



AGENDA

RETIREMENT BOARD
AUDIT COMMITTEE MEETING

August 24, 2016
1:00pm or
after the Retirement Board meeting adjourns

Retirement Board Conference Room
The Willows Office Park
1355 Willow Way, Suite 221
Concord, California

THE AUDIT COMMITTEE MAY DISCUSS AND TAKE ACTION ON THE FOLLOWING:

1. Accept comments from the public.
2. Approve minutes from the June 8, 2016 Audit Committee Meeting.
3. Internal Audit Function – Out Sourced Versus In Sourced – Guest Speakers
 - A. Corey Wells – Partner - Sunera – Out Sourced Internal Audit Services
 - B. Lyndon Coggin – Internal Auditor – ACERA – In Sourced Internal Audit
4. Presentation on Employer Contribution and Reporting Monitoring.
5. Consider and make possible recommendation to Board on the process to verify the living status of pension benefit recipients.
6. Presentation on Subledger Decommissioning Project Update.
7. Status Updates

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.



MINUTES

RETIREMENT BOARD AUDIT COMMITTEE MEETING MINUTES

REGULAR MEETING
June 8, 2016
1:30 p.m.

Retirement Board Conference Room
The Willows Office Park
1355 Willow Way, Suite 221
Concord, California

Present: Debora Allen, John Phillips, Todd Smithey and Belinda Zhu (Deputy Treasurer, present and voting in Russell Watt's absence)

Absent: None

Staff: Gail Strohl, Chief Executive Officer; Karen Levy, General Counsel; Wrally Dutkiewicz, Compliance Officer; and Henry Gudino, Accounting Manager

Outside Professional Support:	Representing:
Ashley Casey	Brown Armstrong (via conference call)
Rosalva Flores	Brown Armstrong (via conference call)

1. Accept comments from the public

No members of the public offered comment.

2. Approve minutes from the March 24, 2016 Audit Committee meeting

It was **M/S/C** to approve the minutes from the March 24, 2016 Audit Committee meeting. (Yes: Allen, Phillips, Smithey and Zhu)

3. 2015 Audit Presentation by Brown Armstrong, CCCERA External Auditor:

- **Exit Meeting Overview & Discussion Points**

1. Status of the Audit

- a. Flores reported on the status of the audit noting the audit is not yet complete but that they have sent draft reports to management for their review. She reported they had a conference call with management on May 23, 2016 to review the timeline noting they are still on track. They are working with management reviewing the draft CAFR.
- b. She reviewed potential recommendations that have been discussed verbally with staff including the travel policy related to out of state travel by staff. She noted the way they interpreted the policy was different from the way management interpreted the policy. She felt the policy may not be clear enough and caused the misinterpretation. They had a

discussion with management to possibly consider clarifying the policy. Management has taken this under advisement and may revise the policy after the audit is completed.

Other items discussed were the SOC report and reviewing the audited financial statements of CCCERA's investment managers to insure there aren't any internal control deficiencies or material weaknesses that could possibly affect CCCERA's investments. It was noted management has a procedure in place to review the SOC reports and audited financial statements, however, the SOC report is only reviewed when an investment manager is initially engaged and there isn't a procedure in place to review it thereafter. The auditors feel there should be a procedure in place to review these annually.

- c. Flores reported on the status of the audit working papers noting their review is substantially complete.
- d. Flores gave an update on GASB Statements No. 67 and No. 68 noting that as soon as they receive the experience report from the actuary they will complete their due diligence on the valuation report. Strohl noted they should have the GASB 67 information this week but the GASB 68 information won't be available until later in the year.
- e. Flores reported they have received the financial section of the CAFR and have already performed an initial review and have provided management with a draft report for their review.

2. Unresolved issues

Flores reported there are not any unresolved issues, just a few minor things going back and forth with staff.

3. GASB Statement No. 68 audit engagement letter

Flores reported on the GASB Statement No. 68 audit engagement letter noting they have the signed engagement letter.

Questions and Comments

The committee discussed past issues involving data from CPAS that was provided to the actuary. Flores stated CCCERA can engage the auditors to perform an Agreed Upon Procedures if CCCERA wants them to review a specific area. Dutkiewicz noted a targeted audit can also be done.

Strohl introduced Henry Gudino, CCCERA's new Accounting Manager; Becky Rodabaugh, Interim Accounting Manager; and Lori Epstein, Accountant, serving as Temporary Accounting Supervisor.

4. **Employer Contribution Monitoring:**

- **Overview of Current Policy**

Smithey reported this item was brought to the Audit Committee for discussion at the request of the full Board.

Dutkiewicz reported on Board Regulation Section IV, Item 2, Contributions and Reporting, Due Dates, noting the current policy states employers are to report payroll and submit member and employer contributions by the tenth of the month. It also states that reports and contributions received after the due date shall be considered late and subject to a penalty. He noted the policy hasn't been enforced over the years.

Dutkiewicz reported employers have been notified of the policy on three separate occasions. He stated we now have experience with employers going through the electronic file site. CCCERA may start enforcing the policy and will be prepare a communication to inform the employers.

- **Overview of Monitoring Procedures**

Dutkiewicz reviewed the background of the contribution payments of Rodeo-Hercules Fire Protection District. We have come up with a new reporting form for all employers that will be used to monitor contributions.

5. Overview of Subledger Decommissioning Project Plan

Dutkiewicz gave an update on the Subledger decommissioning project. He stated we have a timeline and are looking to have a draft decommissioning plan completed in October and an RFP for an external auditor to come in and vet our plan and look at how we look at the data, the data extracts, the methodology, and the procedures that we have that will transfer the data over.

Lu gave an update on meetings with DOIT in order to get all of the programming information from them. Dutkiewicz stated the data in Subledger is related to the employer contributions, employee contributions, service history, normal costs, beneficiary information, demographic history and compensation history. CPAS data contains benefit payments. Strohl noted we are currently uploading payroll data into CPAS.

6. Employer Audit – Health Services Scope – Testing Update

Dutkiewicz gave an update on the Health Services employer audit noting the desk work is completed. Dutkiewicz stated he is just looking at actives but he wants to look at the retirees.

Allen complimented Dutkiewicz and all of the others on all the work they have done on the audit.

Allen was no longer present for subsequent discussion and voting.

Dutkiewicz stated the next step is the official request for documents from the County.

7. Status Updates

Strohl reported at the next meeting we will have guest speakers talking about internal audits and internal auditor positions. Strohl asked the committee to let her know if there are any other topics or items they would like to discuss.

Dutkiewicz noted a tentative date for the next meeting is August 24, 2016 after the regular Board meeting.

It was **M/S/C** to adjourn the meeting. (Yes: Phillips, Smithey and Zhu)

Todd Smithey, Chairman

John Phillips, Secretary

CCCERA

Internal Audit Sourcing Discussion
August 2016



Introduction



Corey Wells, Partner

Corey is the Managing Partner of Sunera’s Western U.S. practice, which currently includes offices in Los Angeles, San Francisco, and Phoenix. Corey is also the National Practice Leader for Sunera’s Data Analytics Practice. Prior to relocating to the U.S., Corey founded and led Sunera’s Canadian practice. Corey is a trusted advisor to executive management teams and boards of over 50 clients representing a broad spectrum of industries and size. Corey is a Certified Internal Auditor (CIA), Chartered Financial Analyst (CFA) and is certified in Risk Management Assurance (CRMA) with over 17 years of experience in internal audit, risk management, strategic and business process improvement in both industry and professional services. His areas of expertise include corporate governance, internal audit, internal controls, risk management, strategic management, IT audit, regulatory compliance (SOX, data privacy, PCI, etc.), data analytics and business process re-engineering.

Over the past ten plus years with Sunera, Corey has advised many internal audit executives, CFOs, and audit committees on corporate governance, internal controls (i.e., SOX), risk management, and internal audit best practices. Corey presents regularly at industry events/conferences across North America and is widely viewed as a leading practitioner in the areas of internal audit and risk management.

Prior to joining Sunera, Corey was the Chief Audit Executive at WestJet Airlines, where he initiated, developed and led the Audit & Advisory Services Practice over a five-year period.

We are Sunera



Our sole focus is the customer. Our services protect your business from inefficiency and external threats, resulting in cost savings and the confidence that your business, customers, and reputation are secure.



Quality matters, and we built our reputation on it. That's why we only hire full-time employees with the best industry certifications.



Continuity is the key to all of our engagements. More than 96% of our employees say there are clear opportunities for advancement at Sunera. Our customers are happy because our employees are loyal and committed to their work.



Technology is at the core of everything we do. We supplement standard internal audit techniques with cutting-edge data analytics, allowing for a more efficient, accurate, and cost-effective audit process.

Audit & Technology Focus

IT AUDIT

Our professionals are always developing innovative ways to create secure and sustainable IT environments for our clients. We have the expertise to evaluate the infrastructure, security design, and controls of any technology platform and process.

DATA ANALYTICS

Sunera's data analytics experts provide you with all the tools needed to develop a tailored continuous controls monitoring program. Our popular analytics training courses are built to deliver immediate ROI for your internal audit function.

INFORMATION SECURITY

When it comes to keeping your data secure, Sunera's team is second to none. Every member of our information security team is a CISSP, and Sunera is a PCI Qualified Security Assessor and Approved Scanning Vendor.

DATA PRIVACY

Sunera's Data Privacy team brings together legal, compliance, IT, and audit expertise. Our professionals specialize in HIPAA compliance, privacy office services, cross-border data transfers, and corrective action plan audits.

ERP CONTROLS

Sunera has industry-leading SAP and Oracle experts with years of experience in ERP security, GRC, and controls. Our custom role designs and SoD audits make sure your ERP system is efficient, compliant, and secure.

Internal Audit Services

Internal Audit

- Outsourcing and Co-sourcing
- Enterprise Risk Assessment
- Audit Planning
- Operational and Business Process Audit
- Store, Branch, and Franchise Audit
- Contract Compliance Audit
- Fraud and Forensic Audit
- Quality/Peer Review

IT Audit

- IT Risk and Governance (CobiT) Review
- ERP Controls Optimization, Design, & Testing
- ERP Security and SoD Assessment
- ERP Pre- & Post-Integration Review
- SOX ITGCs and Application Controls Testing
- Information Security & Data Privacy Assessment
- Data Integrity Analysis

Continuous Monitoring

- Data Analytics
- Continuous Controls Auditing
- ACL and Arbutus
- ACL GRC
- SAP Direct Link
- SAP GRC Integration
- SAP Process Controls & SoD Rule Configuration

Benefits

- Enhance Internal Audit's profile and impact on the organization
- Increase audit efficiencies and risk coverage
- Overcome resource capacity and skills constraints

Who Outsources?

In short, most large companies outsource or co-source their Internal Audit function. The level of co-sourced support depends on a number of factors, including the size and complexity of the company and the existing Internal Audit capabilities.

Sunera, for example, provides co-sourced or outsourced Internal Audit support to the following organizations:

- Aerospace Corporation
- Beazer Homes
- Bed Bath and Beyond
- Burger King Corporation
- Cunningham Lindsey
- Darden Corporation
- Discover Financial Services
- Limelight Networks
- Masonite International
- OCERS
- Royal Caribbean Cruises
- Spirit Airlines
- Syniverse Technologies
- Western Alliance Bank

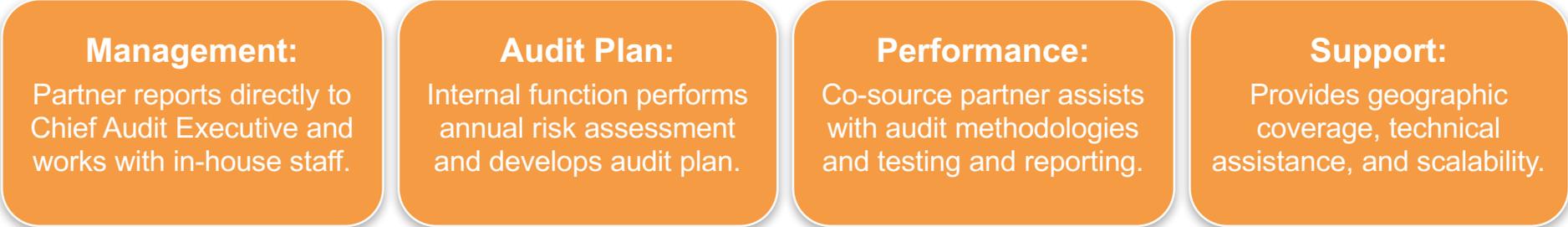


More than **80%** of companies use either an outsourced or co-sourced model.¹

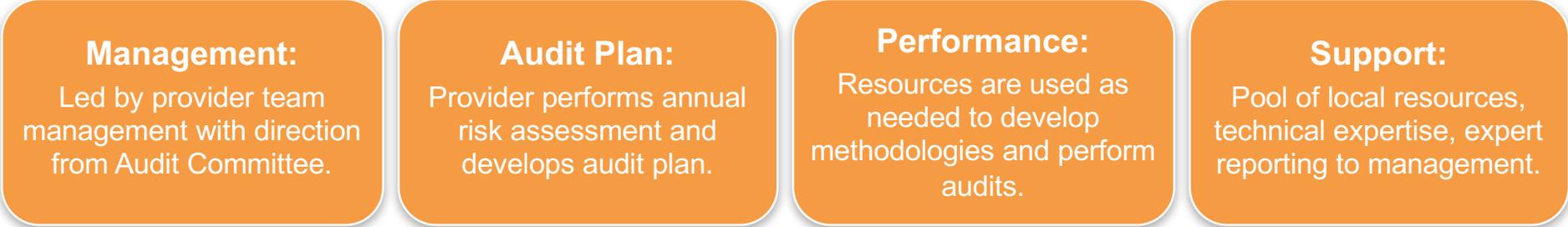
¹Forbes Insights. Global Internal Audit Survey, 2013.

Internal Audit Models

Co-Sourced IA Function – Staffed internally with support from co-sourced partner.



Outsourced IA Function – Staffed completely by an independent provider.



The Benefits of Sourcing

1. **Lower Costs** – Once the full costs of recruiting, training, benefits, overhead, and downtime between audits are realized, hourly rates for outsourced Internal Audit services are usually lower than the cost of an in-house IA department (especially for smaller audit shops).
2. **Superior Flexibility** – An outsourced or co-sourced provider offers flexibility around the number of resources assigned to your internal audit function, keeping you properly staffed during both peak and off-peak periods.
3. **Subject Matter Expertise** – Today's IA function is expected to be able to address risks covering a tremendously wide spectrum of operational, functional and compliance areas throughout an organization. A high-quality outsourced or co-sourced provider gives you on-demand access to professionals with niche expertise. Tapping into these resources is more cost effective than recruiting, training, and retaining these professionals full-time.
4. **Lower Third-Party Expenses** – Third-parties, especially external auditors, with an interest in the work and findings of the IA department, typically rely on outsourced IA functions more than in-house IA functions. This results in lower external auditor effort and expenses.

The Benefits of Sourcing

- 5. Core Competencies** – Only professional services companies have internal audit and other consulting services as a core competency. As a result, their investment in methodology, resources, technology, and service delivery is typically superior to most in-house audit functions.
- 6. Tried and True Methodologies** – By hiring an outsourced or co-sourced provider, you immediately gain access to methodologies that have taken years to develop and perfect in order to maintain a state-of-the art approach. These methodologies can be put to use right away, providing instant impact.
- 7. Geographic Presence** – In-house audit functions are typically located in a single office, although the in-scope locations may be coast-to-coast or even global. Outsourced providers can cover these locations more economically and bring local considerations to the project.
- 8. Independent Opinions** – Outsourced providers deliver objective oversight and recommendations directly to management without the inter-office politics that often hamper communication among in-house personnel.

The Benefits of Sourcing

9. **Retention of Talent** – Typically, internal auditors have limited career opportunities within internal audit departments. Service firms, however, offer virtually unlimited career advancement opportunities, ensuring top talent will be remain and succeed within the firm.
10. **Best Practices** – Professionals at service firms have the opportunity to work with many different organizations. Consequently, they learn what works, and that insight is incorporated into everything they do.
11. **Accountability** – Statements of work, which incorporate a fee estimate and timeline, are prepared by the service provider for each audit. This contractual commitment provides a much higher degree of visibility and accountability than is typically found with internal personnel. As a result, audits are commonly completed more efficiently than we typically see with in-house resources.

In-House Vs. Outsourced Model Example

The cost of an in-house IA department is driven up by a number of auxiliary factors.

With a full-time internal audit department, the total number of hours focused on internal audit projects is limited by various factors.

Internal Audit Department Costs for a Staff of 10	
Salaries & Benefits	\$ 1, 250,000
Add: Recruiting	60,000
Administrative Support	50,000
Technology/Licensing/ Training	30,000
Facilities	25,000
Travel	10,000
Total Costs	\$ 1,425,000

Internal Audit Department Hours for Staff of 10	
Annual Hours Available	20,000
Less: CAE Oversight	(2,000)
Vacation	(1,260)
Train/Supervise/Shadow/ Mentor	(1,440)
Admin	(1,800)
Unassigned Time	(2,700)
Sick/Personal	(720)
Travel	(100)
Fixed Hours Focused on Delivery	10,180
Cost per Hour	\$ 140

In-House Vs. Outsourced Model Example

With an outsourced model, you only pay for hours spent directly on your internal audit and consulting projects. With project-based pricing and a diminished reliance on internal staff, efficiencies are gained and net savings are much greater.

Cost Savings Using Outsourced Model			
Projects	#	Hours	Total Hours
Internal Audit Projects	10	350	3,500
SOX (Controls)	400	8	3,200
Project Oversight & Presentations			710
Total Internal Audit Effort			7,410
Hours Saved Using Sunera			(2,770)
Sunera Rate			\$140
Total Cost of Internal Audit Outsource			\$ 1,037,400
Cost of In-house Resources			\$ 1,425,000
Net Savings			\$ (387,600)

Potential Resourcing Strategies

1. **Full In-source** - Hire CAE and multiple staff to plan and execute audit activities (Largest investment required – usually very large audit departments - longest ramp up period)
2. **Full Outsource** - Provider reports directly to Audit Committee and conducts all aspects of Internal Audit function (most effective option for small audit shops - shortest ramp-up period)
3. **Traditional Co-Source** - Hire CAE and multiple staff and utilize co-source provider for technical expertise and peak seasons (most common model for larger IA departments – potentially long ramp up period)
4. **Hybrid** – Hire CAE and have co-source partner provide all staff for audit execution as a permanent model **OR** until department is large enough to hire internal resources and convert to traditional co-source model (ideal if desire is to have in-house department long-term but want to start immediately)

Sourcing with Sunera

Streamlined Audit Methodologies

Our methodologies have been honed over time and are designed to result in better risk management, more efficient processes, and cost savings across the organization.

Innovative Testing Model

Sunera uses its Audit and Control Center in Tampa, Fla., to assist with routine testing of financial and IT controls, which frees up more experienced and technical resources for higher-risk areas.

Access to Specialists

We provide immediate access to top internal audit, compliance, operational audit, IT audit, information security and data analytics experts. Our experts work to build best-in-class control environments that provide assurance to management that all key risks have been understood and sufficiently mitigated.

Data Analytics Expertise

We frequently deploy a team of data analytics experts to increase audit efficiency and establish sustainable analytics capabilities at our clients. This approach helps clients achieve year-over-year cost reductions by providing more efficient audit methods and greater risk coverage.

Contact

Corey Wells

Partner, West Coast & Data Analytics

cwells@sunera.com

602.540.6075

SAN FRANCISCO OFFICE

580 California Street

Suite 1201

San Francisco, CA 94104



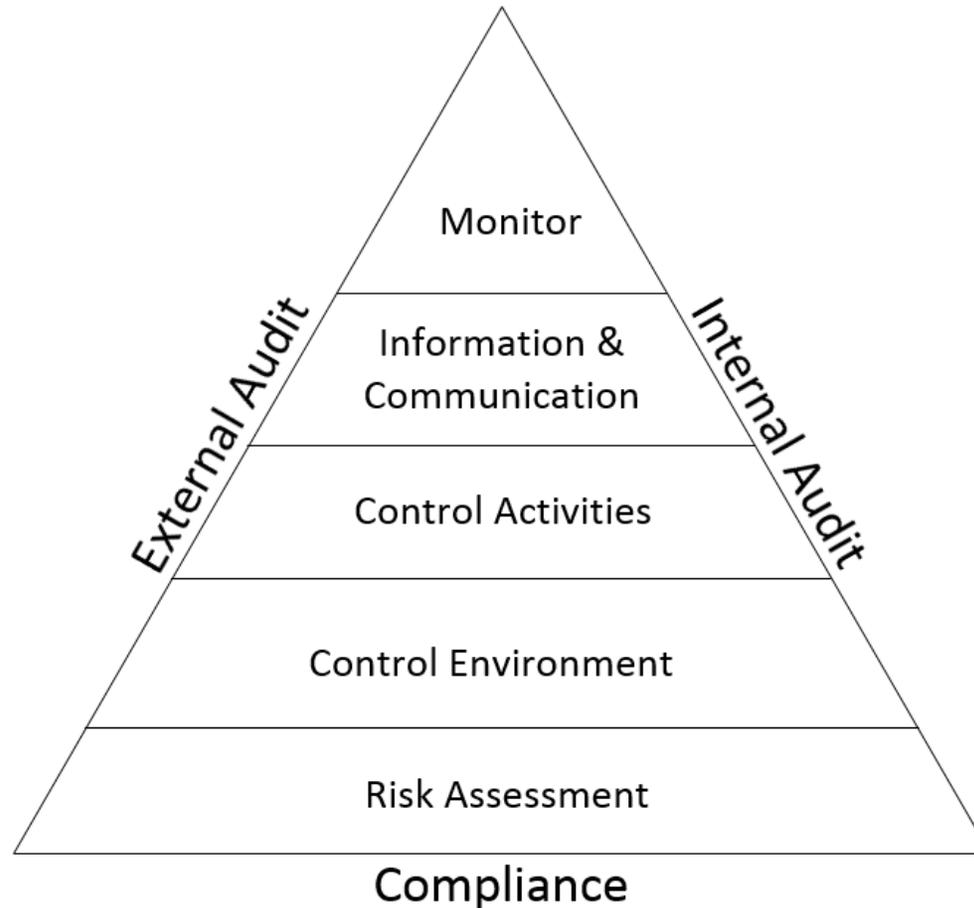
The ACERA Internal Audit Function

Lyndon Coggin, ACERA Internal Auditor

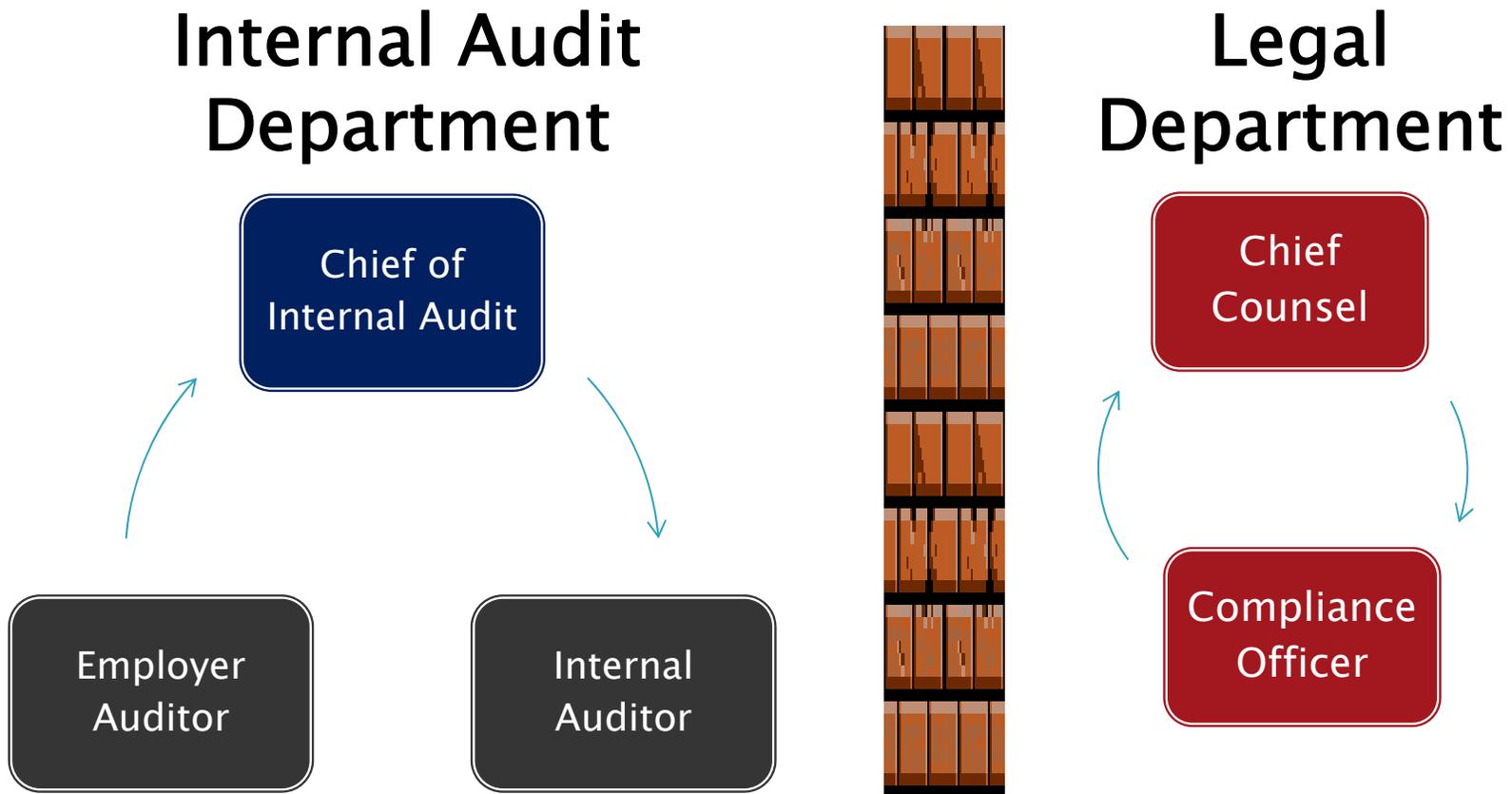
ACERA Internal Audit Department History



Three Lines of Defense



ACERA Audit and Compliance Structure



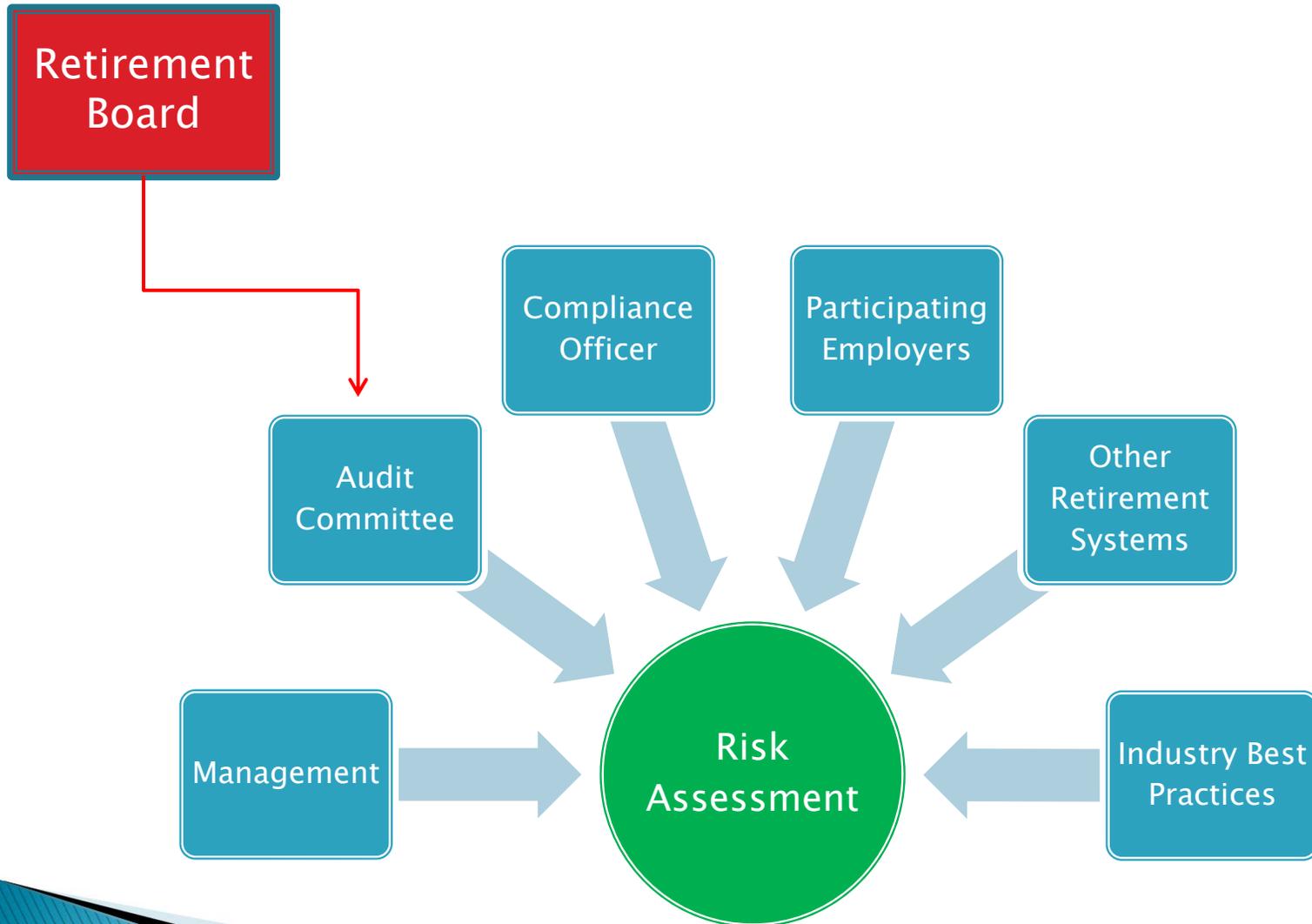
Audit and Compliance do not interface. Compliance role is oriented towards contract and policy compliance.

Assurance – Value Proposition 1

GOVERNANCE, RISK, AND CONTROL

- ▶ Internal Auditing provides assurance on the organization's governance, risk management, and control processes to help the organization achieve its strategic, operational, financial, and compliance objectives.

Input into the Risk Assessment Process

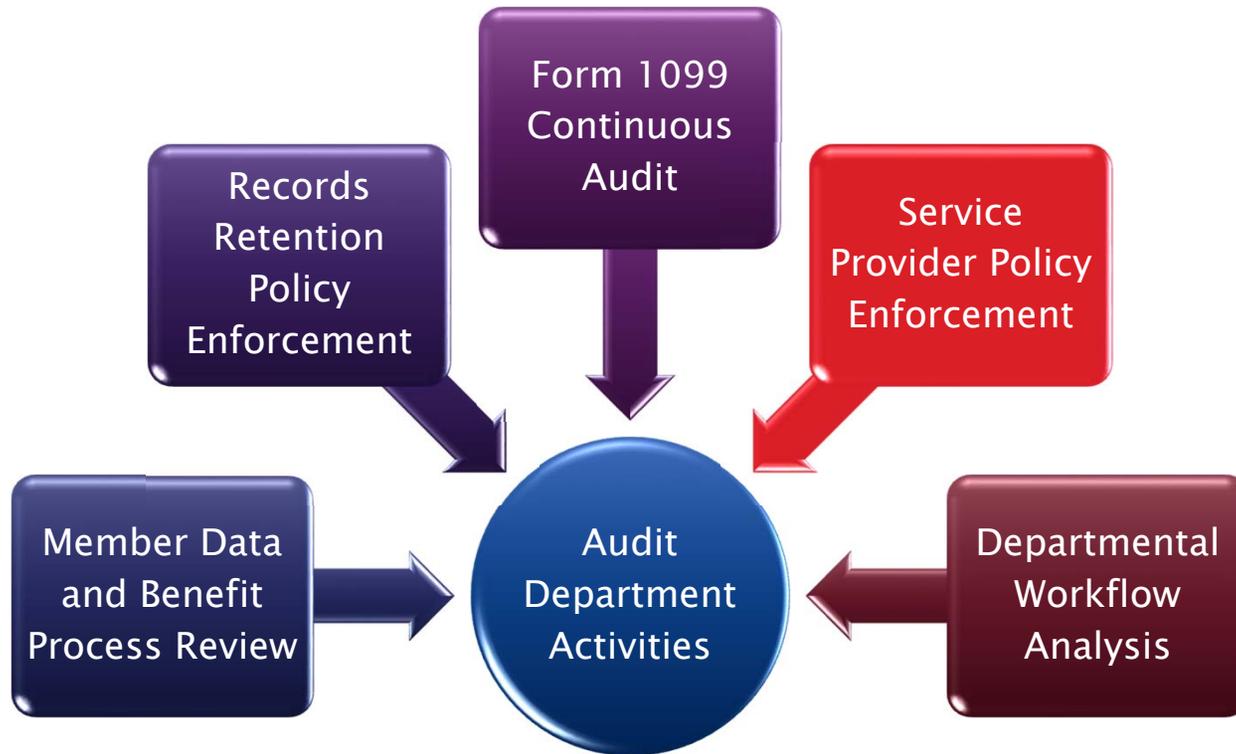


Insight – Value Proposition 2

CATALYST, ANALYSES, AND ASSESSMENTS

- ▶ Internal Auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.

ACERA Special Projects

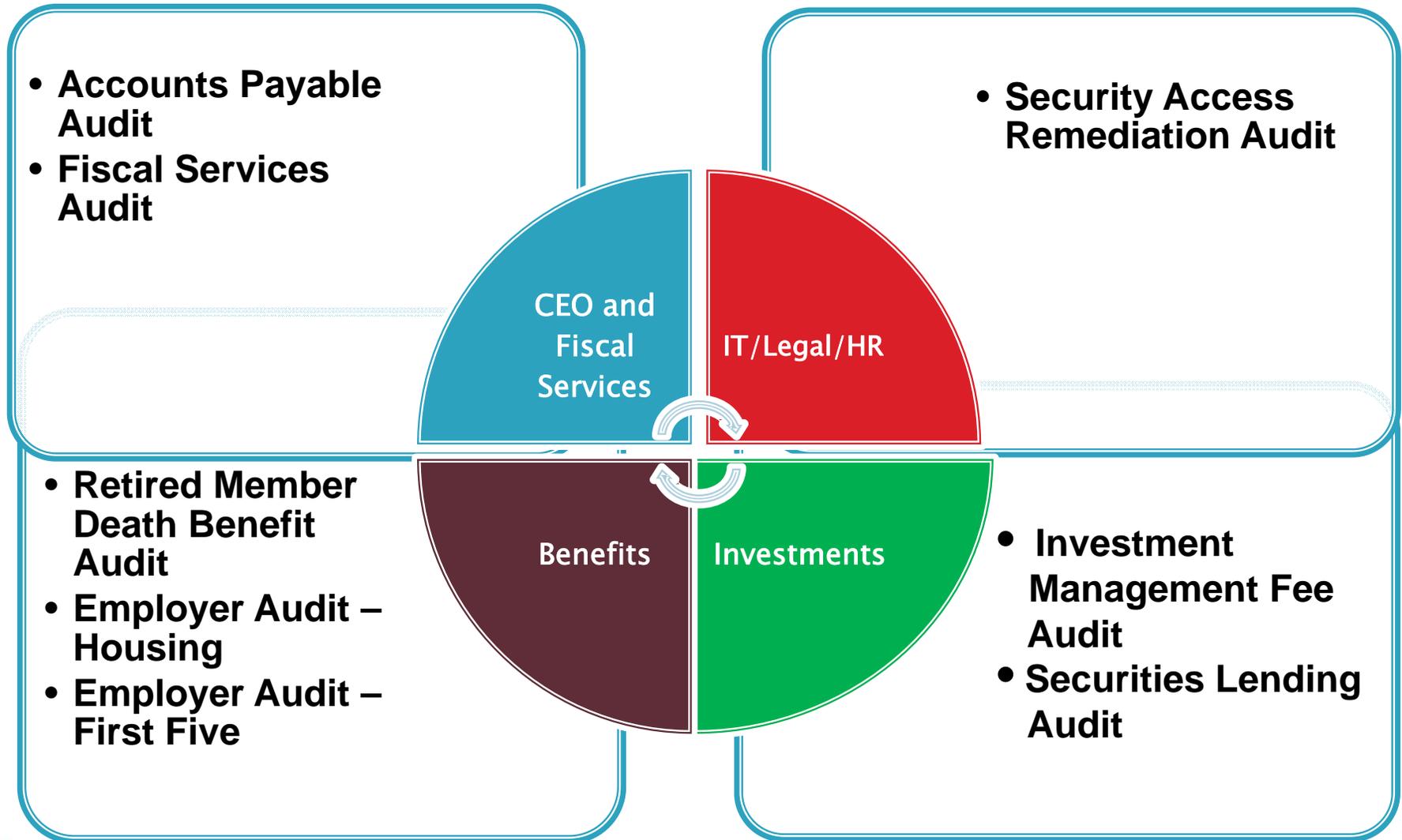


Objectivity – Value Proposition 3

INTEGRITY, ACCOUNTABILITY, AND INDEPENDENCE

- ▶ Provides value to governing bodies and senior management as an independent source of objective advice.

Internal Audits by Department



Key Success Factors in setting up the Internal Audit Function

- ▶ Position the internal audit function as part of senior management that reports directly to the Audit Committee/Board.
- ▶ Should work collaboratively with the Compliance Officer to establish roles and responsibilities.
- ▶ Development of the Internal Audit Charter.
- ▶ Commitment to training and growth of the Internal Audit Department.
- ▶ Consistent reporting and monitoring through formal audit reports and remediation plans.



Questions





MEMORANDUM

Date: August 24, 2016

To: Audit Committee

From: Henry Gudino, Accounting Manager
Alexis Cox, Member Services Manager

Subject: Employer Contribution and Reporting Monitoring

BACKGROUND

Tracking contributions currently involves two CCCERA Departments, the Member Services Department and the Accounting Department. Member Services receives the demographical report (I29) and payroll data information report (I30) from the employers including contribution amounts. Accounting receives the payment and payment reports; payment details including breakdowns to lump sums, pre-payments, and installments.

The Employer Contribution and Reporting Monitoring falls into two focal points, they are;

- 1) CCCERA's Board of Regulations which require the following monitoring to be done:
 - i. That drops in employer payroll are tracked, assessed, and escalated for further review and action as necessary.
 - ii. Track to ensure that Employer Reports and Payments are submitted to CCCERA no later than the 10th of every month;
- 2) Two CCCERA departments getting pieces of information needed to be made whole to complete the monitoring and reporting of contributions.
 - i. Member Services receives reports indicating what the employer is going to pay.
 - ii. Accounting receives the payment and needs a report from the employer breaking down the details of the payment received.

Member Services receives the Demographical Report (I29) and the Payroll Data Report (I30) files from every employer no later than the tenth of every month falling in accordance with the CCCERA Board of Regulations reporting policy. The data files are imported into CCCERA’s secure site, scrubbed and checked for accuracy, producing the contribution amount due to CCCERA from each employer.

By the fifteenth of every month, Member Services is able to provide the contribution figure from each employer.

The next step involves Accounting who receives the actual payment from each employer. Accounting will provide these figures to the Member Services Manager who will compare the month’s reported contribution amount due against the actual contribution payment received. Any variances will be reported back to the Accounting Manager or Employers bridging the two department’s pieces of information together and allowing the contributions to be monitored and reported on.

The following will be reported and tracked by the Member Services Manager with respect to drops in employer payroll:

Current Month Reported Payroll	Previous Month Reported Payroll	% Change Month over Month	Three Month Rolling % Change	Six Month Rolling % Change	Nine Month Rolling % Change	12 Month Year over Year % Change
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The differences will be reported and escalated. The key metrics that will drive the escalation are:

- 10% Change Month to Month or over rolling period – monitoring employer contribution and demographic reports for material changes
- 30% Change Month to Month or over rolling period – immediately escalate to Compliance Officer and CEO – and employer is put on watch
- 50% Change Month to Month or over rolling period – immediately escalate to Compliance Officer and CEO – CEO & CO to investigate as to cause of the drop in payroll and report findings to BOR.

Accounting Department: Monitoring, Observations and Findings:

A review was performed to track actual contributions and related reports over the six month period January to June 2016. The purpose was to identify trends of when employers have been making their payments and/or submitting reports. Over the six month period it was observed that a majority of employers were making their payments timely, but that the related reporting was not being provided within the required due dates. The reporting is important to validate not only if the contributions are calculated appropriately against the rates, but also for which employer district should be getting credited. For example, the County will make a lump sum deposit entry

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Employer Contribution and Reporting Monitoring
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for six employer districts into the CCCERA ledger on County's books on time. But the Accounting Department cannot know what employer districts it pertains to and provide it to Member Services until the reports are provided. It should be noted that reporting is prepared manually by various payroll accounting personnel at the employer districts which need their own time for reconciliation to their internal records.

Summary:

The preparation of manual contribution reports by employer districts and its submission to CCCERA is not occurring within the established due dates. This causes a delay for reconciliations to be performed on reports submitted. The electronic payroll data report (I30) and demographic report (I29) have been getting uploaded to CCCERA's secured site timely and may provide the needed information to validate if contributions have been accurately submitted to CCCERA. Due to the timely submission of the electronic reports to the Member Services department, and timely submission of payments to the Accounting department, the bridge between contributions and reporting can be made and forms the basis upon which ongoing monitoring can be effectively performed. Discussion, input with and formal advisory to Employer districts will have to be conducted to establish the electronic reports as the source record for employer reporting as this will be a departure from the past practices and understanding.



MEMORANDUM

Date: August 24, 2016
To: CCCERA Audit Committee
From: Tim Hoppe, Retirement Services Manager
Subject: Consider and Make Possible Recommendation to Board to Verify Living Status of Pension Benefit Recipients

The following is to provide an overview of CCCERA's process to identify deceased members that are on retiree payroll.

CCCERA is customarily notified of a retired member's death by one or more of the following methods:

- 1) Direct notification from next of kin (family member, friend, caretaker, etc.), or
- 2) Notification from the deceased member's financial institution (direct deposit), or
- 3) After three physical checks are returned to CCCERA as undeliverable, future payments are suspended until positive contact is made; and/or
- 4) A weekly death audit reporting service through Small World Solutions.

In situations where CCCERA is notified of a retired member's death not through direct contact from next of kin, CCCERA staff suspends future benefit payments and attempts to contact the member or one of their family members to confirm status.

Small World Solutions is an online web-based service that allows CCCERA to efficiently verify participant deaths on a weekly basis. Small World Solutions technology searches all major death verification databases, including the Social Security Death Master File, against CCCERA's retiree population. Matches are made across a number of variables including social security numbers, name and date of birth. The Social Security Death Master File currently contains over 94 million records. The file is created from internal Social Security Administration records of deceased persons possessing social security numbers and whose deaths were reported to the SSA.

Small World Solutions client base includes retirement systems of all types and sizes ranging from the largest government retirement systems, including other 1937 Act plans. They have been successful in assisting retirement systems to help avoid over payments and reduce fraud. Small World Solutions is currently rebranding itself as Life Status 360. On average, Small World Solutions identifies 5 to 6 CCCERA deceased retirees per week (0 to 22 per week over the last 30 weeks).

If the Audit Committee would like additional steps taken, the following procedure could be implemented to validate that retirees of a predetermined age are living:

Establish a periodic information certification process where a select group of active retirees on payroll are contacted to confirm information such as address, phone number, banking relationship, tax withholding, beneficiary elections are accurate every two to five years. The target population would be retirees over the age of 80. The frequency of contact (every 2 to 5 years) would be determined based on the number of retirees that fit the predetermined criteria and the retiree's age.



MEMORANDUM

Date: August 24, 2016

To: Audit Committee

From: Wrally Dutkiewicz
Compliance Officer

Subject: Subledger Decommissioning Project – Status Update

Background:

CCCERA deployed CPAS, a pension administration system, on a rolling deployment basis between 2006 and 2009. The intent of the deployment was to eventually replace and decommission Subledger (SL) which performs pension administration reporting functions for the retirement system, and has been doing so for thirty years. CPAS and SL have been running in parallel since 2006.

SL is a collection of algorithmic reporting programs written in COBOL that run on Contra Costa County's mainframe computer system. Due to the scarcity of programming support, and limitations of the COBOL programming language with respect to data querying and scalability, the retirement system will benefit from decommissioning SL and reallocating internal resources to support and maintain the CPAS system. It is for this reason that an internal decommissioning review of SL was implemented.

The purpose of the Subledger Decommissioning Project is to provide a basis for the formulation of the Subledger Decommissioning Plan and retirement of the reporting functions performed by Subledger (SL). CCCERA staff are conducting an internal review of data points found within SL programmed reports and CPAS queries and reports.

Current Findings/Observations:

- Interest Crediting: Interest is credited to active member accounts in June and December. It has been observed through comparative testing between SL and CPAS that variances exist in interest account balances between the two reporting systems. Current testing has revealed that CPAS appears to understate total account balances by about \$563,000. While well under the project's review materiality threshold of 0.25% of the retirement system's plan assets, staff are continuing to analyze the data to establish both scope (number of affected member records) and scale (total dollar amount of the variance). Based on the analysis thus far, the following appear to have contributed to the variance:

- Timing Differences: Cutoff and crediting dates between SL and CPAS differ. CCCERA staff have been reviewing the SL COBOL interest crediting program and comparing it to the interest calculation and crediting scripts in CPAS to identify and record all differences between the two and the basis upon which they have occurred;
 - Adjustment File Processing Differences: Adjustments and the timing of posting records are done differently in SL versus CPAS;
 - It was observed that for some members that had retired SL continued to credit interest in their accounts while CPAS accurately reflected their retired status and did not continue to credit interest to their accounts.
- Service Credit: Testing has revealed variances between the accrued service credits reported in SL as compared to CPAS. The variances observed were on both understated and overstated basis. Staff are continuing their analysis to establish the scope of the affected members and establish trending and tracking data to account for why the variances between SL and CPAS has occurred. Items that have been identified thus far that partially account for the variances are as follows:
 - SL member data that was converted and imported in CPAS between 2006 and 2009 which included enrollment date data was not consistently reflected in the CPAS member demographic data. Although the enrollment date data may appear in the CPAS tables, for those members that did not appear in the demographic table, the accrued service credit was not correctly calculated. Staff are continuing to analyze and make member record adjustments in CPAS as needed.
 - Converted SL member job classification and employment status data may not be accurately reflected due to programming logic restrictions. Member status changes that occur on the same calendar date (e.g. promotion or department transfer) may have appeared as a termination with a subsequent re-hire or return to active status. In these instances the termination may be reflected in the member record, but the subsequent re-hire or return to active status on the same date may not have been picked up during the conversion. Staff are making the necessary adjustments to member's service records as variances are identified. CCCERA has also engaged with its CPAS vendor to have a programming update to correct this issue.

Formulation of the Subledger Decommissioning Plan

Based on the current project timeline, it is anticipated that principal internal review testing will be concluded by the end of September 2016. At such time as the testing has been concluded any findings and corresponding remedies will be incorporated into the Subledger Decommissioning Plan along with the following:

- Data map of SL to CPAS
- Report map of SL to CPAS
- Inventory of all SL files, documents and programs
- Implementation plan including the identification and testing of CPAS processes and reports that map to retiring SL processes and reports.

Auditing the Subledger Decommissioning Plan:

Once the Subledger Decommissioning Plan has been drafted, a Request for Proposal (RFP) should be issued in November 2016 to seek third party audit services to audit the plan and its underlying test data. The purpose of having a third party review of the Subledger Decommissioning Plan and having an audit of the underlying data that the Subledger programs report on is to provide assurance of the following:

- That data points have been appropriately mapped from Subledger to CPAS and to the extent where logical, algorithmic, and systemic variances exist between the two systems, that these variances have been identified, reviewed, and accounted for on both scope and scale basis with an accompanying materiality assessment;
- That all necessary data reporting that has been performed by Subledger has been mapped to equivalent reporting functions in CPAS;
- That the Subledger Decommissioning Plan and its underlying methodology for the review of data integrity and reporting workflow functions was reasonable and will provide a practical basis for the retirement of the reporting functions it performs.

Scope of Proposed Audit Work:

Evaluate the Subledger Decommissioning Plan and provide an assessment of:

- a. Scope and reasonableness of the internal data review performed;
- b. Mapping of reporting functions from SL to CPAS;
- c. Evaluation and testing of CPAS actuarial extract scripts, queries, and reports;