

# **AUDIT COMMITTEE**

## **AGENDA**

### **Board of Fire and Police Pension Commissioners**

**Robert von Voigt, Chair  
George Aliano  
Emanuel Pleitez  
Corinne Tapia**

**June 5, 2014  
8:30 a.m.**

**Los Angeles Times Building  
202 W. First Street, Suite 500  
Los Angeles, CA 90012**

An opportunity for the public to address the Board or Committee about any item on today's agenda for which there has been no previous opportunity for public comment will be provided before or during consideration of the item. Members of the public who wish to speak on any item on today's agenda are requested to complete a speaker card for each item they wish to address, and present the completed card(s) to the commission executive assistant. Speaker cards are available at the commission executive assistant's desk.

In compliance with Government Code Section 54957.5, non-exempt writings that are distributed to a majority or all of the Board or applicable Committee of the Board in advance of their meetings may be viewed at the office of the Los Angeles Fire and Police Pension System (LAFPP), located at 360 East 2<sup>nd</sup> Street, 4<sup>th</sup> Floor, Los Angeles, California 90012, or by clicking on LAFPP's website at [www.lafpp.com](http://www.lafpp.com), or at the scheduled meeting. Non-exempt writings that are distributed to the Board or Committee at a scheduled meeting may be viewed at that meeting. In addition, if you would like a copy of any record related to an item on the agenda, please contact the commission executive assistant, at (213) 978-4555 or by e-mail at [barbara.nobregas@lafpp.com](mailto:barbara.nobregas@lafpp.com).

Sign language interpreters, communication access real-time transcription, assistive listening devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing sign language interpreters, five or more business days notice is strongly recommended. For additional information, please contact the Department of Fire and Police Pensions, (213) 978-4545 voice or (213) 978-4455 TDD.

1. ELECTION OF VICE CHAIR AND POSSIBLE COMMITTEE ACTION
2. [FOLLOW UP REPORT REGARDING BROWN ARMSTRONG'S 2013 AUDIT RECOMMENDATIONS; AND POSSIBLE COMMITTEE ACTION](#)
3. [CITY MANAGEMENT AUDIT RECOMMENDATIONS ASSIGNED TO AUDIT COMMITTEE; AND POSSIBLE COMMITTEE ACTION](#)
4. [REVIEW OF THE INTERNAL AUDIT CHARTER AND POSSIBLE COMMITTEE ACTION](#)
5. [FOLLOW UP TO THE SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE LOS ANGELES POLICE RELIEF ASSOCIATION AND POSSIBLE COMMITTEE ACTION](#)
6. PUBLIC COMMENTS

# **SPECIAL MEETING**

## **AGENDA**

### **Board of Fire and Police Pension Commissioners**

**June 5, 2014**

**8:30 a.m.**

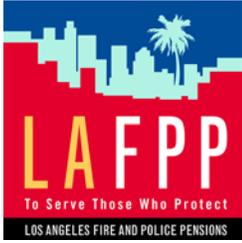
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1. ELECTION OF VICE CHAIR AND POSSIBLE COMMITTEE ACTION
2. FOLLOW UP REPORT REGARDING BROWN ARMSTRONG'S 2013 AUDIT RECOMMENDATIONS; AND POSSIBLE COMMITTEE ACTION
3. CITY MANAGEMENT AUDIT RECOMMENDATIONS ASSIGNED TO AUDIT COMMITTEE; AND POSSIBLE COMMITTEE ACTION
4. REVIEW OF THE INTERNAL AUDIT CHARTER AND POSSIBLE COMMITTEE ACTION
5. FOLLOW UP TO THE SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE LOS ANGELES POLICE RELIEF ASSOCIATION AND POSSIBLE COMMITTEE ACTION
6. PUBLIC COMMENTS



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## **REPORT TO THE AUDIT COMMITTEE**

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**JUNE 5, 2014**

**ITEM: 2**

**FROM: Raymond P. Ciranna, General Manager**

**SUBJECT: FOLLOW UP REPORT REGARDING BROWN ARMSTRONG'S 2013 AUDIT  
RECOMMENDATIONS; AND POSSIBLE COMMITTEE ACTION**

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### **RECOMMENDATION**

That the Audit Committee review the Follow Up Report regarding Brown Armstrong's 2013 Audit Recommendations and recommend it to the full Board for approval.

### **BACKGROUND**

On December 19, 2013, the Board of Fire and Police Commissioners approved Brown Armstrong's Audited Financial Statements and Report to the Board for the fiscal year ending June 30, 2013. The Report to the Board made two recommendations (numbered AUC 2013-1 and AUC 2013-2).

### **DISCUSSION AND FOLLOW UP**

Recommendations, discussion, and implementation status are each detailed below.

#### **Recommendation No. AUC 2013-1**

To ensure all investment manager fees are correct, LAFPP should recalculate all investment manager fees and ensure this took place by having a supervisor review work.

*Discussion:* LAFPP recalculates all investment manager fees with the exception of private equity and real estate commingled fund managers. Based on the substantial number (over 300) of these managers, LAFPP researched other pension systems' processes for recalculation of these fees and determined that LAFPP's process of conducting "reasonableness checks" to be similar. In order to enhance our process, LAFPP issued a Request for Proposal and subsequently hired R.V. Kuhns to recalculate a sample of these fees. Currently, R.V. Kuhns is conducting the work. LAFPP intends to use R.V. Kuhns' results to develop a process by which private equity and real estate commingled fund manager fees are recalculated.

*Implementation status: in progress.*

#### **Recommendation No. AUC 2013-2**

LAFPP should perform the Benefit payment reconciliation at least on a quarterly basis to decrease the risk for errors or irregularities that can be present in performing the expense

recognition. We believe performing the reconciliation on a quarterly basis will also lead to efficient and more accurate preparation of the final trial balance. Any issues with the reconciliation would be recognized, reviewed, and addressed in a timely manner.

*Discussion:* Accounting Section agreed with the recommendation and implemented a process by which the reconciliation and the expense recognition are typically performed on a monthly basis. Adjustments based on the reconciliations are done on a quarterly basis.

*Implementation status: completed.*

## **BUDGET**

There is no budget impact associated with this report.

This report was prepared by:

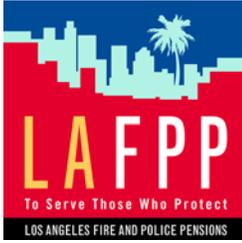
Erin J. Kenney  
Departmental Audit Manager  
Internal Audit Section

RPC:EJK

Attachment: *Brown Armstrong Recommendation Status Log*

## BROWN ARMSTRONG RECOMMENDATION STATUS LOG

Agreed Upon Condition (AC) Number	Brown Armstrong Recommendation	Summary of Original Management Response	Responsible Division /Section	Comments	Implementation Status
AC 2013-1	To ensure all investment manager fees are correct, accounting should recalculate all investment manager fees and ensure this took place by having a supervisor review the work.	To address a similar recommendation in the prior year audit, LAFPP researched other pension systems' processes regarding recalculation and developed a Request for Proposal for recalculation of investment management fees.	Investments Division	IAS assisted Investments Division by coordinating a Request for Proposals for recalculations of investment manager fees. R.V. Kuhns (RVK) was hired and is currently recalculating a sample of investment manager fees. Based on RVK's findings, Investments Division will implement a process by which investment manager fees are recalculated.	In progress.
AC 2013-2	LAFPP should perform the reconciliation at least on a quarterly basis to decrease the risk for errors or irregularities that can be present in performing the expense recognition. We believe performing the reconciliation on a quarterly basis will also lead to efficient and more accurate preparation of the final trial balance. Any issues with the reconciliation would be recognized, reviewed, and addressed in a timely manner.	LAFPP agreed to the recommendation and indicated it would implement it this fiscal year.	Accounting Section	Since July 2103, LAFPP typically is performing the reconciliation and the expense recognition each on a monthly basis. Adjustments based on the reconciliations are being done on a quarterly basis.	Completed.



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## **REPORT TO THE AUDIT COMMITTEE**

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**JUNE 5, 2014**

**ITEM: 3**

**FROM: Raymond P. Ciranna, General Manager**

**SUBJECT: CITY MANAGEMENT AUDIT RECOMMENDATIONS ASSIGNED TO THE AUDIT COMMITTEE; AND POSSIBLE COMMITTEE ACTION**

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### **RECOMMENDATIONS**

That the Audit Committee:

1. Review the proposed status of the City Management Audit Recommendations assigned to the Audit Committee;
2. Recommend that the Board approve the status of the HEK Recommendations as indicated on Attachment 1 and direct staff to report back to the Audit Committee within 120 days with an updated status of the outstanding item listed in Attachment 1.

### **BACKGROUND**

On March 12, 2014, the City Controller's Office released the HewittEnnis Knupp (HEK) Management Audit Final Report of the Los Angeles Fire and Police Pension Fund (Audit). On April 3, 2014, the Board assigned implementation of HEK's recommendations to the Board, staff, or standing committees. The Audit included a total of 55 recommendations, of which four were referred to the Audit Committee.

### **DISCUSSION**

Staff recommends the Audit Committee review staff's proposed status and dispositions of the HEK recommendations assigned to the Committee. The four recommendations, each related to risk management, and the status for each, are described below. Staff input is included to provide clarification for the disposition of each HEK recommendation.

#### HEK Recommendation No. 30

LAFPP Management should consolidate the paper-based member files into a centralized filing room within the new LAFPP office space.

*Status:* Recommend No Action (see alternative implementation under Recommendation No. 31).

*Staff input:* At this time, LAFPP is not planning to consolidate on-site paper-based member files within the new LAFPP office space because the Department is currently converting paper-based member files into an electronic centralized filing system (2013-14 Strategic Plan – Document Imaging System Project). In this system, each member has his/her own electronic folder where all files will be stored. This reduces the need for paper-based documents and future storage requirements at the new office space, and increases efficiency in searching and retrieving documents while protecting members' personal information. Currently, staff are working to complete the back-file conversion of all on-site records and then the Department will begin the back-file conversion of all records stored in offsite facilities. See Recommendation No. 31 for more information regarding alternative implementation of a centralized filing system.

#### HEK Recommendation 31

LAFPP Management should organize paper-based member files so they include all of a member's information, correspondence, and transactions with LAFPP.

*Status:* Completed.

*Staff input:* LAFPP is currently organizing paper-based member files in Documentum, our electronic document imaging system. All important member information, correspondence and transactions are being included.

#### HEK Recommendation 33

LAFPP Management should examine what additional measures could be adopted to enhance physical security in the current office space.

*Status:* Completed.

*Staff input:* LAFPP has examined the following measures with the following results:

- Key cards for the 4<sup>th</sup> Floor – Management determined the cost of approximately \$26,000 was not prudent based on the short-term occupancy of the current building;
- Restrooms on the 4<sup>th</sup> and 6<sup>th</sup> Floors - LAFPP management had discussions to install key pad locks with the former property manager, but that was not completed prior to the recent sale of the current building;
- Tenant Improvements to the 6<sup>th</sup> Floor – LAFPP management considered security measures to the 6<sup>th</sup> floor but such measures would require substantial design and construction.

Management indicated it is focusing efforts and resources to enhance physical security at the new office space when LAFPP moves in April 2015.

#### HEK Recommendation 34

LAFPP Management should develop a comprehensive physical security plan for the new LAFPP office space.

*Status:* In progress.

*Staff input:* LAFPP is currently working with various consultants to incorporate a strong physical security plan at its new headquarters.

Upon review of the HEK recommendations described above, staff recommends the Audit Committee forward the status of the HEK recommendations to the full Board for approval.

IAS will continue to provide the Audit Committee periodic reports on the remaining HEK recommendation assigned to the Committee.

## **BUDGET**

There is no budget impact associated with this report.

This report was prepared by:

Caroline Dinu  
Senior Management Analyst II  
Internal Audit Section

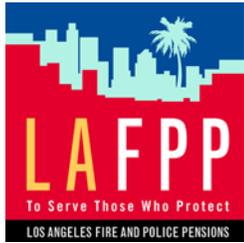
RPC:EJK:CD

Attachment:  
HEK Recommendation Status Log – Recommendations Assigned to Audit Committee

## HEK RECOMMENDATION STATUS LOG - RECOMMENDATIONS ASSIGNED TO AUDIT COMMITTEE

Rec. No.	LAFPP Status	HEK Recommendation	Page No.	Responsible Division	LAFPP Comments included in Mgmt	Current Status as of 6-5-14
30	4	LAFPP Management should consolidate the paper-based member files into a centralized filing room within the new LAFPP office space.	60	Admin Ops	<i>Staff will research the matter and bring a supported recommendation to the Board.</i>	At this time, LAFPP is not planning to consolidate on-site paper-based member files within the new LAFPP office space because the Department is currently converting paper-based member files into an electronic centralized filing system (2013-14 Strategic Plan – Document Imaging System Project). In this system, each member has his/her own electronic folder where all files will be stored. This reduces the need for paper-based documents and future storage requirements at the new office space, and increases efficiency in searching and retrieving documents while protecting members' personal information. Currently, staff are working to complete the back-file conversion of all on-site records and then the Department will begin the back-file conversion of all records stored in offsite facilities. See Recommendation No. 31 for more information regarding alternative implementation of a centralized filing system.
31	1	LAFPP Management should organize paper-based member files so they include all of a member's information, correspondence, and transactions with LAFPP.	60	Admin Ops	<i>Agreed. This will continue to be done on an ongoing basis in our document imaging system.</i>	LAFPP is currently organizing paper-based member files in Documentum, our electronic document imaging system. All important member information, correspondence and transactions are being included.
33	1	LAFPP Management should examine what additional measures could be adopted to enhance physical security in the current office space.	66	Admin Ops	<i>Agreed. LAFPP will explore what additional measures can be taken and perform a cost benefit analysis of those additional measures.</i>	LAFPP has examined the following measures with the following results: 1) Key cards for the 4th Floor: management determined the cost of approximately \$26,000 was not prudent based on the short-term occupancy of the current building. 2) Restrooms on the 4th and 6th Floors: LAFPP management had discussions to install keypad locks with the former property manager, but that was not completed prior to the recent sale of the current building. 3) Tenant improvements to the 6th Floor: LAFPP management considered security measures, but such measures would require substantial design and construction. Management efforts/resources directed to enhancing physical security at new office space for April 2015 relocation.
34	2	LAFPP Management should develop a comprehensive physical security plan for the new LAFPP office space.	66	Admin Ops	<i>Agreed. Management is already incorporating a comprehensive security plan into the design of the new office building.</i>	LAFPP is currently working with various consultants to incorporate a strong physical security plan at its new headquarters.

Status Legend:  
1 = Completed  
2 = In Progress  
3 = Implement at Later Date  
4 = Recommend No Action



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## **REPORT TO THE AUDIT COMMITTEE**

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**JUNE 5, 2014**

**ITEM: 4**

**FROM: Raymond P. Ciranna, General Manager**

**SUBJECT: REVIEW OF THE INTERNAL AUDIT CHARTER AND POSSIBLE COMMITTEE ACTION**

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### **RECOMMENDATION**

That the Audit Committee review the proposed updated Internal Audit Charter (IA Charter) and recommend it to the full Board for approval.

### **BACKGROUND**

Professional auditing standards require that the nature of internal audit services be defined in a charter. The updated IA Charter is intended to institutionalize the internal auditing function, reaffirm the principles that underpin the function, and define conditions for the effective and efficient delivery of internal audit services.

Section 6.7 of the Audit Committee Duties and Responsibilities requires the Audit Committee to “assist the Board in overseeing the internal controls and audit functions...” On July 21, 2011, the Board approved the IA Charter as recommended by the Audit Committee.

On July 18, 2013, the Board approved the Audit Committee’s recommended updated IA Charter, including a language change that the IA Charter be reviewed annually.

### **DISCUSSION**

Staff recommends four modifications to the IA Charter as follows:

One modification to correct a grammatical error (page 4, Section V, under “Organizational Placement”);

One modification to reflect City policy requirements to hire and fire the Departmental Audit Manager and to be consistent with Section 6.7.F of the Duties and Responsibilities-Audit Committee (page 5, Section V under “Organizational Placement”);

One modification to ensure timely communication of audit results in consideration of verbal comments received during the Association of Local Government Auditors’ recent peer review (page 6, Section VI, Item No. 8, under “Responsibilities and Accountability”); and,

One modification to clarify that the Departmental Audit Manager is responsible to coordinate and manage the external financial statements audit contract, and is not responsible to coordinate and manage external audit contracts for which management determines scope (page 7, Section VI, Item No. 18 under “Responsibilities and Accountability”).

**BUDGET**

There is no budget impact associated with this report.

This report was prepared by:

Erin J. Kenney  
Departmental Audit Manager

RPC:EJK

Attachments:

1. *Proposed Internal Audit Charter*
2. *Duties and Responsibilities-Audit Committee*

## INTERNAL AUDIT CHARTER

### INTRODUCTION

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

### PURPOSE

The main purposes of the Internal Audit Charter are to institutionalize the internal audit function for the Los Angeles Fire and Police Pension System (System), reaffirm the principles that underpin the function, and define the pertinent conditions for the effective and efficient delivery of internal audit services.

The mission of the Internal Audit Section is to provide independent, objective audit, reviewing, and consulting services. To this end, Internal Audit Section furnishes management with analysis, appraisals, recommendations, and information concerning activities reviewed. Internal audit objectives include promoting effective controls that are feasible. The Internal Audit Section carries out its responsibilities and activities in a manner consistent with the mission, goals, and objectives of the System. The Internal Audit Section:

- Provides quality independent internal auditing, reviewing, and consulting services for Executive Management and the Board;
- Performs independent assessments of the systems of risk management, internal controls, and operating efficiency, guided by professional standards;
- Supports the organization's efforts to achieve its mission, goals, and objectives through independent auditing, reviewing, and consulting services; and,
- Maintains a dynamic, team-oriented environment which encourages personal and professional growth, and challenges and rewards internal audit staff for reaching full potential and for excellence.

The internal audit function differs from external audit functions. Internal auditors are a part of the organization. External auditors are not part of the organization, but are engaged by it. The internal auditors' scope of work is comprehensive and concerned with all aspects of the organization – both financial and non-financial. Internal auditors focus on future events as a result of continuous review and evaluation of controls and processes. The primary mission of external auditors is to provide an independent

opinion on the organization's financial statements, and their approach is historical in nature.

The internal audit function also differs from that of the City Controller. Internal auditors are responsible to conduct work to support LAFPP's mission, goals, and objectives. The City Controller is the City's Chief Auditor and is responsible for financial and performance audits as related to the mission, goals, and objectives of the City of Los Angeles.

The internal audit function considers the work of the external auditors and that of the City Controller in the continuous review and evaluation of controls and processes.

## **I. PROFESSIONAL STANDARDS AND ETHICS**

All internal auditing activities are to be conducted in accordance with the System's objectives and policies. Additionally all activities are conducted pursuant to the *Professional Practices Framework of Internal Auditing* as promulgated by the Institute of Internal Auditors, and with *Government Auditing Standards* issued by the United States General Accountability Office. These standards require that ethical principles guide the work of Internal Audit Section. These ethical principles are integrity; objectivity; professional behavior; the interest of the fund, its members, and the public; and the proper use of information, resources, and position.

## **II. OBJECTIVES AND SCOPE**

### Auditing Services

The objectives of the Internal Audit Section's auditing services are to provide independent assurance to the Audit Committee, to the Board, and to Executive Management that the organization's assets are safeguarded, operating efficiency is enhanced, internal controls are operating as intended, risk is properly assessed, and compliance is maintained with prescribed laws, regulations, and Board and management policies. These objectives of auditing services include independent assessment of the organization's governance, risk management, and control processes. Auditing services are often also referred to as "assurance services."

### Consulting Services

The objectives of the Internal Audit Section's consulting services are to provide management with assessments and advice for improving the organization's governance, risk, and control without Internal Audit Section assuming management responsibility. In particular, consulting services may provide assessments and advice at the beginning of a project so that risks may be identified, managed, and internal controls may be designed adequately.

Consulting services differ from auditing (“assurance”) services in that Internal Audit Section may participate in management decisions regarding a particular program or function. When Internal Audit Section provides consulting services for a program or function, Internal Audit Section will not audit the program or function. This ensures Internal Audit Section maintains independence for its auditing services.

### Scope

The scope of work of the Internal Audit Section is to determine whether the organization’s network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure programs are operating efficiently, effectively, in accordance with standards and the law, and as management intended. The Internal Audit Section recognizes management’s commitment to continuous improvement and quality service, and therefore commits itself to these same goals.

Opportunities for improving member service, management of risks, internal control, governance, profitability, and the organization’s effectiveness and image may be identified during audits. This information will be communicated through the General Manager to the Audit Committee and to the Board.

### **III. AUTHORITY**

The internal control and audit function of this organization is established by Board policies and governance principles. The Audit Committee is responsible to assist the Board in overseeing the internal control and audit function. The Internal Audit Section was established by the Board to fulfill the internal control and audit function. This Charter is approved by and all future amendments to it are to be reviewed by the Audit Committee and approved by the Board. This Charter shall be reviewed annually and updated as required.

The Departmental Audit Manager is responsible for managing the Internal Audit Section and preparing an audit plan. The Audit Committee reviews and recommends approval of the audit plan annually to the Board. The Departmental Audit Manager shall periodically inform the Committee of the status of the audit plan and any changes needed. The Departmental Audit Manager is authorized to allocate internal audit resources, set project frequencies, select audit subjects, determine scopes of work, and apply the techniques necessary to accomplish the audit objectives. The Departmental Audit Manager is responsible to train and develop internal audit staff to achieve the objectives.

The Departmental Audit Manager and internal audit staff are not authorized to perform operational duties for the organization and/or its contractors. Internal Audit Section staff is not authorized to initiate or approve accounting transactions external to the Internal Audit Section. Internal Audit Section staff is not authorized to direct the activities of any organization employee not employed by the Internal Audit Section, except to the extent

such employees have been appropriately assigned to auditing teams or to assist the internal auditors.

Internal Audit Section staff is authorized to perform consulting services and is therefore not authorized to audit these activities. The Departmental Audit Manager works closely with the General Manager to determine the extent of these activities.

#### IV. ACCESS

The Departmental Audit Manager and designated audit staff, as appropriate, are granted authority for full, free, and unrestricted access to all of the organization's functions, records, files and information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the function, process or division under review. Contracts with vendors shall include the City's standard audit language enabling LAFPP's authorized auditors or representatives to have access to relevant records and information. Any exceptions shall be approved by the City Attorney. All LAFPP employees are required to assist the staff of Internal Audit Section as appropriate in fulfilling their duties.

The Departmental Audit Manager shall have open and direct communication with the Board. The Departmental Audit Manager shall also have free and unrestricted access to the General Manager, the other Executives, management and all personnel, contractors and vendors of the organization, and employers, members, retirees, and beneficiaries of the organization.

Documents and information given to the Internal Audit Section shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Departmental Audit Manager shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information.

#### V. INDEPENDENCE

##### Organizational Placement

To provide for the independence of the Internal Audit Section, its personnel report to the Departmental Audit Manager. The Departmental Audit Manager reports functionally to the Board and reports administratively to the General Manager. By reporting functionally to the Board, the Departmental Audit Manager is able to ensure objectivity in the planning and execution of internal audit work. Functionally, the Board is the governing body that sets the direction for the internal audit activity. As such, it supports internal audit's role by maintaining independence of internal audit, ensuring management cooperates with internal audit, and recognizing and promoting internal audit ~~and as a~~ value-added activity.

Comment [p1]: Correction of grammatical error.

By reporting administratively and directly to the General Manager, the Departmental Audit Manager is assured that the internal audit function is of sufficient stature within the

organization. Administratively, the General Manager is responsible for purposes of pay, performance, space, equipment, and related matters. The General Manager retains hiring and firing responsibility pursuant to City policies. The Audit Committee reviews the General Manager's reassignment or termination of the Departmental Audit Manager pursuant to the Audit Committee Duties and Responsibilities.

**Comment [p2]:** Modification for consistency with Section 6.7.F of the Duties and Responsibilities-Audit Committee.

#### Professional Standards Independence

The Audit Committee recognizes that professional independence requires that the auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the Departmental Audit Manager will report annually regarding internal audit personnel, including their qualifications, certifications, and development. The Departmental Audit Manager shall discuss standards of professional audit independence at least annually with the Audit Committee. The reporting relationships of the Departmental Audit Manager should be reviewed annually.

#### Potential Impairment of Independence

The Departmental Audit Manager should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the Audit Committee as necessary. If objectivity or independence is impaired in fact or appearance, the details of the impairment should be disclosed to the appropriate parties. The nature of the disclosure will depend on the impairment.

Internal Audit Section is required to assess threats to independence, evaluate the significance of threats, and apply safeguards as necessary to eliminate threats or reduce them to an acceptable level. Internal Audit Section should certify its threat assessment annually to the Audit Committee.

### **VI. RESPONSIBILITIES AND ACCOUNTABILITY**

The Departmental Audit Manager is responsible for the following in order to meet the purpose, objectives, and scope of this Charter and the Internal Audit Section:

1. Select, train, develop, and retain a competent internal audit staff who collectively have the abilities, knowledge, skills, experience, expertise and professional certifications necessary to accomplish the mission, objectives, and scope of this Charter subject to General Manager approval and budgetary considerations. Provide opportunity and support for staff obtaining professional training, professional examinations, and professional certifications.
2. Establish policies for conducting its activities and directing its technical and administrative functions according to the organization's policies and direction provided by the Board, and to professional internal auditing and government auditing standards and as approved by the General Manager.

3. Perform an annual risk-assessment. Develop and implement a flexible annual audit plan using an appropriate risk-based methodology, including any risks or concerns identified by management, and submit the annual audit plan to the Audit Committee for review. Performance of the audit plan will be periodically reviewed and reported to the Audit Committee. The audit plan may be updated if necessary.
4. Prepare a budget that is complementary to the implementation of the audit plan.
5. Perform independent analyses of significant operations to evaluate the adequacy and effectiveness of existing systems of internal control and the quality of performance (economy, efficiency, and effectiveness) in carrying out its business objectives. Implement the audit plan as approved, including as appropriate, any plan amendments, special tasks, or projects requested by management or the Board.
6. Coordinate with audit clients to finalize recommendations for improvement and identify implementation timelines. Internal audit staff shall consider costs and benefits while formulating and discussing their recommendations.
7. Assist management in the internal control assessment as required by City standards.
8. Transmit copies of all audit reports to the Audit Committee, Board, and/or General Manager to ensure timely communication of results. Should the General Manager disagree with the contents of any report, the report shall include the General Manager's position in the "Management's Response" section of the report. This process is intended to ensure independence and to alleviate any undue pressure that may be actual or perceived regarding the internal audit function.
9. Establish and maintain a follow-up system to monitor the disposition of results communicated to management and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. Issue periodic reports through the General Manager to the Audit Committee and management summarizing results of audit activities, and summarizing the status of follow-up activities. Any management letters should also be reported to the Audit Committee.
10. Select performance measures that reflect the above goals and implementation of the audit plan approved by the Board.

**Comment [p3]:** Addresses potentially untimely communication of results as noted verbally during the 2014 ALGA Peer Review.

11. Annually assess whether the purpose, authority, and responsibility as defined in this Charter continue to be adequate to enable the Internal Audit Section to accomplish its purpose, objectives, and scope. The result of this periodic assessment should be communicated in a report to the Audit Committee.
12. Attend all Audit Committee meetings, and ensure attendance of additional audit staff and attendance by auditees as appropriate.
13. Obtain a peer review by other auditors as required by professional standards, no less frequently than every three (3) years.
14. Assist in the investigation of significant suspected fraudulent activities within the organization and notify the General Manager, Audit Committee, -and/or other Executives, as appropriate, of the results in a timely manner.
15. Inform the Audit Committee of significant risk exposures and control issues including fraud risks, governance issues and other significant matters.
16. Consider the scope of work of the external auditors, the City Controller, City auditors, and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
17. As appropriate, provide consulting services to management that add value and improve the organization's governance, risk management, and control processes without assuming management responsibility. In doing so, Internal Audit Section must be mindful of its ability to remain independent and objective for future audits.
18. Lead in the selection of the external financial statements audit firms. Coordinate/manage the contract(s) with the any external financial statements audit firms and evaluate ~~their~~ its performance. Report to the Audit Committee on activities and associated cost of work performed by the external financial statements audit firms. The Departmental Audit Manager is not responsible to coordinate/manage contracts for which management determines scope.
19. Act as the primary point of contact for handling all matters related to audits, examinations, investigations or inquiries of the state auditor or other appropriate state or federal auditors. Participate in professional audit organizations by attending meetings, joining the governing boards, presenting speeches and papers, and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange best practices information. Participate in other professional organizations related to the mission of the organization. These

**Comment [p4]:** Clarifies the Departmental Audit Manager's responsibilities and provides safeguards against assumption of management functions

organizations may be involved in benefits, investments, accounting, or operations, for example.

## **VII. RELATIONSHIP TO THE RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS**

The Board has overall responsibility for ensuring that risks are managed. In practice, the Board delegates to management the operation and implementation of the risk management system. The Internal Audit Section's role is to provide an independent and objective assurance on the effectiveness of the risk management system

Management is responsible for implementing a system of internal control. The Internal Audit Section's role is to provide an independent and objective assurance that the internal control system is operating effectively.

Ultimately, it is the role of executive management and the Board to determine the role of internal audit in the risk management process.

## **VIII. PROCUREMENT OF EXPERTISE OUTSIDE OF THE INTERNAL AUDIT SECTION**

The Departmental Audit Manager may need to obtain expertise of persons outside of the Internal Audit Section. This expertise may be obtained within the organization through appropriate arrangements with management. When obtaining this expertise, care must be taken to avoid conflicts of interest that could damage the quality of the audit work performed and/or conclusions obtained.

Expertise may also be obtained from outside the organization. In such cases, the Departmental Audit Manager needs to obtain sufficient information regarding the scope of work of the external service provider to ensure the scope of work is adequate for the purposes of the internal audit activity. The Departmental Audit Manager must document the scope of work, professional standards to be used, deliverables, deadlines, and other matters in an engagement letter or contract. The Audit Committee should be informed about the use of an external service provider.

## Los Angeles Fire & Police Pension System

### 6.0 - DUTIES AND RESPONSIBILITIES - AUDIT COMMITTEE

#### PURPOSE

- 6.1 The Audit Committee will be comprised of four members, all of whom shall be appointed by the Board President. The Audit Committee must include at least one elected and one appointed Commissioner. The Committee Chair and Vice-Chair shall be elected by the committee members annually. (Revised 04/03/14)
- 6.2 The General Manager shall designate a staff member who shall provide administrative support to the Audit Committee and coordinate committee activities with the Committee Chair.

#### OPERATIONAL RULES

- 6.3 The Audit Committee will adhere to the following operational rules:
- A. The presence of a majority (three members) of the Audit Committee shall constitute a quorum.
  - B. All actions of the Audit Committee shall be by a vote of the majority of the Audit Committee, provided a quorum is present.
  - C. To be effective, any action of the Audit Committee shall be approved by the Board, unless otherwise provided herein.
  - D. The Audit Committee shall meet at least semi-annually, or as deemed necessary by the Audit Committee Chair.
  - E. The Audit Committee agenda will be set by the Chair of the Committee or the Board President and may only contain: items referred to the Committee by the Board, the Board President, or the General Manager; routine items addressed in these Duties and Responsibilities; or items pertaining to the operations or functions of the Committee as per 6.4 below.
- 6.4 Notwithstanding 6.3C above, in consultation with the Board President, the Audit Committee may take action with respect to its own calendars, schedules, and other operating practices, provided they are consistent with the City Charter, Administrative Code, and other applicable legislation (e.g. Brown Act).

#### RESPONSIBILITIES

- 6.5 The Audit Committee shall assist the Board in fulfilling its fiduciary oversight responsibilities in connection with the financial reporting, internal control, and audit functions of the System, including but not limited to those set out below.

#### *Financial Statements & Audits*

- 6.6 The Audit Committee will:
- A. Review the scope of the annual external financial audit and the general approach to be used in said audit on or about June of each year.

**Duties and Responsibilities-Audit Committee**

- B. Review the annual audited financial statements and any accompanying management letters submitted by the external financial auditor, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- C. Recommend the annual, audited financial statements to the Board for approval.
- D. Review any significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and any professional and regulatory pronouncements, and consider their impact on the financial statements.
- E. Review the findings and recommendations of the City's external auditor with management and the Internal Auditor.
- F. Review and approve the department's response to the City's external auditor with management and the Internal Auditor.

***Internal Controls & Internal Audit***

- 6.7 The Audit Committee will assist the Board in overseeing the internal control and audit functions by:
- A. Working with the Internal Auditor and management to establish the initial annual Internal Audit Plan and the risk assessment upon which it is based.
  - B. Reviewing all subsequent updates to the annual Internal Audit Plan.
  - C. Reviewing the manner in which, and the extent to which, external audit resources will be used to support internal resources in carrying out the Internal Audit Plan.
  - D. Reviewing all internal audit reports and recommendations, and management's responses thereto.
  - E. Reviewing with management and the Internal Auditor the duties of the Internal Audit Division, as well as the objectives, activities, staffing, budget, qualifications, organizational structure, and performance of the Internal Audit Division.
  - F. Reviewing any reassignment or termination of the Internal Auditor by the General Manager.
  - G. Reviewing any other significant personnel issues or problems concerning the Internal Auditor that the General Manager may raise. The Audit Committee expects that the General Manager will keep it apprised of such issues or problems, as they develop.
- 6.8 The Audit Committee shall periodically review compliance with policies and laws pertaining to conflicts of interest and ethics, and compliance with provisions of the City Charter and Administrative Code.

***Engagement of Service Providers***

- 6.9 The Audit Committee will:
- A. Oversee the search process for the external financial auditor and shall recommend a candidate(s) to the Board to be interviewed or appointed.
  - B. Periodically review the performance of the external financial auditor.

**Duties and Responsibilities-Audit Committee**

- C. Oversee the search process for other auditors or advisors undertaking audit-related activities for the System and, where necessary, recommend candidates to the Board to be interviewed or appointed.

***Independence***

- 6.10 The Audit Committee shall work to assure and maintain the independence of all internal and external audits by:
  - A. Reviewing the independence of the external financial auditor and any other audit firms that may be retained by the System.
  - B. Ensuring that internal and external auditors have access to all documents, information and systems in the organization necessary to carry out their duties or mandates.
  - C. Ensuring there are no unjustified restrictions or limitations placed on the Internal Auditor.

***Special Investigations & Whistleblower Mechanisms***

- 6.11 The Audit Committee will:
  - A. Recommend to the Board and oversee special investigations as needed.
  - B. Develop and recommend to the Board for approval an appropriate mechanism for any individual to provide, in a confidential manner, information concerning potentially fraudulent financial reporting or breaches of internal control to the audit committee or other appropriate party.

***Committee Reporting***

- 6.12 The Audit Committee shall:
  - A. Review all reports that the organization issues that relate to the responsibilities of the Audit Committee.
  - B. Regularly report to the Board on the activities of the Audit Committee at least once a year but no later than June 30<sup>th</sup> of each year beginning June 30, 2008. (Amended 09/19/13)
- 6.13 The Audit Committee shall perform any other activities related to these Duties and Responsibilities as requested by the Board.

**HISTORY**

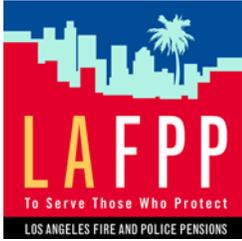
- 6.14 The Board adopted these Duties and Responsibilities on July 12, 2007; Revised 09/02/10 , 9/19/13, 04/03/14.

**REVIEW**

- 6.15 The Board shall review these Duties and Responsibilities at least every three years.

**Duties and Responsibilities-Audit Committee**

6.16 The Board shall next review these Duties and Responsibilities by April 2017.



# ***DEPARTMENT OF FIRE AND POLICE PENSIONS***

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## **REPORT TO THE AUDIT COMMITTEE**

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**JUNE 5, 2014**

**ITEM: 5**

**FROM: Raymond P. Ciranna, General Manager**

**SUBJECT: FOLLOW UP TO THE SUBSIDY PROGRAM AUDIT – HEALTH PLANS  
ADMINISTERED BY THE LOS ANGELES POLICE RELIEF ASSOCIATION AND  
POSSIBLE COMMITTEE ACTION**

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### **RECOMMENDATION**

That the Audit Committee:

1. Review the Follow Up to the Subsidy Program Audit – Health Plans Administered by the Los Angeles Police Relief Association; and,
2. Recommend it be communicated to the full Board to be reviewed, received, and filed.

### **BACKGROUND**

At the February 6, 2014 Board meeting, the Board reviewed, received and filed the Follow Up to the Subsidy Program Audit – Health Plans Administered by the Los Angeles Police Relief Association (LAPRA). Internal Audit Section reported on the implementation status of six recommendations. Three recommendations were implemented and completed while the remaining three were pending further staff review. This report provides an update on the three pending recommendations.

### **DISCUSSION**

Two of the pending recommendations were implemented by Board action relating to the dependent subsidy formula and by new procedures to communicate possible ineligible dependents to LAPRA. Medical & Dental Section is attempting to implement the last pending recommendation to formalize dependent eligibility verification roles and responsibilities in the Operations Agreement. Negotiations for the successor Operations Agreement will begin in early June 2014 and anticipated to be completed by September 1, 2014.

The Recommendations Status Log attachment details the status, actions taken and revised completion dates, as applicable, for each recommendation. The highlighted recommendations indicate those that were pending on the February 6, 2014 Board Report.

### **BUDGET**

No impact at this time.

This report was prepared by:

James Yeung, Internal Auditor IV  
Internal Audit Section

RPC: EJK:JY

*Attachment - Recommendations Status Log - Subsidy Program Audit – Health Plans Administered  
by the Los Angeles Police Relief Association*

**SUBSIDY PROGRAM AUDIT – HEALTH PLANS ADMINISTERED BY THE LOS ANGELES POLICE RELIEF ASSOCIATION  
RECOMMENDATIONS STATUS LOG**

Recom. No.	Recommendation	Original Implementation Date	Responsible Section	Comments	Status/New Implementation Date
1.	LAFPP update and approve Board Resolution 9320 to reflect Medicare changes that introduced Part D.	12/31/2013	Medical & Dental	The language for the dependent subsidy formula was updated to reflect Medicare the Part B & D rate and approved by the Board as part of the annual health subsidy increase resolution on April 17, 2014.  <u>Status on February 6, 2014</u> The language for the dependent subsidy formula is annually re-adopted as part of the annual health subsidy increase resolution. The dependent subsidy formula language will be updated to reflect the Part B & D rate in the next subsidy resolution due to be approved May/June 2014 for the new maximum retiree health subsidy effective July 2014.	Completed.
2a./2b.	Medical and Dental Benefits Section a) report monthly approved subsidy changes, including retroactive adjustments, to Accounting Section and b) track adjustments made directly to BPP and provide Accounting Section with an approved adjustment report.	7/31/2013	Medical & Dental	Medical and Dental prepared a monthly reconciliation packet for Accounting Section for the November 30, 2013 pension roll. The packet reconciled health and dental subsidy, Medicare reimbursement and health insurance reimbursement payments and will be prepared monthly going forward.	Completed.
3.	Medical and Dental Benefits, Accounting, and Administrative Services Sections collaboratively develop billing and cash handling procedures to ensure all invoices are tracked, collected, and deposited.	7/1/2013	Medical & Dental, Accounting & Administrative Services	Medical and Dental assigns invoice numbers to all bills sent to the associations as of June 30, 2013. Administrative Services issued new check receipt and handling procedures effective on 11/19/13.	Completed.
4.	LAFPP establish policies for dependent eligibility verification. These policies ideally should be developed in conjunction with LAPRA and consider LAPRA's dependent eligibility verification policies to minimize redundancy	12/31/2013	Medical & Dental	Medical & Dental will seek to formalize dependent eligibility verification roles and responsibilities in the Operations Agreements whereby LAPRA shall be responsible for dependent eligibility verification. The current Operations Agreement expires on June 30, 2014 and negotiations for a successor agreement will begin in early June 2014  <u>Status on February 6, 2014</u> Medical & Dental will obtain and review LAPRA's dependent eligibility verification policy. Based on a review of these policies, LAFPP may adopt one of the following approaches: 1) Fully delegate dependent eligibility verification to LAPRA 2) Periodically request members to self-certify their coverage levels and covered dependents.	Pending/September 1, 2014
5.	MDB and RSS collaboratively develop policies in conjunction with LAPRA to share member QDRO information.	12/31/2013	Medical & Dental	Medical & Dental developed procedures to query for finalized QDROs and to communicate the results to LAPRA.  <u>Status on February 6, 2014</u> LAFPP will contact LAPRA to determine if existing reports published by LAFPP would meet LAPRA's needs. LAFPP will also consult with City Attorney's Office to determine if legal issues exist with sharing QDRO information.	Completed.
6	MDB and Accounting Sections collaboratively develop policies to effectively and expeditiously recover subsidy payments made on behalf of deceased members.	2a/06	Medical & Dental	Medical & Dental issued draft procedures on 12/30/13 to collect excess insurance payments made on behalf of deceased members that have not been repaid to LAFPP 6 months after the members' death. Billings for excess insurance payments in accordance with new procedures are underway.	Completed.