found them to be reasonable based on limited testing.

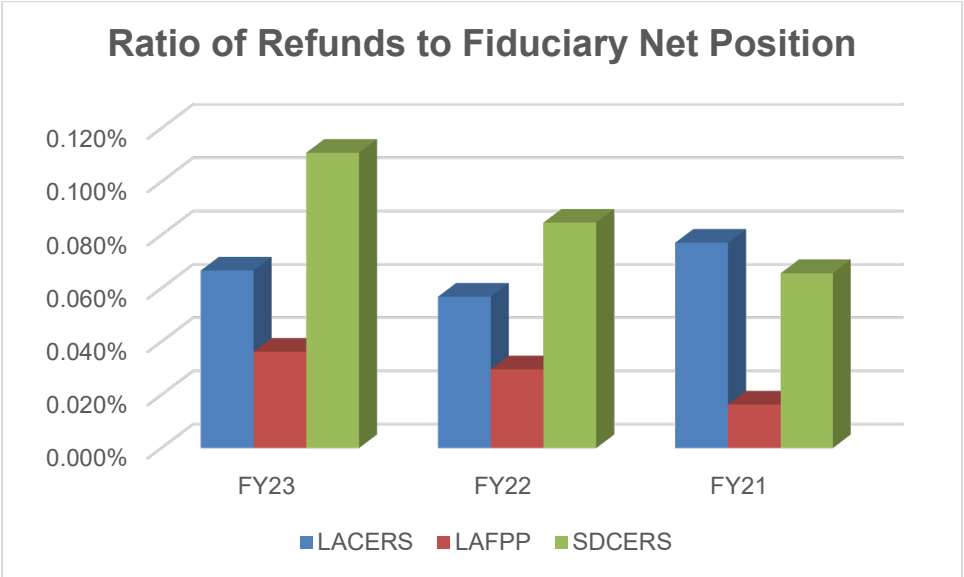
Analysis

We performed a reasonable test of refunds of contributions by comparing the total refund contributions and ratio of refunded contributions with two other similarly sized funds (LAFPP and SDCERS) for FY 21, 22, and 23 as shown below:

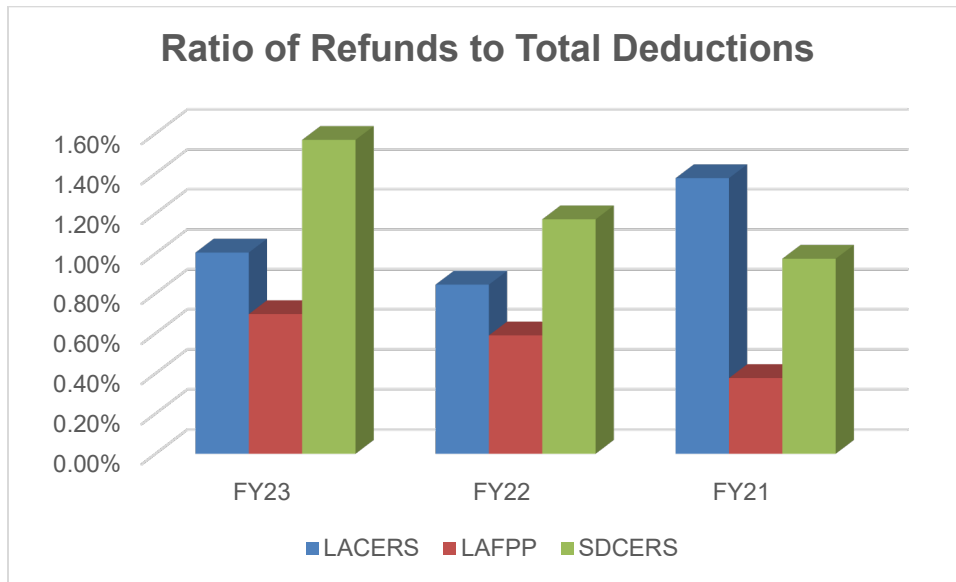
Refunds of Contributions:



Ratio of Refunds to Fiduciary Net Position:



Ratio of Refunds to Total Deductions:



Outside of FY21, LACERS had a ratio of refunds to both fiduciary net position and total deduction that was close to the average of the two funds that we examined. Ratio of refunds to fiduciary net position for LACERS was 0.067%, 0.057%, 0.077% compared to the average of the three which was 0.071%, 0.057%, 0.053% for FY23, FY22, and FY21, respectively.

We further investigated the higher amount of refunds in FY21 and noted that the increase was due to increase in death refunds as well as survivor contributions refunds to eligible Members upon retirement. The said increase was largely brought by the effects of the pandemic (COVID-19), as well as the City’s Separation Incentive Programs in FY21. The City and other proprietary departments introduced Separation Incentive Programs (SIPs) to incentivize members to retire earlier. During FY21, 1,372 City employees as well as 334 LAWA employees retired under their respective SIP program. As such we found the increase in refunds in FY21 to be reasonable due to this early retirement program, as well as the results of the pandemic.

VI. Fraud Potential

During the course of our review of internal controls, we considered the potential of fraud. We did not find any signs of fraud or receive any allegations of fraud in the areas we planned to audit.

VII. Reliability of Systems and Data

During the course of our review of data, we evaluated the system controls and concluded that we can rely on the integrity of information generated by the Department's financial systems.

The Department is utilizing PensionGold which we found to be reliable and embedded with the necessary system controls. We performed a manual recalculation of refunds within PGold using a limited sample and found no issues.

VIII. Proposed Staffing, Budget, and Estimated Milestones

Auditor assigned: Colin Tran, Internal Auditor II
Planning Phase- February 2024
Detailed/Substantive Phase- April to May 2024
Management/Board discussion- May 2024

PLANNING MEMORANDUM

**AUDIT OF NET APPRECIATION (DEPRECIATION) IN FAIR
VALUE OF INVESTMENTS INCLUDING GAIN OR LOSSES ON
SALES**

May 14, 2024

I. Background

LACERS appreciation/(depreciation) in fair values of investments, resulting from either market valuations or actual gains/losses, directly affects the reported investment income at the end of the reported period. This includes both realized and unrealized gains/losses on investments.

Realized gains and losses are recognized once the investment has been sold and unrealized gains and losses represent the market value change of held investments. Net appreciation (depreciation) in fair value of investments was \$1,181,447,000 for fiscal year ended June 30,2023. We represented the net appreciation (depreciation) in fair value of investments for the prior three fiscal years below:

	FY23	FY22	FY21
Net Appreciation (Depreciation) in FV of Investments	\$1,181,447,000	\$(2,245,698,000)	\$5,013,637,000

II. Objective

The primary objective of this audit is to assess LACERS' management controls (internal controls) over entries made related to net appreciation (depreciation) in fair value of investments that directly affect the reported Investment Income at year end.

III. Scope

To audit the current control processes and transactions that transpired during FY23.

IV. Interviews conducted and Documents Reviewed

To gain an understanding of the processes related to net appreciation (depreciation) in fair value of investments and the flow of transactions, we inquired the Investment Accounting team that records and oversees entries related to net appreciation (depreciation) in fair value of investments, and the Investment team that reviews and oversees the different types of investment income and losses.

V. Processes Involved Related to Net Appreciation (Depreciation) in Fair Value of Investments including Realized and Unrealized Gains/Losses

Per inquiry of the Investment Accounting team and the Investment Team as well as observation and limited testing of net appreciation (depreciation) in fair value of investments, we documented the process as follows:

Overview of Investments

LACERS funds are invested pursuant to the LACERS' investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. LACERS has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. LACERS' investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real assets, private credit, private equity, and short-term investments.

Driven by LACERS investment goals, fund managers develop strategies and invest LACERS funds among different types of asset classes (as noted above). LACERS Investment team and its' consultants oversee these fund managers.

The Investment team performs due diligence on fund managers and recommends their appointment to the Board. Once appointed, the Investment team and their consultants develop agreed-upon guidelines for fund managers to follow, depending on which part of the portfolio they are managing. Guidelines include standards for investing such as limits on which investment grade stocks to buy, thresholds for a single investment, diversification, and risk management.

The Investment team and consultants regularly check-in with fund managers on a monthly and quarterly basis to discuss performance and are consistently checking the investment portfolio to ensure investments are consistent with the agreed upon guidelines and are meeting the expected rates of returns. Monthly, fund managers perform and submit reconciliation of their performance with the actual performance posted by the custodian bank, to ensure there are no discrepancies in performance reported.

Unrealized and Realized Gain/Loss

Unrealized and realized gain/loss represents the market value change and sale of LACERS' assets and investments within the custodian bank, Northern Trust. These assets and investments include equities, fixed income, venture capital and partnerships, cash and cash equivalents, liabilities, and derivatives. On a monthly basis, Investment Accounting receives a Portfolio Statement from Northern Trust showing the change in market value and sales for all LACERS' investments.

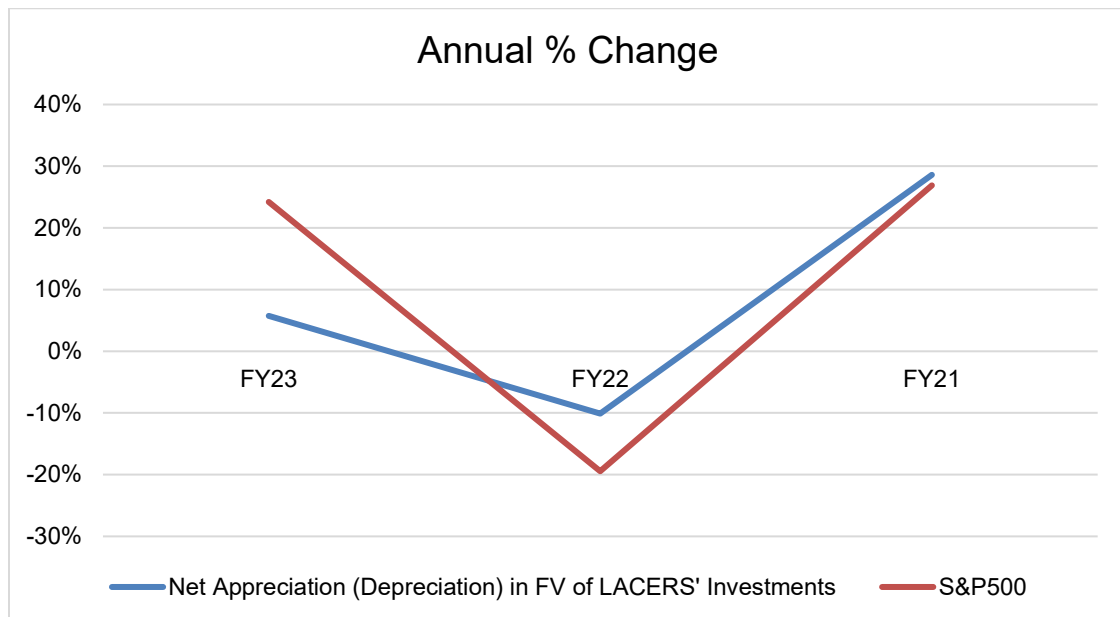
Investment accounting will then record unrealized gain/loss from change in market value and also realized gain/loss from sale of investments based on the portfolio statement. In addition to unrealized and realized gains, Investment Accounting also records a true up expense for any differences between the Northern Trust portfolio statement and the statements directly from the general partners and funds. Differences between these statements are typically due to timing. Based on our preliminary review, we noted that there is no review of unrealized and realized gain/loss to see if changes and fluctuations are reasonable and have further discussed this in our preliminary observations.

Investment Management Fees

As previously mentioned, funds of LACERS are managed by external investment managers that are appointed by the Board. These investment managers charge management fees for their services. On a quarterly basis, LACERS receives fund statements from partnerships and equity funds showing management fees and other investment management expenses owed by LACERS. Investment Accounting records these fees on an annual basis based on the statements. We recently conducted an audit for management fees and further details can be found in our separate report.

Analysis

We performed a trending analysis of net appreciation/(depreciation) in the fair value of investments to compare the annual change of LACERS' investment compared to the S&P500 for FY23, FY22, and FY21. We represented the year-over-year change in the table below:



As mentioned before, investments of LACERS should track close to or outperform the overall stock market. For purposes of this analysis, we used the performance of the S&P500 in the past three years and found that overall change in LACERS investments was similar. Based on this trending analysis, we found the year-over-year change to be reasonable.

VI. Fraud Potential

During the course of our review of internal controls, we considered the potential of fraud. We did not find any signs of fraud or receive any allegations of fraud in the areas we planned to audit.

VII. Preliminary Observations

Based on our preliminary review of the processes related to net appreciation (depreciation) in fair value of investments, we found opportunities to improve controls. As this was a result of limited testing during the planning phase of our audit, we will confirm our preliminary findings in the next substantive audit phase.

- It is always a good practice to periodically review changes in net appreciation and depreciation to see if changes are reasonable based on the overall performance of the market. Per inquiry of the Investment team, performance of LACERS investments should be similar to the performance of markets such as the S&P500. On a periodic basis, net appreciation and depreciation can be compared to market performance to see if changes are reasonable.

VIII. Reliability of Systems and Data

During the course of our review of data, we evaluated the system controls and concluded that we can rely on the integrity of information generated by the Department's financial systems.

IX. Proposed Staffing, Budget, and Estimated Milestones

Auditor assigned: Colin Tran, Internal Auditor II
Planning Phase- February 2024
Detailed/Substantive Phase- April to May 2024
Management/Board discussion- May 2024

PLANNING MEMORANDUM

AUDIT OF RECEIVABLES

May 14, 2024

I. Background

Receivables reflect amounts owed to or to be received by LACERS and totaled \$195,865,000 as of June 30, 2023. These receivables included accrued investment income, proceeds from sales of investments, and other receivables. We've represented these amounts in the table below:

Type of Receivable	FY23 Total
Accrued Investment Income	\$89,225,000
Proceeds from Sales of Investments	\$93,978,000
Other Receivables	\$12,662,000
Total	\$195,865,000

II. Objective

The primary objective of this audit is to assess LACERS' management controls (internal controls) over total receivables.

III. Scope

To audit the current control processes and transactions that transpired during FY23.

IV. Interviews conducted and Documents Reviewed

To gain an understanding of the processes related to Receivables and the flow of transactions, we inquired the Principal Accountant who oversees the entries and reconciliation for receivables outside investments, the Investment Accounting team that records and oversees receivable entries related to investments, and the Investment team that reviews and oversees the different types of investment income.

V. Processes involved related to Receivables

Per inquiry of the parties mentioned in *Section IV. Interviews Conducted and Documents Reviewed* as well as observation and limited testing of Receivables, we documented the flow of transactions as follows:

Overview of Investments

Funds of LACERS are invested pursuant to the LACERS' investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. LACERS has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. LACERS' investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real assets, private credit, private equity, and short-term investments.

Investments are made by appointed investment managers for the different types of investments in the portfolio mentioned above. LACERS Investment team reviews and supervises the investment managers along with investment consultants. The Investment team performs due diligence on investment managers prior to appointment and gives recommendations to the Board, who ultimately gives the approval to hire the investment managers. Once appointed, the Investment team with the help of consultants provides agreed upon guidelines to each investment manager depending on which part of the portfolio they are managing. Guidelines include standards for investing such as limits on which investment grade stocks to buy, thresholds for a single investment, diversification, and risk management.

LACERS investment team and consultants regularly check-in with investment managers on a monthly and quarterly basis to discuss performance and are consistently checking the investment portfolio to ensure investments are being made in line with the agreed upon guidelines and are meeting the expectations for rate of returns. Investment managers also, on a monthly basis, provide a reconciliation of their performance to the actual performance reported by the custodian bank to ensure they are consistent.

Accrued Investment Income and Proceeds from Sales of Investments

When making investments, LACERS receives income in a variety of forms including dividends, interest, fixed income, and distributions. At month end, these different types of incomes from investments as well as sales of investments can be pending due to several reasons including timing differences between banks, transactions needing clearing, or payments still in progress. At month-end, Investment Accounting receives a Portfolio Statement from Northern Trust that shows the ending balance for pending transactions. Investment accounting will then record the ending balance based on the market value of receivables shown in the statement. We noted based on our preliminary review that there is no tracking or reconciliation done to ensure that pending transactions actually cleared. We also noted that there is no review of whether amounts shown in the portfolio statement are correct.

Other Receivables

Other receivables primarily consist of receivables related to accrued member contributions. Per inquiry of the Principal Accountant, member contributions are received from the City of Los Angeles every pay period but there is a timing difference between the day of collection and when member contributions are actually received by LACERS.

At month end, there is typically an open receivable for member contributions for one pay period. To record this receivable, accounting obtains the amount from PaySR for the pay period outstanding. The amount within PaySR is also reconciled with other systems including PGold.

Once payment has been received, Accounting clears the receivable by verifying that the members' contributions have been deposited into the LACERS bank account in Northern Trust. A wire transfer shown in PGold as well as on Northern Trust statements confirms receipt of the amount.

Other receivables are related to the operations of the building, including lease receivables. As of FY23, receivables outside of accrued member contributions made up \$2.4m out of \$12.7m in other receivables. As such we deemed it appropriate to perform a small random selection of other receivables outside of accrued member contributions to test for effectiveness of controls.

Analysis

We performed a year over year trending analysis of receivables to review any significant changes in receivables for FY23, FY22, and FY21. As a part of our review, we further investigated any changes over 20% to determine if the change was reasonable. We represented the year-over-year change in the table below:

Type of Receivable	FY23	FY22	FY21	FY23 vs FY22 change	FY22 vs FY21 change
Accrued Investment Income	\$89,225,000	\$79,684,000	\$70,733,000	12%	13%
Proceeds from Sales of Investments	\$93,978,000	\$135,169,000	\$150,900,000	-30%	-10%
Other	\$12,662,000	\$10,863,000	\$9,707,000	17%	12%
Total	\$195,865,000	\$225,716,000	\$231,340,000	-13%	-2%

Proceeds from Sales of Investments

We inquired the Investment Team as to the downward trends in receivables related to Sales of Investments. According to them, back in FY21 LACERS invoked a new investment strategy to become more liquid. The strategy resulted with selling off more investments to have more cash and counter any volatilities brought about by the pandemic. Since FY21, the market had stabilized and LACERS has had more cash invested into investments and has not had to sell off as many of these investments which explains the decline in receivables related to sale of investments. Our trend analysis was supported by the notes from board meetings and the market trends during FY21.

VI. Fraud Potential

During the course of our review of internal controls, we considered the potential of fraud. We did not find any signs of fraud or receive any allegations of fraud in the areas we planned to audit.

VII. Preliminary Observations

Based on our preliminary review of the processes related to receivables, we found opportunities to improve controls. As this was a result of limited testing during the planning phase of our audit, we will confirm our preliminary findings in the next substantive audit phase.

1. It is a good practice to verify that receivables were subsequently received the following month. This can be done by reviewing Northern Trust statements to determine whether transactions have been actually deposited into the LACERS accounts with accurate amounts.
2. Checking to see whether accrued investment income and sale of investments were accurately posted is always a good practice. This can be done by recalculating accrued investment incomes and sale of investments and reviewing how the numbers in the portfolio were calculated. A month-over-month review will also be helpful to look for large fluctuations and investigate whether identified changes were justifiable.

VIII. Reliability of Systems and Data

During the course of our review of data, we evaluated the system controls and concluded that we can rely on the integrity of information generated by the Department's financial systems.

IX. Proposed Staffing, Budget, and Estimated Milestones

Auditor assigned: Colin Tran, Internal Auditor II
Planning Phase- February 2024
Detailed/Substantive Phase- Starting May 2024
Management/Board discussion- May 2024

PLANNING MEMORANDUM

AUDIT OF LIABILITIES

May 14, 2024

I. Background

Liabilities reflect the financial obligations of LACERS and totaled \$458,350,000 as of June 30, 2023. These liabilities included accounts payable and accrued expenses, accrued investment expense, purchases of investments, and security lending collateral payable. We've represented the liability amounts in the table below.

Type of Liability	FY23 Total
Accounts Payable and Accrued Expenses	\$93,665,000
Accrued Investment Expense	\$8,819,000
Purchases of Investments	\$145,060,000
Security Lending Collateral Payable	\$210,806,000
Total	\$458,350,000

II. Objective

The primary objective of this audit is to assess LACERS' management controls (internal controls) over liabilities.

III. Scope

To audit the current control processes and transactions that transpired during FY23.

IV. Interviews conducted and Documents Reviewed

To gain an understanding of the processes related to Liabilities and the flow of transactions, we inquired the Principal Accountant who oversees the entries and reconciliation for accounts payable and accrued expenses, the Investment Accounting team that records and oversees payable entries related to investments, and the Investment team that reviews and oversees the different types of investments made.

V. Processes involved related to Liabilities

Overview of Investments

Funds of LACERS are invested pursuant to the LACERS' investment policy, established by the Board, in compliance with Article XI Section 1106(d) of the City Charter. LACERS has a long-term investment horizon, and utilizes an asset allocation that encompasses a strategic, long run perspective of capital markets. LACERS' investment portfolio is composed of domestic and international equities, domestic and international bonds, bank loans, derivative instruments, real assets, private credit, private equity, and short-term investments.

Investments made for LACERS are made by appointed investment managers for the different types of investments in the portfolio mentioned above. LACERS Investment team along with Investment Consultants review and supervise the fund/investment managers. The Investment team performs due diligence on investment managers prior to appointment and gives recommendations to the Board who ultimately gives the approval to hire the investment managers. Once appointed the Investment team, with the help of consultants, provides agreed upon guidelines to each of the investment managers depending on which part of the portfolio they are managing. Guidelines include standards for investing such as limits on which investment grade stocks to buy, thresholds for a single investment, diversification, and risk management.

The Investment team and consultants regularly check-in with investment managers (i.e. monthly or quarterly basis) to discuss performance and review the investment portfolio to ensure investments are:

- being made in line with the agreed upon guidelines, and
- meeting the expectations for rate of returns

Investment managers, on the other hand, submit a monthly reconciliation to LACERS of their performance with that of the reported numbers by the custodian bank for consistency.

Accrued Investment Expense and Purchase of Investments

When making investments, LACERS pays fees for transactions such as liability swaps and for all other types of investment purchases. At month end, when purchased investments are pending, related fees are also pending. There are a number of reasons why purchased investments may be pending- *timing differences between banks, transactions needing clearing, or payments still in progress.*

At month end, Investment Accounting receives a Portfolio Statement from LACERS custodian bank (Northern Trust) that shows the monthly ending balance for pending transactions and expenses. This statement is used to record the ending balance for accrued investment expense and purchase of investments. We noted that there is no tracking or reconciliation done to ensure that pending transactions at month-end actually cleared the following month. We also noted that there is no review of whether amounts shown in the portfolio statement are reported accurately.

Security Lending Collateral Payable

Under authority granted by the City Charter, LACERS has entered into various short-term arrangements with its custodian to lend securities to various brokers. There are no restrictions on the number of securities that may be lent, and the custodian determines which LACERS' (the lender) accounts to lend securities from.

All lenders under the purview of the custodian have equal opportunity to profit from its securities lending program, this means that should a collateral becomes deficient beyond the custodian's fault, the deficiency is allocated pro rata among all lenders.

Minimum collateralization is 103% of the fair value of the borrowed U.S. securities and 105% for international securities. Collateral consists of cash, government and corporate securities, and commercial bank obligations. Cash collateral is invested in a separate account comprised of money market or high-quality short-term investments. It is the responsibility of the custodian to monitor the collateralization on a daily basis. If the collateral is below the minimum collateralization level, additional collateral will be requested from the borrower to meet the requirement. Collateral requested each morning is required to be received on the same day. If the borrower fails to deliver additional collateral, the custodian would notify the borrower that they are in default under the securities lending agreement. If the borrower does not provide the necessary collateral after receiving notification, the legal agreement allows the custodian to close the contract with the borrower and buy-in the securities on behalf of LACERS.

The borrower has all incidents of ownership with respect to borrowed securities and collateral, including the right to vote and transfer or loan borrowed securities to others. LACERS is entitled to receive all distributions which are made by the issuer of the borrowed securities, directly from the borrower. Under the agreement, Northern Trust will indemnify LACERS if there is any failure to return collateral due to Northern Trust's lack of diligence.

Due to the nature of the securities lending program and the custodian bank's collateralization of loans at amounts greater than the fair value of the loaned securities, it is deemed that there were no material credit risks to LACERS. However, similar to any other investment portfolio, there is risk associated with investing cash collateral in securities. The value of the invested collateral may fall below the value of the cash collateral pledged by the borrowers and may impair LACERS ability to return cash collateral to the borrowers upon the redemption of loans. If this scenario were to occur, LACERS would be required to make up the deficiency in collateral and would incur a loss. During FY23, LACERS had no losses on securities lending transactions resulting from default of a borrower or lending agent.

Similar to accrued investment expenses and purchases of investments, Investment Accounting uses the Portfolio Summary from Northern Trust to record the ending balance of Security Lending Collateral Payable at month-end. We note that neither Investment group nor Investment Accounting do a spot check of collateral values to ensure amounts reported at month-end are fairly stated according to public market exchanges.

Accounts Payable and Accrued Expenses

The Los Angeles City Charter (Sections 1158 and 1160) states that the City should pay LACERS its share of the projected employees' retirement benefits costs/liabilities. The contribution amount is derived by using an actuarially determined employer contribution rate over the employees' covered payroll. When performing the calculation, the City multiplies the contribution rate to a budgeted covered payroll to determine the amount to be remitted to LACERS, usually July of the year. At year end, LACERS recalculates the "should be" employer's contribution amount using actual payroll incurred during the fiscal year, and then records any adjustment (over/under) to City's contributions that was prepaid at the beginning of the fiscal year or in July. The adjustment will either reduce or increase the City's contributions for the following fiscal year.

For FY23, employer contributions received for the Retirement Plan were \$71,723,000 more than required, which was recorded in fiscal year 2022-23 and credited towards employer contributions payment for fiscal year 2023-24. This true-up adjustment for the city contribution can either be a payable or receivable for each given fiscal year. The final covered payroll information used comes from the City Administrative Office based on the City and proprietary's adopted budget and the actual covered cost comes from the PaySR system. Fiscal Accounting recalculates the true-up amount based on information given by the City.

Accrued expenses are typically made up of invoices sent to LACERS for a variety of expenses including office supplies, vendor charges, equipment, etc. The invoices are sent to the respective departments responsible for the expenditures and once the invoices are approved, they are uploaded into FMS for recording by Fiscal Accounting. To enter payment request into FMS, each department will have to comply with the Controller's recommended procedures on Payables, including verifying accuracy of the bills for payment, checking whether proper accounting and budgetary codes were used, and ensuring payables are adequately supported. Fiscal Accounting also ensures that there is enough budget to pay for the invoice/bill.

Entries made by Fiscal Accounting staff, related to accruals and other payables, are reviewed and approved by the Principal Accountant.

Analysis

We performed a year-over-year trending analysis of liabilities to review any significant changes for FY23, FY22, and FY21. We also investigated any changes over 20% to determine if the change was reasonable. We represented the year-over-year change in the table below:

Type of Liability	FY23	FY22	FY21	FY23 vs FY22 change	FY22 vs FY21 change
Accounts Payable and Accrued Expenses	\$93,665,000	\$88,838,000	\$59,315,000	5%	50%
Accrued Investment Expense	\$8,819,000	\$19,982,000	\$13,765,000	-56%	45%
Purchases of Investments	\$145,060,000	\$204,713,000	\$431,604,000	-29%	-53%
Security Lending Collateral Payable	\$210,806,000	\$515,988,000	\$275,940,000	-57%	87%
Total	\$458,350,000	\$829,521,000	\$780,624,000	-45%	6%

Accounts Payable and Accrued Expenses

We analyzed accounts payable and accrued expenses and noted that the upward change from FY21 to FY22 was mostly due to true-up adjustments recorded at year-end by Accounting. We obtained the calculation of the true-up and found it to be accurate- accounting compared actual payroll at fiscal year-end versus projected payroll that they received from the City at the beginning of the fiscal year. Outside of this true-up adjustment, we noted that other accrued expenses consisted of vendor invoices were consistent year-over-year.

Accrued Investment Expense

We inquired the Investment team and noted that the increase in accrued investment expense from FY21 to FY22 was mostly due to an increase in LACERS' exposure to private equity and private real estate, which is consistent with LACERS' current target asset allocation and strategic plan to increase returns. Private equity and private real estate typically have higher fees compared to other investments by LACERS, but can offer higher returns.

Purchases of Investments

Based on our interview of investment staff, as part of their new investment strategy LACERS hired more investment managers in FY21, resulting with more purchases posted for the year as managers begin to build their portfolios. In the following years, the purchases slowed down as managers have already maintained a regular flow and funds have already been invested in the prior years.

Security Lending Collateral Payable

On April 28, 2020, the Board adopted several temporary Security Lending Program risk-reducing strategies to minimize potential losses due to unusual and more volatile market conditions as a result of COVID pandemic. These strategies include (1) temporarily reducing the volume of loans in order to reduce LACERS overall exposure; (2) shorten the duration and maturity of individual investments to 60 days; and (3) require a non-U.S. country to hold a sovereign credit rating of AA- or higher (or the equivalent) by at least two Nationally Recognized Statistical Rating Organizations (NRSRO) in order for non-U.S. government or corporate debt to be eligible for investment. These strategies have remained in place and the amount of securities being lent out varies based on guidelines made by the LACERS investment team as well as partial discretion by the custodian bank. Per inquiry of the investment team, the amount within the security lending collateral varies based on the volatility of the market and can fluctuate year-over-year.

VI. Fraud Potential

During the course of our review of internal controls, we considered the potential of fraud. We did not find any signs of fraud or receive any allegations of fraud in the areas we planned to audit.

VII. Preliminary Observations

Based on our preliminary review of the processes related to liabilities, we found opportunities to improve controls. As this was a result of limited testing during the planning phase of our audit, we will confirm our preliminary findings in the next substantive audit phase.

1. A review of payables related to accrued investment expenses and purchase of investments is a good practice to ensure that amounts paid by LACERS are accurate and properly cleared in the next period. This can be done by using Northern Trust statements to see that pending transactions have been paid out for the correct amount. It would also be helpful to maintain an AP aging schedule to readily track any payables that are outstanding for long periods and need to be paid out.
2. It is a good practice to review the accuracy of accrued investment expenses and purchase of investments to ensure that amounts to be paid by LACERS are correct. This can be done by recalculating accrued investment expenses and purchase of investments amounts and reviewing how the numbers in the portfolio were calculated. There can also be a check done month over month to look for large fluctuations in expenses to investigate whether those changes are reasonable.
3. A spot check of values listed within the Northern Trust statements for securities being loaned against value listed in trusted exchanges and databases to ensure that collaterals received are sufficient to cover LACERS in the case of a default.

VIII. Reliability of Systems and Data

During the course of our review of data, we evaluated the system controls and concluded that we can rely on the integrity of information generated by the Department's financial systems.

IX. Proposed Staffing, Budget, and Estimated Milestones

Auditor assigned: Colin Tran, Internal Auditor II
Planning Phase- February 2024
Detailed/Substantive Phase- Starting May 2024
Management/Board discussion- May 2024

PLANNING MEMORANDUM

AUDIT OF MEDICAL AND DENTAL SUBSIDIES

May 14, 2024

I. Background

LACERS (Los Angeles City Employees' Retirement System) provides health benefits to retired members. Here are some key points regarding eligibility and the subsidy program:

1. Eligibility is based on age and whole years of service, to be eligible for subsidy, the member must be:
 - At least age 55;
 - Have a minimum of 10 full years of service credit (full-time); or a minimum of 10 full years of Service (part-time employees), and
 - Enrolled in a LACERS-sponsored medical plan or a participant in the Medical Plan Reimbursement Program (MPRP)¹
2. Full-time Employees
 - Receive 4% of the maximum medical subsidy for each year of service credit
3. Part-time Employees
 - Must have a minimum of 10 years of service to be eligible to receive a 40% of the maximum medical subsidy and can receive an additional 4% for each year of service/service credit above ten years. For above ten years, part-timers hired after 04/22/1990 is based on service credit.
4. Eligible Dependents
 - Spouse
 - Domestic Partner (and partnership must be registered with LACERS or the member's state)
 - Dependent child who is under age 26, except in circumstances where the adult child is eligible to enroll in an employee-sponsored plan or unable to engage in gainful employment because of a mental or physical disability (disability must have occurred before age 26)
5. Monthly Subsidies:
 - Retired members eligible to receive monthly medical plan premium and dental plan premium subsidies to cover some or all of their health care premiums, receive monthly dollar credits applied to the cost of their medical plan premiums.

¹ MPRP is available to retirees and eligible survivors if all of the following are met: (1) reside more than 3 months out of the year outside of California and within the US & its territories or within California but outside the authorized zip code service areas of a LACERS HMO or Medical Advantage HMO plan; (2) 10 yrs of service; (3) At least 55 or older; (4) Not enrolled in a LACERS Medical Plan, and (5) Non-LACERS medical insurance policy is a federally-qualified or state-regulated medical insurance plan.

6. Medical Premium Reimbursement Program (MPRP):

- If a member lives outside of a LACERS California HMO service area or outside California but within the United States and its territories, member can participate in the Medical Premium Reimbursement Program (MPRP).
- MPRP helps members to pay the premium of their chosen plan with their LACERS medical subsidy.
- Eligible participants include retirees who live outside the coverage areas of LACERS-sponsored medical plans or outside California but within the United States and its territories.
- For out of country retired members, the premium and deduction amounts for a medical plan like “Anthem PPO Out-of-Country Plan” are the same as the LACERS non-Medicare (under age 65). The Anthem Blue Cross PPO Out-of-Country medical plan is the only LACERS medical plan available if a member resides permanently outside the U.S and its territories, regardless of the age or Medicare status of the Retiree and Survivor. If a member lives or travel outside the U.S., Medicare will not cover. The member does not need to enroll in Medicare if he/she resides permanently outside the U.S. and its territories. However, if the member later decides to reside in the U.S. and is over age 65, the member is required to enroll in Medicare to be able to enroll in a LACERS medical plan. Because the member is not required to be enrolled in a Medicare plan, LACERS will not reimburse Medicare Part B premiums while enrolled in the Anthem PPO Out-of-Country plan.

7. Annual Subsidy Increases:

- LACERS members whose bargaining units agreed to contribute an additional 4% of pay towards retiree health care while they were active employees are eligible to receive annual adjustments to their maximum medical subsidy based on various factors such as changes in healthcare costs and funding availability. The additional 4% contributions (health defrayal) by members began on July 1, 2011.
- Annually, the Board reviews the members subsidy amounts. Any changes to the subsidy amounts are reflected in the member’s benefit check January 1st of the following year.

Medical Count and Amount as of June

	Insurance Premium	Insurance Subsidy
Medicare 2021		
Retiree	5,572,979.83	5,138,403.06
Survivor	570,587.23	547,514.29
Not Medicare 2021		
Retiree	6,578,914.53	6,151,794.09
Survivor	184,200.88	151,511.39
Grand Total	\$ 12,906,682.47	\$ 11,989,222.83

	Insurance Premium		Insurance Subsidy	
Medicare 2022				
Retiree		5,116,826.69		4,732,671.15
Survivor		530,540.23		508,790.09
Not Medicare 2022				
Retiree		5,652,362.48		5,299,809.02
Survivor		181,865.98		150,737.89
Grand Total	\$	12,590,577.01	\$	11,774,357.52

	Insurance Premium		Insurance Subsidy	
Medicare 2023				
Retiree		5,285,695.25		4,873,366.47
Survivor		534,206.69		513,986.00
Not Medicare 2023				
Retiree		5,624,069.51		5,223,067.39
Survivor		166,893.29		137,960.96
Grand Total	\$	12,768,208.12	\$	11,871,416.93

Provider	Count of Plan 2021	Count of Plan 2022	Count of Plan 2023
Kaiser Senior Adv.	7,194	7,385	7,431
Anthem Med. Suppl.	3,442	3,671	3,912
Kaiser HMO	2,672	2,501	2,304
Anthem PPO	1,160	1,135	1,123
Anthem HMO	944	923	895
UHC HMO	752	727	677
SCAN HMO	516	493	487
Grand Total	16,680	16,835	16,829

Dental Count and Amount as of June

Dental 2021	Insurance Premium		Insurance Subsidy	
Retiree		971,507.50		546,141.21
Survivor		73,359.38		
Grand Total	\$	1,044,866.88	\$	546,141.21

Dental 2022	Insurance Premium		Insurance Subsidy	
Retiree		983,521.93		554,945.21
Survivor		76,185.46		
Grand Total	\$	1,059,707.39	\$	554,945.21

Dental 2023	Insurance Premium	Insurance Subsidy
Retiree	989,464.63	549,514.01
Survivor	76,588.42	
Grand Total	\$ 1,066,053.05	\$ 549,514.01

Dental Count	Count of Plan 2021	Count of Plan 2022	Count of Plan 2023
Delta PPO	13,536	13,879	14,053
DeltaCare HMO	3,452	3,397	3,271
Grand Total	16,988	17,276	17,324

II. Objective

The primary objective of this audit is to assess LACERS' management controls (internal controls) over medical subsidies.

III. Scope

To audit the current control processes and transactions that transpired during FY23 and the period from July 1, 2023 through the time of the audit .

IV. Interviews conducted and Documents Reviewed

To gain an understanding of the processes related to medical subsidies, we consulted with the key contact at the health unit who oversees enrollment and compliance, factors that influence subsidy deductions. This was achieved through direct communication with the key contact in the enrollment and compliance unit via emails and a detailed questionnaire.

V. Processes observed related to Medical/Dental Subsidies

Per inquiry of the parties mentioned in *Section IV. Interviews Conducted and Documents Reviewed* as well as observation and limited testing of subsidy enrollment and compliance (20 samples), we documented the following processes:

Subsidy Calculations

- A. For Retired Members Who Are Under Age 65, or Age 65 or older with Medicare Part B only.
 - Full-time Employees- receive 4% of the maximum medical subsidy for each whole year of Service Credit, while part-timers receive 40% of the maximum medical subsidy with a minimum of 10 years of service. For

each year of Service Credit above ten years, part-timers receive an additional 4% of the maximum medical subsidy.

Service/ Service Credit*	% of Maximum Subsidy	2024 Subsidy Amount
10	40%	\$875.03
11	44%	\$962.54
12	48%	\$1,050.04
13	52%	\$1,137.54
14	56%	\$1,225.04
15	60%	\$1,312.55
16	64%	\$1,400.05
17	68%	\$1,487.55
18	72%	\$1,575.06
19	76%	\$1,662.56
20	80%	\$1,750.06
21	84%	\$1,837.57
22	88%	\$1,925.07
23	92%	\$2,012.57
24	96%	\$2,100.08
25+	100%	\$2,187.58

B. For Retired Members Who Are age 65 or older with Medicare Parts A & B

- For eligible Retired Members who are enrolled in Medicare Parts A & B and enrolled in a senior medical plan, members maximum medical subsidy is based on members full years of Service/Service Credit (beginning at 10 full years) and one-party premium of the LACERS Senior Plan in which members are enrolled.

Service/ Service Credit*	% of Maximum Subsidy
10-14	75% of one-party Monthly Premium
15-19	90% of one-party Monthly Premium
20+	100% of one-party Monthly Premium

Note: If a member has Medicare Parts A & B, enrolled in a LACERS Senior Plan, and are covering dependents, the amount of subsidy that will be available for member dependents will be the same as if member were enrolled in the corresponding Under-65 plan.

Dental Subsidy Eligibility

Retired Members eligible to receive a monthly dental plan premium subsidy, receive a monthly dollar credit applied to the cost of the dental plan premium in their paychecks.

The members monthly dental subsidy amount is based on full years of Service Credit.

To be eligible for a LACERS dental subsidy, Retired Members must:

- Be at least age 55,
- Have a minimum of 10 full years of Service, and
- Be enrolled in a LACERS-sponsored dental plan.

Dental subsidies are not provided for dependents or eligible Survivors. Members may enroll dependents in a LACERS dental plan and have their premium costs deducted from members retirement allowance. Eligible Survivors may have their dental premiums deducted from their Continuance or Survivorship allowances.

2024 Dental Subsidy

Service/ Service Credit*	% of Maximum	Delta Dental PPO Subsidy Amount	DeltaCare USA DHMO Subsidy Amount
10	40%	\$17.17	\$6.04
11	44%	\$18.89	\$6.64
12	48%	\$20.61	\$7.25
13	52%	\$22.32	\$7.85
14	56%	\$24.04	\$8.46
15	60%	\$25.76	\$9.06
16	64%	\$27.48	\$9.66
17	68%	\$29.19	\$10.27
18	72%	\$30.91	\$10.87
19	76%	\$32.63	\$11.48
20	80%	\$34.34	\$12.08

21	84%	\$36.06	\$12.68
22	88%	\$37.78	\$13.29
23	92%	\$39.50	\$13.89
24	96%	\$41.21	\$14.50
25+	100%	\$42.93	\$15.10

VI. Fraud Potential

During the course of our review of internal controls, we considered the potential of fraud related to Medical and Dental Subsidies. We did not find any signs of fraud or receive any allegations of fraud in the areas we are proposing to audit.

VII. Preliminary Observations

Based on our preliminary review of the processes related to medical and dental subsidies, we found opportunities to improve controls. As this was a result of limited testing during the planning phase of our audit, we will confirm our preliminary findings in the next substantive audit phase.

- Missing enrollment form documentations.
- Discrepancies between retirement effective date recorded and the enrollment form.
- Missing other supporting documentations (e.g., spouse medicare acknowledgement form, social security information/card, birth certificate).
- Missing member signatures on some LACERS forms.

VIII. Reliability of Systems and Data

During the course of our review of data, we evaluated the system controls and concluded that we can rely on the integrity of information generated by the Department’s financial systems.

IX. Proposed Staffing, Budget, and Estimated Milestones

Auditor assigned: Mina Habib, Internal Auditor II
 Planning Phase- April 2024
 Detailed/Substantive Phase- May to August 2024
 Point Sheet Meeting-
 Management/Board discussion-

PLANNING MEMORANDUM

AUDIT OF Audit of Service Purchase Process

May 14, 2024

I. Introduction:

The Los Angeles City Employees' Retirement System (**LACERS**) offers a service purchase process that allows members to increase their retirement benefits by buying additional service credit. This audit aims to determine whether LACERS service purchase process complies with applicable City Administrative Code provisions, and LACERS policies and procedures. Specifically, the Internal Audit Section will assess whether:

1. The calculations for service purchases are in accordance with applicable City Administrative Code provisions, and LACERS policies and procedures.
2. The payment schemes opted for service purchases, whether through contractual agreements or payroll deductions, are properly set up and posted into LACERS' Retirement System (PGold), and any lumpsum/cash collections are accurately posted and reported into the Members service credit accounts.
3. The option to transfer retirement funds from another agency's plan to a LACERS member account is properly executed, and that transferred funds from another agency are accurately posted into the members service credit accounts.
4. All service purchase-related decisions, including authorizations, calculations, forms completed by members and other agencies' submitted forms are adequately documented.

II. Background:

For the last three fiscal years, LACERS has processed a total of 679 in service purchase requests from active City employees amounting to \$9.3 million.

	FY 2023	FY 2022	FY 2021
Members that Purchased Service	167	252	260
Purchase Cost	\$ 2,921,583	\$ 3,335,239	\$ 3,043,362
Total Yrs. of Service Purchased	391	450	430

The service purchase types or purchase options included:

1. Government Service Buybacks (GSB):

- Can purchase service credits earned for full-time service with other governmental entities (For example DWP)

(Note: Division 4, Chapter 10 of the Los Angeles Administrative Code states that Members are not allowed to purchase service credit under the Government

Service Buyback (GSB) program if they qualify for reciprocity, If the member qualify for reciprocity, LACERS will process the application as a reciprocity request rather than a GSB request).

- Uncompensated maternity leaves.

2. Public (City of LA) Service Buybacks:

- Applies to active members who request to purchase service for approved uncompensated leaves (minimum of 6 months) of absence from City service.
For example:
 - Education leaves.
 - Personal Leaves.
 - Leaves of Absence without pay with DWP.
 - Workers' Compensation Leaves with DWP.
 - Disability Leaves with DWP.

3.Back Contributions:

- For periods of non-membership, including part-time employment
- Workers' compensation temporary disability.

4.Re-deposits:

- For rehired City employees who previously withdrew their contributions.

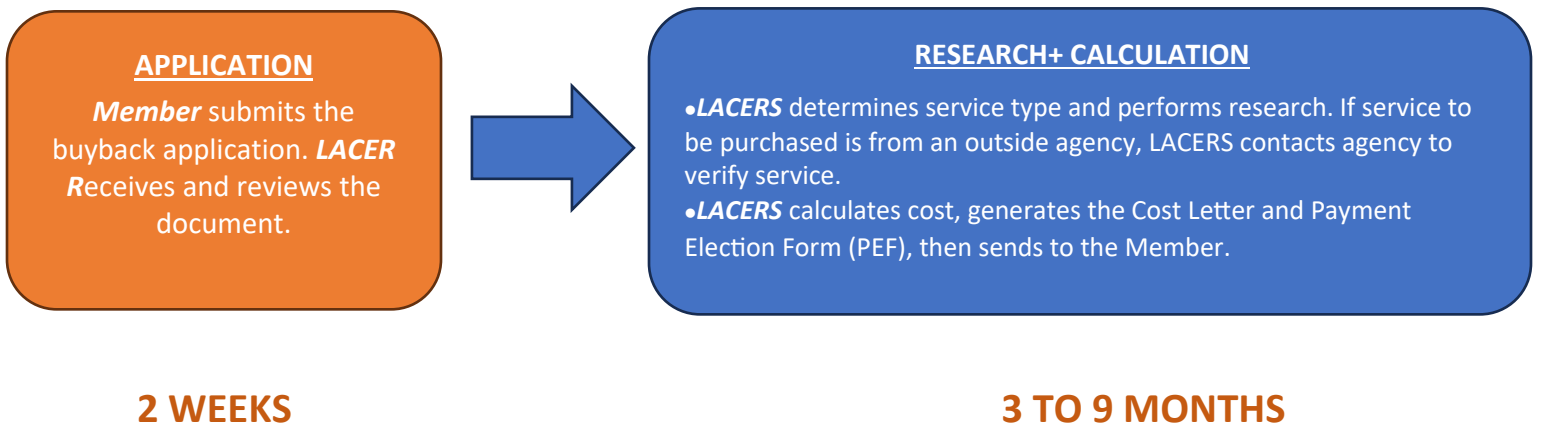
Here's a comparison table outlining the differences and similarities between Tier 1 and Tier 3 LACERS members in terms of various service credit purchase options:

Feature	Tier 1	Tier 3
Government Service Buybacks (GSB)	1. full-time employment with other governmental entities 2. uncompensated maternity leave.	1.full-time employment with other governmental entities 2. uncompensated maternity leave.
Public Service Buybacks (PSB)	1. approved leaves without pay from the city. 2. service credit lost to a Divorce or Dissolution of Domestic Partnership.	Not applicable for Tier 3.
Back Contributions	1. Part-time or temporary City employment when not a LACERS member 2. Workers' Compensation temporary disability time.	1. Part-time or temporary City employment when not a LACERS member 2. Workers' Compensation temporary disability time.

Re-deposits	1.Re-depositing previously withdrawn contributions after returning to City employment.	1.Re-depositing previously withdrawn contributions after returning to City employment.
Hiring Hall Service Purchase	1. City employee or LACERS member making contributions to LACERS who previously provided service to the city as a Hiring Hall employee.	1. City employee or LACERS member making contributions to LACERS who previously provided service to the city as a Hiring Hall employee.

Based on our interviews, the service purchase process is as follows:

1. **Eligibility Check:**
 - o Determine eligibility for service credit purchase based on employment history and circumstances.
 - o Different types of service credit available are GSB, PSB, and others.
2. **Application Submission:**
 - o Complete and submit the **Purchasing Service Credit application** to LACERS.
 - o Depending on the type of service credit requested, LACERS may need to request employment verification from outside agencies.
3. **Cost Notification Letter:**
 - o LACERS reviews the application and mails a **Cost Notification Letter**.
 - o The letter outlines the potential cost of purchasing the service credit.
4. **Service Credit Contract:**
 - o Along with the Cost Notification Letter, a **Service Credit Contract will also be sent**.
 - o The contract includes payment options and details related to specific service credit purchase.
5. **Payment Options:**
 - o Preferred payment options are lump sum, bi-weekly payroll deductions, or trustee-to-trustee rollover.





SERVICE CREDIT PURCHASING PROCESS

There are three available payment options: 1) lump sum, 2) trustee-to-trustee rollover, and 3) bi-weekly payroll deductions. Member may select more than one option. **For service purchase types that do not require service verification from an outside agency, the process takes approximately 4 to 5 months to complete.

COST AGREEMENT/ CONTRACT

Member reviews Cost Letter and PEF; if interested, *Member* select payment option(s)*, signs and returns PEF to LACERS.
LACERS receives signed PEF and
1) processes payment if lump sum payment is included, and/or
2) prepares and sends Trustee-to-Trustee Rollover form to Member, and/or
3) prepares and sends Agreement for biweekly payroll deductions to Member.

2 TO 4 WEEKS



PAYMENT/ SET-UP

LACERS posts lump sum payment
And / or
LACERS receives the Trustee-to-Trustee Rollover form, then processes the pre-tax rollover payment.
And / or
LACERS receives and signs the Agreement, then sets up bi-weekly payroll deductions.

1 TO 2 WEEKS



CONFIRMATION

LACERS sends Cash Receipt to Member for the lump sum payment and / or pre-tax rollover payment
And / or
LACERS sends copy of the Agreement, signed by both parties, to Member

Completion Time 4 TO 11 MO

III. Fraud Potential

During the course of our review of internal controls, we considered the potential of fraud. We did not find any signs of fraud or receive any allegations of fraud in the areas we planned to audit.

IV. Reliability of Systems and Data

During the course of our review of data, we evaluated the system controls and concluded that we can rely on the integrity of information generated by the Department's financial systems.

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Auditor assigned: Mina Habib, Internal Auditor II

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