

AUDIT COMMITTEE

AGENDA

Board of Fire and Police Pension Commissioners

Ruben Navarro, Vice Chair
George Aliano
Brian Pendleton
Corinne Tapia

January 21, 2016
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 2nd Street, 4th Floor, Los Angeles, California 90012, or by clicking on LAFPP's website at 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 rhonda.ketay@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 COMMITTEE CHAIR AND POSSIBLE COMMITTEE ACTION
2. [CONTRIBUTIONS PROCESSES AUDIT AND POSSIBLE COMMITTEE ACTION](#)
3. [COMMITTEE REVIEW OF STATUS UPDATE TO 2015 ANNUAL AUDIT PLAN AND FORECAST AND PROPOSED 2016 ANNUAL AUDIT PLAN AND FORECAST AND POSSIBLE COMMITTEE ACTION](#)
4. GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION

SPECIAL MEETING

AGENDA

Board of Fire and Police Pension Commissioners

January 21, 2016

8:30 a.m.

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Los Angeles, CA 90012**

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- 2. CONTRIBUTIONS PROCESSES AUDIT AND POSSIBLE COMMITTEE ACTION**
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- 4. GENERAL PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION**



DEPARTMENT OF FIRE AND POLICE PENSIONS

360 East Second Street, Suite 400
Los Angeles, CA 90012
(213) 978-4545

REPORT TO THE AUDIT COMMITTEE

DATE: JANUARY 21, 2016

ITEM: 2

FROM: RAYMOND P. CIRANNA, GENERAL MANAGER

SUBJECT: CONTRIBUTIONS PROCESSES AUDIT; AND POSSIBLE COMMITTEE ACTION

RECOMMENDATIONS

That the Audit Committee:

1. Review the Contributions Processes Audit; and,
2. Recommend that it be communicated to the Board to be reviewed, received, and filed.

DISCUSSION

Internal Audit Section (IAS) conducted the Contributions Processes Audit in accordance with the calendar year 2015 Annual Audit Plan and Forecast. The overall objective was to evaluate the accuracy of member contributions received and administered by LAFPP. The specific objectives examined were to determine whether 1) member contribution amounts received by LAFPP were in accordance with authoritative documents 2) member accounts accurately reflected contribution deductions 3) service credit purchases were in accordance with authoritative documents, and 4) contributions were refunded in accordance with authoritative documents.

IAS concluded that member contribution amounts received by LAFPP were accurate and that these contributions were accurately administered. Member contributions received by LAFPP were accurately calculated in accordance with authoritative documents and operating procedures. LAFPP accurately recorded contributions in member accounts, and generally administered service credit purchases in accordance with authoritative documents and in consideration of limitations with OnPoint, LAFPP's current pension administration system. Contributions were refunded in accordance with authoritative documents.

IAS made two recommendations, and LAFPP management indicated general agreement with the audit results and conclusions.

BUDGET

There is no budget impact associated with this report.

POLICY

There is no policy impact associated with this report.

This report was prepared by:
James Yeung
Internal Auditor IV
Internal Audit Section

RPC:EJK:JY

Attachment: Contributions Processes Audit



LOS ANGELES FIRE AND POLICE PENSIONS

To Serve Those Who Protect

"Our mission is to advance the health and retirement security of those who dedicate their careers and risk their lives to protect the people of Los Angeles."

CONTRIBUTIONS PROCESSES

AUDIT

(IAS No. 15-04)

December 2015

Internal Audit Section

CONTRIBUTIONS PROCESSES AUDIT
December 2015
(IAS No. 15-04)

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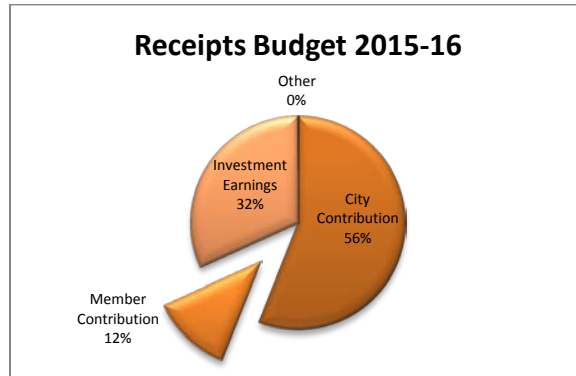
CONTRIBUTIONS PROCESSES AUDIT
December 2015
(IAS No. 15-04)

INTRODUCTION

Pursuant to Internal Audit Section’s (IAS) calendar year 2015 Annual Audit Plan and Forecast, IAS conducted the Contributions Processes Audit.

The Los Angeles Fire and Police Pension (LAFPP) plan provides pension and retiree health benefits to sworn members of the City of Los Angeles’ (City) Fire, Police, and Harbor Departments. The plan’s retirement and health benefits are funded primarily by member contributions, investment earnings, and City contributions. Budgeted receipts for fiscal year 2015-16 are as follows:

Receipt	Budget 2015-16
City Contribution	\$627,088,183
Member Contribution	\$136,835,823
Investment Earnings	\$355,440,000
Other	\$1,000,000
TOTAL	\$1,120,364,006



This audit focused on member contributions, including receipts, refunds, and contributions received for service year purchases.

This performance audit was conducted in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

Contributions Processes Audit
(IAS No. 15-04)

audit objectives. IAS has determined that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

IAS thanks the staffs of Active Member Services section (AMS) and Pensions Division for their cooperation and assistance throughout the course of this audit.

Prior Audits

The City Controller's Office conducted the Audit of the City of Los Angeles' Pension Contributions in March 2014. One of this audit's objectives was to determine whether the City and employee contributions to LAFPP were made in accordance with established laws, regulations, policies, City ordinances, Memoranda of Understanding (MOUs), and actuary reports. The period evaluated was the three years ended June 2010 through June 2012. Salient results of this audit are discussed below.

The annual City contribution amount is calculated by applying actuarially determined contribution rates to the budgeted payroll. The audit found these contribution rates along with other key actuarial values used in computing the City's annual contribution to LAFPP were reasonable and adequately supported. Further, the audit found the qualification and reputation of the actuary to be satisfactory and the methods and actuarial models it employed were reasonable and consistent with applicable standards.

In relation to member contributions, the audit concluded amounts were in compliance with required contribution rates specified by the City Charter, Administrative Code, and MOUs.

Audit Objectives, Scope, and Methodology

The overall objective of the audit was to evaluate the accuracy of member contributions received and administered by LAFPP. IAS examined the following objectives to determine whether:

Objective No. 1– Member contribution amounts received by LAFPP were in accordance with authoritative documents

Objective No. 2 – Member accounts accurately reflected contribution deductions

Objective No. 3 – Service credit purchases were in accordance with authoritative documents

Objective No. 4 – Contributions were refunded in accordance with authoritative documents

The scope of this audit was member contributions received in the payroll period ending July 25, 2015 for Objective Nos. 1 and 2; and year-to-date September 30, 2015 refund and service credit purchase activities for Objective Nos. 3 and 4.

SUMMARY AUDIT RESULTS

1. Member contribution amounts received by LAFPP were in accordance with the City Charter, Administrative Code, and Memoranda of Understanding. Member contribution amounts were generally calculated accurately based on the correct pensionable pay and contribution rates as specified by these authoritative documents.
2. Member accounts were accurately updated to reflect the contributions made.
3. Service credit purchases were generally processed in accordance with the City Charter, Administrative Code, and departmental policies. The interest accrual period on purchases, however, deviated from Board policies that resulted in minor under-billing of interest.
4. Contribution refunds were generally processed in accordance with the City Charter, Administrative Code, and departmental policies; however, LAFPP incurred additional interest costs due to an erroneous understanding of disbursement requirements for public service purchase refunds. Additionally, a former member was under-refunded by \$248. The under-refunding issue appears isolated to transferees from the City's civilian retirement system, and management is currently working to resolve the matter.

MANAGEMENT RESPONSE

Management expressed general agreement with the results and conclusions of the audit. Management responses are attached in the Appendix.

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DETAILED AUDIT PROCEDURES, FINDINGS, AND RECOMMENDATIONS

Objective No. 1 – Member Contribution Amounts Received by LAFPP were in Accordance with Authoritative Documents

Background

The LAFPP plan has six tiers and member contribution rates for each of these tiers are summarized below. Indicated parenthetically is the number of plan membership years after which contributions from the member are no longer required.

Tier 1 – 6% of salary. (30 years as plan member)¹

Tier 2 – 7% of salary. (30 years as plan member)²

Tier 3 – 8% of salary. (30 years as plan member)³

Tier 4 – 8% of salary. (30 years as plan member)⁴

Tier 5 – 9% of salary. Note: The member contributes 8% if pension benefits are 100% or more actuarially funded, and the City contributes the remaining 1%. (33 years as plan member)⁵

Tier 6 – total 11% of salary consisting of 9% of salary for pension benefits plus 2% of salary for retiree health benefits. (No further contribution for pension and health benefits after 33 and 25 years, respectively, as plan member)⁶

For contribution calculation purposes, salary is defined as “the elements of the member’s compensation which would be included in computing Final Average Salary” for the pension benefit calculation. Final Average Salary is defined as “the monthly average salary actually received during any consecutive months of service, including length of service pay, special pay, assignment pay, and hazard pay.” These contribution calculation definitions are summarized in the formulas below and were used to recalculate contribution amounts.

Contribution = Pensionable pay multiplied by contribution rate

Pensionable Pay = Base salary actually earned plus pensionable bonuses

¹ Charter Section 1324 (a)(b).

² Pursuant to Charter Section 1420 (a)(b), contribution rate is 6% plus half the cost of the cost of living benefits provided, not to exceed 1% of salary.

³ Charter Section 1514 (a)

⁴ Charter Section 1614 (a)

⁵ Administrative Code Section 4.2014 (a)

⁶ Charter Section 1714 (a)

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TABLE 1 on page 7 summarizes some of the key pensionable and non-pensionable bonuses. In addition to the regular contribution, some Tier 2-5 members voluntarily opted to pay an additional contribution of 2% of their base salaries for vested rights to health subsidy increases that otherwise would have been frozen at the rate in effect as of July 1, 2011 pursuant to Administrative Code Section 4.1166. Section 4.1167 allows members to voluntarily elect to make additional contributions at the rate of 2% of regular base salary in exchange for vested rights to health subsidy increases. This voluntary election is referred to as “opting-in.”

The City Controller’s Office is responsible for deducting contributions from the members’ payroll and transferring the deductions to LAFPP.

Audit Procedures

IAS randomly selected a sample of 65 member contribution deductions from the pay period ending July 25, 2015 payroll. The sample was stratified by tier.

For each selected contribution deduction, IAS performed the following:

1. Verified pensionable pay, including base salary and pensionable bonuses
2. Verified contribution rate for the member’s tier
3. Recalculated the member’s contribution based on the confirmed pensionable pay and contribution rate
4. If the member opted-in, recalculated the member’s 2% contribution amount
5. Traced the recomputed contribution and 2% opt-in deductions to the member’s account to ensure accurate recording

Test Results

Pensionable pay, consisting of base salary and pensionable bonuses, for each of the selected members was generally confirmed with the exception of certain bonuses in which the language of the MOU was ambiguous on pensionability as discussed below under “Observation.” Contribution amounts were recalculated without exception using the confirmed pensionable pay and contribution rate for each selected member. The 2% health subsidy contribution was also recalculated without exception for those selected members who had opted in. For Tier 6 members, the 2% health contribution is mandatory and is computed on pensionable pay rather than on the base salary for earlier tiers. The recomputed pension and health contribution amounts were agreed to the selected members’ accounts without exception.

Observation

The language of some MOUs is ambiguous on the pensionability of certain bonuses. The MOUs specifically documented most bonuses as either pensionable or non-pensionable. For example, MOU No. 24 specifically states that special pay for Senior Lead Officer is pensionable and detective incentive pay is non-pensionable. The MOU, however, is silent on the pensionability of other specified bonuses. See TABLE 1 on page 7. Moreover, the treatment of these bonuses as either pensionable or non-pensionable for contribution calculation purposes was inconsistent. In the sample, IAS found that the Peace Officer Standards and Training (POST) certificate and bilingual bonuses were treated as pensionable while marksmanship bonuses were not.

As MOU negotiations and withholding contributions are the responsibilities of other City departments, this observation is to note the potential impact to LAFPP. The ambiguity potentially affects whether the contributions received by LAFPP and pension benefit amounts, both of which are calculated based on pensionable pay, are computed as intended and agreed upon by the parties. LAFPP operating procedures require re-confirmation of pensionable pay for pension benefit calculation purposes when members retire or enter the Deferred Retirement Option Plan (DROP). LAFPP staff relies on a memo, entitled “Clarification of Definitions and Bonuses” issued by the City Administrative Officer on February 28, 2002 to the Controller’s Office, to confirm the pensionability of bonuses, including those noted above as being ambiguous. IAS determined that the pensionability of bonuses is consistent with the memo for purposes of computing pension benefits and contribution amounts.

LAFPP’s continued reliance on this memo, however, poses potential risk that may result in pension benefits not being administered as intended. To ensure that the parties’ interpretations and/or intentions of the pensionability of bonuses have not changed since the memo was written, updated documentation should be obtained. Furthermore, absent current documentation, historical knowledge of the 14-year old memo may be lost with staff turnover.

This section left blank intentionally.

TABLE 1 - KEY PENSIONABLE AND NON-PENSIONABLE BONUS INCENTIVES

	MOU No. 23 – Firefighters and Captain	MOU No. 24 - Police Officers, Lieutenant and Below	MOU No. 22 – Fire Chief Officers	MOU No. 25- Police Officers, Captain and Above
Pensionable	<ul style="list-style-type: none"> • Special Pay (e.g. Emergency Medical Technician, Language, Paramedic, K-9 Dog Specialist) • Hazard Pay (e.g. Hazardous Material, Urban Search and Rescue) • Longevity 	<ul style="list-style-type: none"> • Assignment Pay (e.g. Police Officer III, Sergeant II) • Special Pay (e.g. Senior Lead Officer, Assistant Squad Leader) • Hazard Pay (e.g. Two Wheel Motor Officer, Flight Tactical Officer) 		<ul style="list-style-type: none"> • Assignment to Higher Level Position
Non-Pensionable	<ul style="list-style-type: none"> • Special Duty Bonus (e.g. Incident Management Team) • Drill Tower Instructor • Hourly Assignment Pay (e.g. Swift Water Rescue) 	<ul style="list-style-type: none"> • Uniform Field Officer Incentive • Detective Incentive • Temporary Higher Level Position 	<ul style="list-style-type: none"> • Field Incident Management Team 	
Not Specified	<ul style="list-style-type: none"> • Education Incentive • Acting Pay Assignments 	<ul style="list-style-type: none"> • Marksmanship Bonus • POST Certificate Bonus • Bilingual Skills 	<ul style="list-style-type: none"> • Arson Section • EMT Certification 	

Objective No. 2 – Member Accounts Accurately Reflect Contribution Deductions

Member accounts were accurately updated to reflect contributions made. This objective was evaluated in testing for Objective No. 1 above.

Objective No. 3 – Service Credit Purchases were in Accordance with Authoritative Documents

Background

The Charter and Administrative Code permit members to purchase service credit for qualifying periods in which members did not make pension contributions. The four primary qualifying types of service credit purchases are: basic training, prior service time, worker compensation, and public service purchase (PSP).

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Basic Training

Persons may become plan members only upon graduation from basic training provided by the City of Los Angeles Police or Fire Academies. Service credit for the period of such basic training may be purchased by the person upon becoming a plan member. The purchase cost is the contribution that would have been made during the period being purchased. Pursuant to Sections 5.1 and 5.5(B) of the Board Operating Policies and Procedures (Board Policies), accrued interest on the accrued contribution balance is also charged unless the service credit is purchased within one year of becoming a plan member.

Prior Service Time

Former LAFPP members who were refunded their contributions and again become LAFPP members may purchase service credit for their prior service period. The purchase cost for prior service time is the total contribution and interest amount refunded to the member for the prior service time. Accrued interest on the purchase cost is also charged from the separation date to the purchase date.

Workers Compensation

Members who received workers compensation from the State of California may purchase service credit for such periods. The purchase cost is the contribution that would have been made during the period being purchased.

Compensation and service credit accrual for workers compensation status differs from injured on duty status and is discussed in Other Related Matters.

Public Service Purchase (PSP)

See discussion and testing of PSP in Objective No. 4 below.

Audit Procedures

IAS judgmentally selected six service credit purchases based on the number of service years purchased, purchase type, and member tier, and performed the following tests.

- Confirmed the contribution rate used to compute the purchase price
- Recalculated the cumulative bi-weekly contribution amount based on the confirmed contribution rate for basic training and workers compensation purchases. For prior service purchases, the previously refunded amount was confirmed
- Recalculated the cumulative interest on the confirmed contribution amounts
- Confirmed receipt of the confirmed total purchase cost

Contributions Processes Audit
(IAS No. 15-04)

Test Results

Five of the six selections were basic training service credit purchases made by members from various tiers, and the remaining selection was a prior service credit purchase.

The cumulative bi-weekly contribution amounts were recalculated without exception for each of the five basic training purchases and the previously refunded amount was confirmed for the prior service purchase. Interest on these confirmed amounts was recalculated; however, the interest accrual period differed from the Board policies as discussed below. Finally, receipt of the confirmed total purchase cost from each member was confirmed without exception.

Observations

Section 5.1 of the Board Policies states that individual member contribution accounts shall be credited interest for each 6 months ending June 30 and December 31 at the interest rate approved by the Board. Further, Section 5.5(B) states that "... no additional amount will be charged if the purchase agreement begins within one year of the member's eligibility to make the purchase. If the purchase is made after the one year eligibility date, an additional amount equivalent to the interest that would have been earned in accordance with Section 5.1 shall also be charged from one year following the eligibility date until the beginning date of the purchase agreement."

Each of the five basic training service credit purchases was made after the one year eligibility date. Interest for each of these purchases was accrued up to the last six months ended before the purchase agreement date rather than to the date of the purchase agreement as specified by the Board Policies. The total under accrued interest for these five purchases was \$140.

Furthermore, it was noted that the average number of days to receive payment after the contract date for these purchases was 54 days. The Board policy specifies that interest be charged up to the beginning date of the purchase agreement resulting in an interest-free grace payment period that cost the plan \$62 in lost interest for these purchases. AMS management is aware of these observations and cited limitations with OnPoint, LAFPP's current pension administration system. Management is reviewing the interest calculation capabilities of the new pension administration system, and is also considering recommending Board policies changes that eliminate the interest-free grace payment period from the contract date.

Objective No. 4 – Contributions were Refunded in Accordance with Authoritative Documents

Background

Contributions may be refunded to members who terminate before becoming eligible for a pension or deferred pension and do not qualify for disability retirement. Contributions may also be refunded for “true-ups” on advance purchases of service credit for prior public service. These two types of refunds are discussed below.

Regular Contributions

City Charter and Administrative Code requirements for refunds of regular contributions are as follows:

Tier 2 – No refund of contributions if member terminated prior to July 1, 1982.⁷ For members still employed as of July 1, 1982, all contributions made prior to July 1, 1982 shall be refunded plus 6% interest.⁸ Contributions made after July 1, 1982 shall be fully refunded plus interest deemed proper by the Board credited on the last day of June and December of each year after July 1, 1982.⁹

Tier 3 – Contribution refund (plus interest credited) in accordance with Charter Section 1514(b)

Tier 4 – No contribution refund in accordance with Charter Section 1614(d)

Tier 5 – Contribution refund (plus interest credited) in accordance with Administrative Code Section 4.2014(b)

Tier 6 – Contribution refund plus accrued interest in accordance with Charter Section 1714(e)

True-Up on Advance Purchases of Public Service Purchases (PSP)

Administrative Code Section 4.2212(a) allows for purchases of service credit of up to four years for prior public service employment with public entities such as the United States Government, Postal Service, any branch of the U.S. military, and state or local government. Such service credit may be purchased in advance of the member’s retirement or Deferred Retirement Option Plan (DROP) entry date, and is actuarially priced based on the member’s estimated pension base and estimated retirement or DROP entry date. When the member finalizes his/her retirement or DROP entry date, a true-up of the purchase cost is calculated based on the actual retirement or DROP entry date, actual pension base, and known eligible survivors. The differential between the true-up and advance purchase cost paid (plus assumed actuarial return) is either refunded to or paid by the member.

⁷ Charter Section 1420(e)

⁸ Charter Section 1420(f)(1)

⁹ Charter Section 1420(f)(2)

Audit Procedures

Regular Contributions

IAS randomly selected five regular contribution refunds from a list of refunds for calendar year-to-date September 2015. For each selected contribution refund, IAS performed the following tests to ensure the accuracy of the refund:

1. Verified the member's tier to determine refund eligibility
2. Confirmed the member's contribution account balance to payroll records
3. Confirmed interest rates used to credit interest to the member's contribution account were Board-approved
4. Recalculated the interest credited using the confirmed contribution amounts and interest rates
5. Agreed the total confirmed refund amount (the contribution amounts plus interest) to payment records to confirm the actual amount refunded to the member

Public Service Purchase

IAS selected two public service purchases and performed the following to verify the accuracy of the refund amounts:

1. Reviewed the actuarial true-up calculations and confirmed the following data inputs used in true-up calculation:
 - Advance purchase amount paid by the member
 - Actual pensionable base
 - Actual retirement or DROP entry date
2. Recomputed the actuarial return on the advance purchase amount using the assumed rate of return
3. Recomputed the refund amount by comparing the true-up cost to the advance purchase amount plus assumed actuarial return
4. Confirmed disbursement amount

Note: The procedures confirmed only key data inputs of the true-up calculation. Actuarial assumptions, methodologies, and cost calculations were outside the scope of this audit and were not reviewed.

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Test Results

All five contribution refunds reviewed were to refund-eligible Tier 5 members. The contribution amounts reported in the members' accounts agreed to supporting payroll records, with the exception of one discussed below. Interest credited to the member accounts was recalculated without exception at Board-approved interest rates. Finally, disbursed amounts agreed to the confirmed contributions and recalculated interest totals.

Observations

The payroll records for one former member reflected contribution deductions of \$248 that were not refunded to the member. According to AMS management, a retroactive contribution adjustment had been deducted from the payroll of certain former Los Angeles City Employees' Retirement System (LACERS) members after they transferred to LAFPP. The Controller's Office incorrectly coded these deductions to LACERS' rather than to LAFPP's account. IAS was unable to determine whether the amount has been transferred to LAFPP from LACERS. AMS staff is aware of this issue and is working to identify all affected members, confirm receipt of erroneously coded deductions, and update member contribution account balances.

For the two PSPs reviewed, the refund amounts were recalculated after confirmation of the data inputs for the true-up calculations, and recalculations of the actuarial returns on the advance purchase amounts. Both disbursed refund amounts, however, were each over \$4,000 more than the confirmed refund amounts due to an incorrect understanding of PSP refund requirements. Instead of being paid after the members entered DROP, the refunds were paid 2 and 3 years later when the members exited DROP resulting in the additional interest incurred by LAFPP. AMS management is aware of the issue and has directed staff to process PSP refunds after the members' DROP entry dates rather than their exit dates. Operating procedures reflecting this directive, however, have not been updated.

Recommendations

1. LAFPP should refund the former member all confirmed under-refunded contribution deductions.
2. Active Member Services should update its written procedures for handling of PSP refunds to avoid accruing unnecessary interest.

OTHER RELATED MATTER

Sick/Injured on Duty (SK/IOD) conversions, explained below, reduces the amount of member contributions received by LAFPP and were reviewed for risk assessment purposes relating to the SK/IOD Conversion Process Audit scheduled on the 2015 Annual Audit Plan and Forecast.

Contributions Processes Audit
 (IAS No. 15-04)

Administrative Code Section 4.177 states that any member of the Police or Fire Department temporarily disabled due to the performance of his or her duties shall receive temporary disability compensation, for up to one year, in an amount equal to his or her base salary, less the regular deduction for contributions. The work status for compensation granted under Section 4.177 is commonly known as injured on duty, or IOD. Section 4.177 comports with California Labor Code Section 4850 entitling public safety workers, including city police and fire personnel, a leave of absence not to exceed one year without loss of salary for injury or illness arising out of and in the course of his or her duties. After one year, the disabled member may receive disability or workers compensation granted by the State of California Labor Code.

To be eligible for IOD, leaves of absence due to injury must be approved by the employing agency as job related. Prior to such approval, members must use sick (SK) time, or vacation (VC) and overtime (OT) if SK time is unavailable. Contributions are deducted as normal for SK/VC/OT time (hereafter collectively referred to as “SK” only) and service credit is earned. When IOD status is approved for the injured employee, SK time previously taken is reversed and converted to IOD time whereby the SK pay and the deducted contributions are reversed, and the employee is paid IOD at the amount specified by Section 4.177. No pension contribution is deducted from IOD pay; however, the member earns service credit. This process is referred to as a SK/IOD conversion.

The table below summarizes the compensation, service credit accrual, and contribution requirement for each work status.

TABLE 1 - COMPENSATION, CREDIT ACCRUAL AND CONTRIBUTION BY WORK STATUS SUMMARY

Work Status	Compensation	Service Credit Earned	Contribution Deduction	LAFPP Receives Contribution
SK	Salary	Yes	Yes	Yes
IOD	Salary less Regular Contribution	Yes	No	No
Workers Compensation	State Specified Rate	No	No	No

It is important to note that net salary (not considering taxes and deductions for union dues, health premiums, and other deductions other than the pension contribution) received by the member for IOD and SK time is the same. It is the handling of the contribution amount that varies. For SK time, the member is paid the full salary from which the contribution is deducted and transferred to LAFPP by the City. For IOD, the City pays the member net of contribution. The City retains the contribution amount and no funds transfer to LAFPP. In a SK/IOD conversion, contributions related to converted SK time are transferred back to the City.

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The SK/IOD conversion was previously performed manually by LAFPP staff. Due to the manual nature of this process, the SK/IOD Conversion Process Audit was included in the 2015 Annual Audit Plan and Forecast. The Controller's Office automated the process in its PaySR payroll system whereby conversions are based by payroll input from the employing agencies. IAS reviewed five automated SK/IOD conversions whereby IAS confirmed the contribution rate and then recalculated the reversed SK pay and contribution amounts based on the inputted reversal hours. No exceptions were noted.

APPENDIX



Los Angeles
Fire & Police Pensions

INTER-OFFICE MEMORANDUM

DATE: January 11, 2016

TO: Erin Kenney, Departmental Audit Manager

FROM: Joseph Salazar, Assistant General Manager

SUBJECT: Management Responses to Contributions Processes Audit (IAS No. 15-04)

Our management responses to the audit results and recommendations from the Contributions Processes Audit are as follows:

Overall Audit Results

Pensions Division generally

Agrees Disagrees

with the audit results and conclusions.

Recommendations

Recommendation No. 1

LAFPP should refund the former member all confirmed under-refunded contribution deductions.

Agree Disagree Not Applicable

Response & Corrective Action Plan

AMS staff is currently working with the affected member and is in the process of refunding the under-refunded contribution deductions.

Implementation Date

AMS staff expects the refund to be processed and paid out in the next 4-6 weeks.

Responsible Manager

Greg Mack, Section Manager
Active Member Services

APPENDIX

Recommendation No. 2

Active Member Services should update its written procedures for handling of PSP refunds to avoid accruing unnecessary interest.

Agree Disagree Not Applicable

Response & Corrective Action Plan

AMS staff was aware of this issue and took the appropriate steps to correct it prior to the audit. Staff was following the guidance provided in an October 2010 memo from outside tax counsel that stated PSP refunds could not be processed until the member retired. In April of 2012, outside tax counsel revised that guidance and informed staff that PSP refunds could be processed while a member was in DROP if the purchase was made using funds from the City's Deferred Compensation plan and the funds were refunded to the City's Deferred Compensation plan.

Implementation Date

On January 11, 2016, Active Member Services revised its Public Service Purchase written procedures to include PSP refunds.

Responsible Manager

Greg Mack, Section Manager
Active Member Services

Observations

1. The language of some MOUs is ambiguous on the pensionability of certain bonuses.

Comments

Agree. Staff will consult with the CAO's office on this MOU issue and may request that an updated memo be provided to the Controller's Office and LAFPP citing the pensionability of all sworn employee bonuses.

2. Interest for service credit purchases was accrued up to the last six months ended before the purchase agreement date rather than to the date of the purchase agreement as specified by the Board Policies.

APPENDIX

Comments

Our Pension Administration System, OnPoint, was programmed to calculate interest only up to the preceding six month period (June or December). It uses the same programming not only for the purchase of service credit but also for posting of the contributions' semi-annual interest. OnPoint cannot calculate interest up to a projected date, i.e. date of purchase agreement. This issue has been addressed with Xerox and will be resolved in the new Pension Administration System.

3. Board policy specifies that interest be charged up to the beginning date of the purchase agreement, resulting in an interest-free grace payment period.

Comments

As mentioned above, due to OnPoint's limitation, the calculation of interest is only up to the preceding six month period (June or December). This issue was addressed and will be resolved in the new Pension Administration System.

Other Comments



DEPARTMENT OF FIRE AND POLICE PENSIONS

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REPORT TO THE AUDIT COMMITTEE

DATE: JANUARY 21, 2016 **ITEM:** 3

FROM: RAYMOND P. CIRANNA, GENERAL MANAGER

SUBJECT: COMMITTEE REVIEW OF STATUS UPDATE TO 2015 ANNUAL AUDIT PLAN AND FORECAST AND PROPOSED 2016 ANNUAL AUDIT PLAN AND FORECAST; AND POSSIBLE COMMITTEE ACTION

RECOMMENDATION

That the Audit Committee:

1. Review the status update to the 2015 Annual Audit Plan and Forecast (AAPF); and,
2. Review the proposed 2016 AAPF and recommend it to the full Board for approval.

BACKGROUND

Each year, Internal Audit Section (IAS) develops the Annual Audit Plan and Forecast (AAPF) to document the priorities of the internal audit activity as it relates to LAFPP's mission and goals; and this year, LAFPP published its Three-Year 2015-18 Strategic Plan further defining our mission and goals. The AAPF is derived from a formal risk assessment that includes input of the Board, management, and staff. The risk assessment is consistent with *The International Standards for the Professional Practice of Internal Auditing (ISPPIA)* that requires a risk-based, flexible annual audit plan.

Historically, IAS has developed aggressive AAPFs that prioritize several projects for the current calendar year, and that identify several projects for future calendar years. This approach is intended to capture information from year to year; and to ensure risk assessment information is communicated to the Board, management, our members, and stakeholders.

The AAPF is flexible to enable adjustments. Adjustments are made in response to changes in business, risk, operations, programs, systems, and controls in accordance with the *ISPPIA*. Due to the nature of IAS' work, internal resources, and the aggressiveness of the plan, target dates may be adjusted.

DISCUSSION

2015 AAPF Status Update

On February 2, 2015, the Board approved the 2015 AAPF (Attachment 1). Twenty-six projects were included, with fourteen projects scheduled for completion in 2015. Two additional projects (*RVK LAFPP Recalculation of Investment Management Fees*, and *Complete Implementation of GASB 67/68*) were added throughout the course of the year. The status of projects either scheduled for, or completed in, 2015 is reflected in Attachment 2 and as follows:

Project Type	No. Scheduled	S T A T U S			
		Completed	In Progress	Pending	Total
Audit	4	2	2	0	4
Monitoring Projects	5	4	0	1	5
Follow up projects	3	1	1	1	3
Special projects	2	2	0	0	2
Additional projects	0	2	0	0	2
	14	11	3	2	16

Projects that are not completed each year are reassessed for inclusion in the next year's AAPF.

Risk Assessment

LAFPP's Three-Year 2015-18 Strategic Plan served to refine the Mission Statement, and defines our Vision, Values, Strategic Goals, Objectives, and Strategic Initiatives. IAS designed the 2016 risk assessment to capture these Strategic Plan elements and to develop the framework for the 2016 AAPF. The risk assessment included surveys to Board members, executive management, and section managers; interviews with LAFPP personnel; consideration of our external financial statements audit and City Controller interim and final audit findings and recommendations; management actions; and, observations and analysis by IAS staff.

For 2016, the overriding risk factor is change to LAFPP's control environment as a result of our pending move. The risk is mitigated greatly by LAFPP's use of consultants and advisors, Board and management commitment, and dedication of staff to ensure seamless transition and continuous services and operational efficiencies.

Proposed 2016 AAPF

The proposed 2016 AAPF includes nine audits, five monitoring projects, five follow up projects, and three special projects. Two projects, *Physical Assets Verification Audit* and *Special Project 2 – Comprehensive Physical Security Review*, relate to changes associated with our pending move.

Audits related to network security and business continuity planning were reprioritized based on Systems Section plans in these areas after the pending move.

One audit scheduled for calendar year 2015, the *Audit of Contributions Processes*, is completed and awaiting Audit Committee and Board review. For this audit, IAS included limited testwork to address the *Audit of SICK/IOD Conversion Processes*. This inclusion was based on the direct relationship with contributions processes and lessened risks associated with the implementation of automation for SICK/IOD conversions.

Additionally, senior management is being provided with a series of management points. These management points resulted from the risk assessment analysis. Management points are being shared to highlight opportunities for improvements that 1) either are not addressed in the AAPF, or 2) can be addressed immediately by management.

IAS will continue to conduct annual risk assessments as the basis for future calendar year audit plans.

BUDGET

There is no additional impact to the budget. The budget includes contingencies for the external financial statements auditor request for proposals and for potential co-sourcing or outsourcing projects.

This report was prepared by:
Erin J. Kenney
Departmental Audit Manager
Internal Audit Section

RPC:EJK

Attachments: 1. *2015 Annual Audit Plan and Forecast*
2. *2015 Annual Audit Plan and Forecast Status Update*
3. *Proposed 2016 Annual Audit Plan and Forecast*

2015 ANNUAL AUDIT PLAN AND FORECAST

Los Angeles Fire & Police Pensions

prepared by Internal Audit Section

No.	AUDIT TITLE	TYPE	PRIORITY ASSESSMENT	TARGET DATE
1-2	Audits of FPP Subsidy Program re: each of the Associations - (2 audits: LAPPL, UFLAC) <i>Objective: Determine whether FPP monies are spent as intended to include review of eligibility, efficiency, effectiveness, and financial analysis</i>	Public Pension Fund Audit	High: based on lack of controls, and moderate financial and non-financial impact	UFLAC: March 2015 LAPPL: TBD 2015
3	Audit of Contributions Processes <i>Objective: Determine whether Department controls regarding employer and employee contributions, including lost service time contributions, are effective, efficient, and meet Department standards.</i>	Public Pension Fund Audit	Moderate: based on moderate controls, materiality of potential losses, and moderate impact on customer service and productivity	September 2015
4	Audit of SICK/IOD Conversion Process <i>Objective: Determine whether Department controls for SICK/IOD conversions are effective, efficient, and meet Department standards.</i>	Public Pension Fund Audit	Moderate: based on moderate controls, materiality of potential losses, and moderate impact on customer service and productivity	Dec 2015
5	Audit of Business Continuity/Disaster Recovery Plan <i>Objective: Assess the implementation of the Disaster Recovery/ Business Continuity plan.</i>	Business Continuity	Moderate: based on moderate controls and implementation of new policies and procedures. IAS to actively monitor (see monitoring function page 2).	2016
6	Audit of Investment Processes <i>Objective: Determine whether FPP investment processes are effective, efficient and meet Department standards and expectations.</i>	Investments	Moderate: based on strong controls, potentially moderate financial and non-financial impact	2016
7	IT Audit of Network Security <i>Objective: Determine whether FPP controls over network security are adequate, effective, and meet Department standards.</i>	IT*	Moderate: based on moderate controls, moderate financial and non-financial impact	2016
8	Audit of Tax-related Processes <i>Objective: Determine whether tax-related processes are effective, efficient and meet Department standards.</i>	Public Pension Fund Audit	Moderate: based on moderate controls, potentially moderate financial and non-financial impact	TBD
9 - 12	Subsidy Program Audits - 2nd round: LAFRA, LAPPL, LAPRA, UFLAC <i>Objective: Determine whether Subsidy Program is efficient, effective, and provides expected results.</i>	Public Pension Fund Audit	Moderate: based on moderate controls and implementation of new policies and procedures.	TBD
13	IT Audit of Documentation of Systems Development <i>Objective: Determine whether FPP documents its systems development.</i>	IT*	Low: based on moderate controls, moderate materiality of financial and non-financial impact, pending changes to policies and procedures	TBD
14	Physical Assets Verification Audit	Standard	Low: based on moderate controls, low materiality of potential losses	TBD

2015 ANNUAL AUDIT PLAN AND FORECAST

Los Angeles Fire & Police Pensions

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No.	AUDIT TITLE	TYPE	PRIORITY ASSESSMENT	TARGET DATE
<i>Objective: Determine whether controls regarding physical asset management are adequate.</i>				

Audits scheduled for calendar year 2015 are based on budgeted 3 full time equivalents.

* IT audits may be co-sourced or outsourced.

IAS MONITORING PROJECTS

No.	MONITORING PROJECT TITLE	TYPE	RESPONSIBILITY / AUTHORITY	TARGET DATE
M1-M4	Contractor Disclosure Policy: Quarterly reporting	Ethics	Board policy	Quarterly
M5	Business Continuity/Disaster Recovery Plan	Business Continuity	Management request	Ongoing

IAS FOLLOW UP AND SPECIAL PROJECTS

No.	FOLLOW UP / SPECIAL PROJECT TITLE	TYPE	RESPONSIBILITY / AUTHORITY	TARGET DATE
F1	Follow up to Subsidy Program Audit - LAFRA	Public Pension Fund Audit	Auditing standards	March 2015
F2	Follow up to Subsidy Program Audit - LAPRA	Public Pension Fund Audit	Auditing standards	April 2015
F3	Follow Up to City Management Audit/ HEK recommendations	Standard	Management request	September 2015
F4	Follow up to Member Benefits Payments Process Audit	Public Pension Fund Audit	Auditing standards	TBD
F5	Follow up to Systems Access Audit	IT	Auditing standards	TBD
SP1	Coordination of the City Controller's Internal Control Certification Program	Standard	Management request	January 2015
SP2	Sensitive Information Physical Security Review	Standard	Management request	March 2015

2015 ANNUAL AUDIT PLAN AND FORECAST STATUS UPDATE

**Los Angeles Fire & Police Pensions
prepared by Internal Audit Section**

No.	PROJECT	PROJECT TYPE	STATUS
1-2	Audits of FPP Subsidy Program re: each of the Associations - 4 audits total - two were completed previously (re: LAFRA and LAPRA)	Audit	Final 2 Audits (of 4 total) completed re: LAPPL and UFLAC
3	Contributions Processes Audit (renamed from "Audit of Contributions Processes")	Audit	In progress: on calendar to Audit Committee on 1-21-16
4	Audit of SICK/IOD Conversion Process	Audit	In progress: lowered risk based on automated processes. Testwork included in the Contributions Processes Audit on calendar to Audit Committee 1-21-16
M1-4	Contractor Disclosure Quarterly Reporting	Monitoring (M)	Completed quarterly (4 total)
M5	Business Continuity/Disaster Recovery Plan	Monitoring (M)	Pending
F1	Follow up to Subsidy Program Audit - LAFRA	Follow up (F)	Pending
F2	Follow up to Subsidy Program Audit - LAPRA	Follow up (F)	Completed
F3	Follow up to City Management Audit/HEK recommendations	Follow up (F)	In progress
SP1	Coordination of the City Controller's Internal Control Certification Program	Special Project (SP)	Completed
SP2	Sensitive Information Physical Security Reivew	Special Project (SP)	Completed
AP1	RVK LAFPP Recalculation of Investment Management Fees	Added Project (AP)	Completed
AP2	Complete Implementation of GASB 67/68	Added Project (AP)	Completed

PROPOSED 2016 ANNUAL AUDIT PLAN AND FORECAST

Los Angeles Fire & Police Pensions

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No.	AUDIT TITLE	TYPE	PRIORITY ASSESSMENT	TARGET DATE
1	Audit of Contributions Processes <i>Objective: Determine whether LAFPP controls regarding employer and employee contributions, including lost service time contributions and SICK/IOD conversions, are effective, efficient, and meet Department standards.</i>	Public Pension Fund Audit	Moderate: based on moderate controls, materiality of potential losses, and moderate impact on customer service and productivity	February 2016
2	Physical Assets Verification Audit <i>Objective: Determine whether controls regarding physical asset management are adequate and meet Department standards.</i>	Standard	Moderate: based on changes to control environment, impact to member and stakeholder services, productivity	December 2016
3	Audit of Investment Process (asset class process to be determined) <i>Objective: Determine whether investment processes are effective, efficient, and meet Department standards and expectations.</i>	Investments	Moderate: based on strong controls, potentially moderate financial and non-financial impact	2017
4	IT Audit of Network Security <i>Objective: Determine whether controls over network security are adequate, effective, and meet Department standards.</i>	IT*	Moderate: based on changes to control environment, moderate financial and non-financial impact	2017
5	Audit of Business Continuity/Disaster Recovery Plan <i>Objective: Assess the implementation of the Disaster Recovery/ Business Continuity plan.</i>	Business Continuity	Moderate: based on moderate controls and implementation of new policies and procedures. IAS to actively monitor (see monitoring function page 2).	2017
6-9	Subsidy Program Audits - 2nd round: LAFRA, LAPPL, LAPRA, UFLAC <i>Objective: Determine whether Subsidy Program is efficient, effective, and meets Department standards and expectations.</i>	Public Pension Fund Audit	Moderate: based on moderate controls, changes to control environment, and implementation of new policies and procedures.	TBD

Audits scheduled for calendar year 2016 are based on budgeted 3 full time equivalents.

* IT audits may be co-sourced or outsourced.

IAS MONITORING PROJECTS

No.	MONITORING PROJECT TITLE	TYPE	RESPONSIBILITY / AUTHORITY	TARGET DATE
M1-M4	Contractor Disclosure Policy: Quarterly reporting	Ethics	Board policy	Quarterly
M5	Business Continuity/Disaster Recovery Plan	Business Continuity	Management request	Ongoing

PROPOSED 2016 ANNUAL AUDIT PLAN AND FORECAST

Los Angeles Fire & Police Pensions

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IAS FOLLOW UP AND SPECIAL PROJECTS

No.	FOLLOW UP / SPECIAL PROJECT TITLE	TYPE	RESPONSIBILITY / AUTHORITY	TARGET
F1	Follow Up to City Management Audit/ HEK recommendations	Standard	Management request	August 2016
F2	Follow up to Subsidy Program Audit - LAFRA	Public Pension Fund Audit	Auditing standards	September 2016
F3	Follow up to Member Benefits Payments Process Audit	Public Pension Fund Audit	Auditing standards	TBD
F4	Follow up to Systems Access Audit	IT	Auditing standards	TBD
F5	Follow up to Travel Expenditures Audit	Standard	Auditing standards	TBD
SP1	External Financial Statements Auditor Project - Request for Proposals and selection process	Standard	January 7, 2016 Board approval / Audit Committee Duties and Responsibilities	April 2016
SP2	Comprehensive Physical Security Review Project	Standard	Risk Assessment	July 2016
SP3	Sensitive Information Physical Security Review	Standard	Management request	November 2016