



A REPORT PRESENTED TO  
ORANGE COUNTY EMPLOYEES  
RETIREMENT SYSTEM

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# QUALITY ASSESSMENT REPORT

Prepared December 2023

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## ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

The Internal Audit activity **generally conforms** to the *International Standards for the Professional Practices of Internal Auditing* and the IIA Code of Ethics.

This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

| GOVERNANCE     |        | STAFF    |        | MANAGEMENT |        | PROCESS  |        |
|----------------|--------|----------|--------|------------|--------|----------|--------|
| Standard       | Rating | Standard | Rating | Standard   | Rating | Standard | Rating |
| 1000           | GC     | 1200     | GC     | 2000       | GC     | 2200     | GC     |
| 1100           | GC     |          |        | 2100       | GC     | 2300     | GC     |
| 1300           | PC     |          |        | 2450       | GC     | 2400     | GC     |
| Code of Ethics | GC     |          |        | 2600       | GC     | 2500     | GC     |



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# List of Acronyms

| ACRONYM                          | DESCRIPTION  |
|----------------------------------|--|
| AC                               | Audit Committee of OCERS   |
| CAATs                            | Computer-Assisted Audit Techniques   |
| CAE                              | Chief Audit Executive  |
| CPE                              | Continuing Professional Education  |
| IIA                              | The Institute of Internal Auditors   |
| IPPF                             | International Professional Practices Framework   |
| IT                               | Information Technology   |
| MAP                              | Management Action Plan   |
| OCERS                            | Orange County Employees Retirement System  |
| QAIP                             | Quality Assurance and Improvement Program  |
| <i>Quality Assessment Manual</i> | <i>Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition</i> |
| <i>Standards</i>                 | <i>International Standards for the Professional Practice of Internal Auditing</i>            |
| SWOT                             | Strengths, Weaknesses, Opportunities, and Threats  |

# Executive Summary

# Conformance Summary

## STANDARDS AND THE IIA CODE OF ETHICS

|  | GC  | PC | DNC |
|--|---|----|-----|
| <b>ATTRIBUTE STANDARDS</b>                                     |   |    |     |
| <b>1000 - Purpose, Authority, and Responsibility</b>           |   |    |     |
| 1010   | Recognizing Mandatory Guidance in the Internal Audit Charter  | PC |     |
| <b>1100 - Independence and Objectivity</b>                     |   |    |     |
| 1110   | Organizational Independence   | GC | OP1 |
| 1111   | Direct Interaction with the Board   | GC |     |
| 1112   | Chief Audit Executive Roles Beyond Internal Auditing  | PC |     |
| 1120   | Individual Objectivity  | GC |     |
| 1130   | Impairments to Independence or Objectivity  | GC |     |
| <b>1200 - Proficiency and Due Professional Care</b>            |   |    |     |
| 1210   | Proficiency   | GC |     |
| 1220   | Due Professional Care   | GC |     |
| 1230   | Continuing Professional Development   | GC |     |
| <b>1300 - Quality Assurance and Improvement Program (QAIP)</b> |   |    |     |
| 1310   | Requirements of the QAIP  | PC |     |
| 1311   | Internal Assessments  | PC |     |
| 1312   | External Assessments  | GC |     |
| 1320   | Reporting on the QAIP   | GC |     |
| 1321   | Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Statement | GC | OP2 |
| 1322   | Disclosure of Nonconformance  | GC |     |
| <b>PERFORMANCE STANDARDS</b>                                   |   |    |     |
| <b>2000 - Managing the Internal Audit Activity</b>             |   |    |     |
| 2010   | Planning  | GC | OP3 |
| 2020   | Communication and Approval  | GC | OP4 |
| 2030   | Resource Management   | GC |     |
| 2040   | Policies and Procedures   | GC | OP5 |
| 2050   | Coordination and Reliance   | GC | OP6 |
| 2060   | Reporting to Senior Management and the Board  | GC |     |
| 2070   | External Service Provider and Organizational Responsibility for Internal Auditing                               | NA |     |

|   | GC  | PC        | DNC |
|---|---|-----------|-----|
| <b>PERFORMANCE STANDARDS (CONTINUED)</b>            |   |           |     |
| <b>2100 - Nature of Work</b>                        |   |           |     |
| 2110  | Governance  | GC        | OP7 |
| 2120  | Risk Management   | GC        |     |
| 2130  | Control   | GC        |     |
| <b>2200 - Engagement Planning</b>                   |   |           |     |
| 2201  | Planning Considerations   | GC        |     |
| 2210  | Engagement Objectives   | GC        |     |
| 2220  | Engagement Scope  | GC        |     |
| 2230  | Engagement Resource Allocation  | GC        |     |
| 2240  | Engagement Work Programs  | GC        |     |
| <b>2300 - Performing the Engagement</b>             |   |           |     |
| 2310  | Identifying Information   | GC        |     |
| 2320  | Analysis and Evaluation   | GC        |     |
| 2330  | Documenting Information   | GC        | OP8 |
| 2340  | Engagement Supervision  | GC        |     |
| <b>2400 - Communicating Results</b>                 |   |           |     |
| 2410  | Criteria for Communicating  | GC        |     |
| 2420  | Quality of Communications   | GC        |     |
| 2421  | Errors and Omissions  | GC        |     |
| 2430  | Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing" | GC        |     |
| 2431  | Engagement Disclosure of Nonconformance   | GC        |     |
| 2440  | Disseminating Results   | GC        |     |
| 2450  | Overall Opinions  | GC        |     |
| <b>2500 - Monitoring Progress</b>                   |   |           |     |
| <b>2600 - Communicating the Acceptance of Risks</b> |   |           |     |
| <b>IIA CODE OF ETHICS</b>                           |   |           |     |
|   | Code of Ethics  | GC        |     |
| <b>OVERALL CONFORMANCE RATING</b>                   |   | <b>GC</b> |     |



# Overall Opinion

## OPINION AS TO CONFORMANCE WITH THE *STANDARDS* AND THE IIA CODE OF ETHICS

**The Internal Audit activity at OCERS generally conforms with the *Standards* and the IIA Code of Ethics. A conformance rating of **generally conforms** is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.**

A summary of conformance with individual *Standards* and the IIA Code of Ethics is provided within the “Conformance Summary” section of this report. Upon issuance of this report, Internal Audit may continue to use the phrases “Conforms with the *International Standards for the Professional Practice of Internal Auditing*” and “Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” within its practice materials and/or audit reports.

The IIA *Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition (Quality Assessment Manual)* suggests a scale of three ratings, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” Detailed rating definitions and criteria associated with “Generally Conforms,” “Partially Conforms,” and “Does Not Conform” are described within Appendix A of this report and are consistent with IIA guidance stated in its *Quality Assessment Manual*.

Under the *Standards*, an External Quality Assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or an independent assessment team from outside the organization. IIA Quality Services was selected to lead this assessment. This engagement’s Assessment Team demonstrated competence in both the professional practice of internal auditing and the EQA process as required by the *Standards*. The External Quality Assessment was conducted during the week of Dec 11, 2023. Conclusions were as of Dec 15, 2023.

Future changes in external factors and actions taken by personnel, including actions taken to address our recommendations, may have an impact upon the operation of Internal Audit in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the observations and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions.

All information included in this report is proprietary and confidential and is intended for internal use only. This report may not be distributed to any other third-party (other than your regulator, External Audit Committee, or external auditor) without the prior written consent of IIA Quality Services.

# Objectives, Scope, and Methodology

## OBJECTIVES

The primary objective of this assessment was to evaluate conformance to the *Standards*, which require an EQA of an internal audit activity at least every five years. In addition, the Assessment Team:

- Assessed conformance with the IIA Code of Ethics
- Assessed Internal Audit's effectiveness in providing assurance and advisory services to stakeholders and other interested parties
- Identified opportunities, offered recommendations for improvement, and provided counsel to Internal Audit for improving its performance and services, as well as promoting its image and credibility throughout the organization

## SCOPE

The scope of this assessment included an evaluation of Internal Audit's efficiency and effectiveness in executing its mission, as set forth by the Internal Audit Charter, which defines the purpose, authority, responsibilities, and accountabilities of Internal Audit.

## METHODOLOGY

To accomplish the objectives, the Assessment Team:

- Reviewed information prepared by Internal Audit at the Assessment Team's request
- Conducted interviews with key stakeholders of Internal Audit including senior executives, the external auditors, the Chief Audit Executive (CAE), and members of the Internal Audit function
- Reviewed a sample of audit projects and associated work papers and reports
- Reviewed survey data received from Internal Audit stakeholders resulting from IIA Quality Services' survey process
- Prepared diagnostic tools consistent with the methodology established for an EQA as stated in the *Quality Assessment Manual*



# Observations Specific to Internal Audit

## OVERALL SUMMARY

The Internal Audit function at the OCERS generally conforms with the *Standards* and the IIA Code of Ethics. This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing (“Core Principles”) and the Definition of Internal Auditing.

Internal Audit at OCERS is a small sized function that operates in an environment with changing and emerging risks. Their ability to adapt and be responsive to change, combined with their ability to leverage insight on risks impacting the organization into focused audit plans, will continue to be critical to their success and value to the organization. The annual risk assessment process focuses activities for the year in areas of highest impact, consistent with the strategies, objectives, and risks of the organization. The periodic reports to OCERS Management and the Audit Committee (Audit Committee) meet stakeholder’s expectations. Internal Audit is a critical component of the governance structure, and they appropriately monitor the effectiveness of governance, risk management and control activities at OCERS. Results of interviews and surveys of key stakeholders indicate that Internal Audit is highly valued and viewed by Management as a trusted partner that adds value to the organization.

## ATTRIBUTE STANDARDS

Internal Audit has the infrastructure in place to support sustainability of internal audit processes in a consistent and quality manner. The Internal Audit Charter is foundational to all their activities. The Charter needs to be updated to recognize the mandatory guidance as well as document the roles the CAE has outside of Internal Auditing and the safeguards in place to limit impairments to independence and objectivity. Consequently, the Audit Committee charter would also need to be updated to be in sync with the Internal Audit Charter. Functional oversight is appropriately provided by the Audit Committee. The functional and administrative reporting relationships of the CAE support organizational independence and objectivity. Internal Audit management and staff collectively possess the knowledge, skills, and competencies necessary to demonstrate professional proficiency. Subject matter experts are leveraged, where necessary, through external resources. Work is performed with due professional care. Training and professional development processes support proficiency of Internal Audit management and Internal Audit staff. There is a Quality Assurance and Improvement Program (QAIP), which includes ongoing internal assessments, as well as external assessments that are reported to the Audit Committee. Additionally, Periodic Internal Assessments need to be carried out in periods between External Assessments. Action plans from these assessments should be monitored and reported to management and the Audit Committee.

## PERFORMANCE STANDARDS

Internal Audit is managed effectively with defined procedures to support consistency, quality, and sustainability. To ensure continued relevance of the Internal Audit function, an Internal Audit Strategy, that is aligned with the OCERS strategy could be developed. An annual risk assessment process, that incorporates input from key stakeholders, is used to develop a plan for the year. Internal Audit has a “seat at the table” related to OCERS Management and Operational Risk committee meetings, which ensures that audit plans are linked to the entity-wide view of emerging risks. Internal Audit coordinates with other assurance providers in OCERS, and as these functions mature, may consider placing some reliance on their activities. Internal Audit resource levels and skill sets appear adequate to meet Audit Plan objectives and risks. Considering the expected changes to the *Standards*, the Internal Audit Manual would need to be updated. Engagement level planning is supported by engagement level risk assessment, which is closely aligned with annual risk management assessments. Work is performed with due professional care. Objectives evaluate technology, operational, financial, and compliance components as appropriate for individual engagements. Audit reports are of a consistent high quality and work papers fully support reported findings. Supervisory approvals of the engagement work programs are documented consistently. The existing follow-up process, that tracks audit issues through to resolution, could be enhanced to depict for example aging of overdue management action plans.

# Detailed Observations

# Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

| #    | STANDARD   | OBSERVATION   |
|------|--|---|
| SP01 | <b>1111 Direct Interaction with the Board</b> – There is an appropriate and high level of interaction between Internal Audit and the Audit Committee.  | Interaction with the CAE takes place formally during Audit Committee meetings and informally through update meetings with the Audit Committee chair before each meeting and more frequently as necessary. Language in the Internal Audit Charter makes clear that Internal Audit generally, and the CAE specifically, have unrestricted access to the Audit Committee. Having members of the Internal Audit team periodically attend Audit Committee meetings provides an exceptional way to develop audit staff in terms of executive level interface and communication skills and provides the Audit Committee with an opportunity to obtain insight into individual backgrounds and skill sets.  |
| SP02 | <b>1210 – Proficiency</b> Internal Audit management and staff are highly qualified, credentialed and experienced, and collectively possess the skills required to perform audit responsibilities.  | Internal Audit has a good blend of skills from a technical, financial, and operational perspective. Proficiency is supported by a commitment to training and professional development. Third party subject matter experts are used on an as needed basis to complement skills and competencies within Internal Audit. The senior auditor staff have audit credentials such as Certified Internal Auditor (CIA), as well as other professional credentials. Internal Audit staff actively participate in professional organizations and activities to broaden experience and interaction with industry peers.  |
| SP03 | <b>1220 Due Professional Care</b> – Internal Audit effectively uses checklists and templates to ensure Internal Audit projects are planned and executed in a manner consistent with the defined methodology.                                   | The checklists and templates used by Internal Audit are comprehensive, embedded within their work papers on Sharepoint. The use of checklists and templates to plan, execute, and administer Internal Audit projects, together with workflows for required supervisory review and approval ensures consistent application of the Internal Audit methodology; contributes to a high level of quality and consistency within Internal Audit projects; supports ongoing monitoring requirements of the QAIP; and demonstrates due professional care in conducting internal audits.   |
| SP04 | <b>2010 Planning</b> – Internal Audit has an annual risk assessment and audit planning process that incorporates input from senior stakeholders and the Audit Committee to focus engagements in areas of highest risk and impact to the OCERS. | A comprehensive risk assessment process is used to evaluate the audit universe and develop an annual audit plan, that is updated as needed. Input from key stakeholders on changes to risk is incorporated into the plan so that audits are focused to evaluate specific objectives related to mitigation of risk and alignment with OCERS's strategic priorities. The Audit Plan is presented to OCERS Management and the Audit Committee for approval. The identified audit engagements include preliminary scope and objectives.   |
| SP05 | <b>2110 Governance</b> – Internal Audit plays an active and appropriate role in affecting good governance practices within the organization.   | Internal Audit is viewed as an inherent part of the governance structure by executive management and the Audit Committee. They actively participate in the sharing of information across the organization to affect good governance practices. Their role as a third line assurance activity within the OCERS is clearly articulated.<br><br>The CAE has an appropriate and effective “seat at the table” within the organization to ensure audit plans are aligned with the entity-wide view of risk and to capture information related to emerging and/or changing risk profiles, while maintaining their independence and objectivity. This “seat at the table” is primarily accomplished by formal interaction with the senior leadership team; attendance at the Executive Committee meetings; attendance at the Operational Risk committee; and open and direct access to stakeholders throughout the organization. |

# Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

| #    | STANDARD  | OBSERVATION   |
|------|---|---|
| SP06 | <b>2201 Planning Considerations</b> – Internal Audit uses an effective engagement planning process to focus audits in areas of highest risk and impact.                       | Engagement level planning is supported by a risk assessment process with input from key stakeholders to align the work program with defined objectives and scope. Internal Audit specifically evaluates operational, strategic, fraud and financial risk as part of the process. Internal Audit consistently and appropriately uses a risk and control matrix to link engagement planning with execution and reporting.   |
| SP07 | <b>2410 Criteria for Communicating</b> – Internal Audit reports are of consistent high quality focusing attention on resolution of issues and meet stakeholder's expectations | Internal Audit reports are high in quality and focus attention on resolution of issues. The report format is template driven and makes excellent use of an executive summary to draw attention to those items requiring a higher priority. Reports are succinct, well written and include management action plans and dates for remediation for individual observations. Criteria to assign levels of significance for individual observations are defined in an appendix to each report and includes the business criticality of the area as well as the area being audited. |



# Conformance Gaps

The Assessment Team identified the following conformance gaps.

| #     | STANDARD   | OBSERVATION   | MANAGEMENT RESPONSE   |
|-------|--|---|---|
| CG-01 | <p><b>1010 – Recognizing Mandatory Guidance in the Internal Audit Charter</b><br/>           Include language in the Internal Audit Charter that recognizes the Core Principles, the IIA Code of Ethics, the Standards, and the Definition of Internal Auditing as mandatory elements of the IPPF.</p> <p><b>1112 – Chief Audit Executive Roles Beyond Internal Auditing</b><br/>           Consider adding language in the Internal Audit Charter that describes the role of the CAE related to responsibilities for the Ethics, Compliance and Fraud hotline, along with the safeguards in place to limit impairments to independence and objectivity.</p> | <p>The <b>Internal Audit Charter</b> currently states that Internal Audit’s responsibility is to serve the Board “consistent with the International Professional Practices Framework of the Institute of Internal Auditors, as required by California Government Code 1236” and defines various elements that are required by the Standards to be present in the Charter. The charter needs to be updated with some additional elements.</p> <p>Standard 1010 requires a specific recognition in the Internal Audit Charter that the Core Principles, the IIA Code of Ethics, the Standards, and the Definition of Internal Auditing are mandatory in nature. The charter should also describe the requirement to adhere to IIA Implementation Guidance and Supplemental Guidance described in the IPPF as well as OCERS relevant policies and procedures and the Internal Audit Manual.</p> <p>Since the CAE’s roles and/or responsibilities related to the Ethics, Compliance and Fraud hotline falls outside of internal auditing, Standard 1112 requires this be documented in the Internal Audit Charter, along with the safeguards in place to limit impairments to independence and objectivity. These safeguards include a periodic review of the placement of this role in the organization as well as having an external entity provide assurance over this process.</p> <p>Additionally, the charter should include the following:</p> <ul style="list-style-type: none"> <li>• The requirement for the CAE to communicate the organizational independence of Internal Audit to the AC Committee on an annual basis.</li> <li>• A description of the nature of the assurance and consulting services provided by Internal Audit.</li> <li>• The requirement for the CAE to establish and maintain a QAIP that includes internal and external assessment requirements, as well as communication of results that include a conclusion on conformance with the Standards and the IIA Code of Ethics. (see CG2)</li> <li>• In addition to approval of the annual plan, the audit committee needs to approve significant changes to the plan and have confirmation from the CAE on the adequacy of resources to achieve the plan. (point 4. b)</li> <li>• Clarify that the <i>CAE participates</i> in the evaluation of the performance of the External Auditor rather than “Evaluates the quality of performance of external auditors”. (point 5. f)</li> </ul> <p>Update the Internal Audit Charter with these changes as well as with others that will be required due to the new 2024 Global Internal Auditing Standards. Simultaneously, update the <b>Audit Committee Charter</b> to synchronize with the contents of the Internal Audit Charter and requirements of the 2024 Global Internal Auditing Standards.</p> | <p>Pending the issuance of the new Global Internal Auditing Standards, we will make the necessary updates to the Internal Audit and Audit Committee Charters.</p> |

# Conformance Gaps (contd.)

The Assessment Team identified the following conformance gaps.

| #     | STANDARD   | OBSERVATION   | MANAGEMENT RESPONSE  |
|-------|--|---|--|
| CG-02 | <p><b>1300 – Quality Assurance and Improvement Program (QAIP)</b></p> <p><b>1310 – Requirements of the QAIP</b><br/>Update the QAIP documentation so that it is in accordance with the current <i>Standards</i> and professional guidance, and supports consistency, quality, and sustainability of its execution.</p> <p><b>1311 – Internal Assessments</b><br/>Conduct periodic internal assessments, in a holistic manner, to evaluate and conclude on conformance with the Standards and the IIA Code of Ethics and report on the results to the Audit Committee and management.</p> | <p>While some elements of a QAIP such as the ongoing monitoring of performance, annual evaluation of some Performance Standards (2200-2400) and the external assessments are in place and operating as required, the <b>QAIP program documentation</b> needs enhancement. The QAIP, as required by current <i>Standards</i>, should document objectives, scope, internal and external assessment requirements, and communication of results.</p> <p>A comprehensive QAIP documentation should:</p> <ul style="list-style-type: none"> <li>• establish the scope of the QAIP to be as defined within the Internal Audit Charter;</li> <li>• include language that encourages participation of the Audit Committee in the QAIP process. Examples of participation currently describe review and approval of the external assessor or assessment team. Include receipt of results of internal assessments - both ongoing monitoring and periodic self-assessment; and monitoring action plans to address any gaps/opportunities.</li> <li>• document the current approach to ongoing monitoring of performance to include use of performance metrics reported in a balanced scorecard, supervisory review and approval at appropriate stages of the engagement, use of structured template driven electronic work papers, and use of a quality checklist for each engagement;</li> <li>• document the frequency and approach to periodic internal assessment in the holistic evaluation of conformance with all the Standards and the IIA Code of Ethics;</li> <li>• require the external assessment to take place within the five-year requirement of the Standards; and</li> <li>• describe communication requirements to include disclosures of the scope and frequency of both internal and external assessments, the qualifications and independence of the assessor(s) or assessment team including potential conflicts of interest, conclusions of assessors, and corrective action plans. In addition, define the requirement to communicate the results of ongoing monitoring of performance to stakeholders and Audit Committee, at least on an annual basis, and the requirement to communicate the results of periodic internal assessment and external assessment when they occur. Action items from the External and Internal Quality Assessments should be monitored and communicated to Audit Committee.</li> </ul> <p>Consider using the Practice Advisory and Implementation Guides for the 1300 series of Standards and the samples provided to the CAE to support this update.</p> | <p>Pending the issuance of the new Global Internal Auditing Standards, we will make the necessary updates to the Quality Assurance and Improvement Program (QAIP). We will also make the related updates to the Internal Audit and Audit Committee Charters regarding the QAIP and the external assessments.</p> |



# Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure.

| #     | STANDARD  | OBSERVATION  | INTERNAL AUDIT RESPONSE   |
|-------|---|--|---|
| IO-01 | <p><b>1100 – Independence and Objectivity</b><br/>Document the annual conformance of the independence and objectivity of the internal audit function.</p>   | <p>This standard requires that the Internal Audit function confirm annually to that it is independent and objective. While these discussion take place each year in closed session with the AC, the CAE should document this annual confirmation of independence to AC. Further, the Internal Audit Manual states that “Internal Auditor should annually certify they have no actual or perceived conflicts of interest that would impair their objectivity or independence.” These annual certifications should be documented to demonstrate conformance.</p>   | <p>Beginning in 2024, Internal Audit will formalize the certification process for audit staff and document the confirmation of independence of the Internal Audit function to the Audit Committee.</p>      |
| IO-02 | <p><b>1300 – Quality Assurance and Improvement Program</b><br/>Monitor revisions to professional guidance, currently exposed for comment, to become effective in 2024, and review and update current Internal Audit infrastructure and methodology as appropriate.</p>            | <p>The new Global Internal Audit Standards will be issued by the IIA in January 2024, with appropriate professional guidance issued thereafter. These Standards will be effective in January 2025.</p> <p>Once the Global Internal Audit Standards have been issued, the resulting changes to Internal Audit infrastructure and methodology will need to be made and, where appropriate, presented to the Audit Committee for their review and approval. Some of the documents that would need to be updated include the Audit Committee Charter, the IA Charter, the Audit Manual, etc..</p> <p>Commensurate with the review and revision process, a socialization and training component for stakeholders, Internal Audit staff will need to take place.</p>   | <p>Internal Audit will monitor pending revisions to the Global Internal Auditing Standards and will make the necessary updates to the Audit Committee Charter, Internal Audit Charter and Audit Manual.</p> |
| IO-03 | <p><b>2000 – Managing the Internal Audit Activity</b><br/>Consider developing a multi-year strategic plan for Internal Audit to support the strategy of OCERS and to guide the activities of Internal Audit in a future focused, proactive, systematic, and practical manner.</p> | <p>OCERS has established a multi-year plan for 2023-2025 with strategic goals related to fund sustainability, service &amp; support; risk management, talent management and governance. Enhancement of existing technology are included in the key initiatives.</p> <p>Developing and documenting a formalized three-to-five-year strategic plan for Internal Audit, approved by the Audit Committee and management, is an evolving successful practice that promotes continuous improvement and contributes to sustainability of Internal Audit infrastructure and process.</p> <p>The strategic plan should be consistent with OCERS’s strategic direction and progress against the plan should be annually presented to senior management and the Audit Committee.</p> <p>In the 2024 Global Internal Auditing Standards, having an Internal Audit Strategic Plan is expected to become a requirement of the standards. The OCERS IA plan should be developed based on the guidance in the new standards.</p> | <p>Pending the issuance of the new Global Internal Auditing Standards, we will develop a strategic plan for Internal Audit.</p>   |

# Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure.

| #     | STANDARD  | OBSERVATION  | INTERNAL AUDIT RESPONSE   |
|-------|---|--|---|
| IO-04 | <p><b>2020 – Communication and Approval</b><br/>Present the annual audit plan and associated budget and resource requirements, as well as significant changes to the plan, for approval by the Audit Committee.</p>                       | <p>The <b>annual audit plan</b> is presented to the Audit Committee by the CAE for approval. The adequacy of the associated budget and resources to meet the plan should also be presented to the Audit Committee. Additionally, significant changes to the plan and associated resources, if any, should be presented to the Audit Committee and their approval documented in the minutes of the meetings. This ensures the governance structure of the organization agrees that the plan focuses audit activities in the areas of highest risk and impact to the organization and can be achieved with the available resources. Formal approval of the annual audit plan and associated resource requirements further supports the independence of the CAE and Internal Audit.</p> <p>Further, consider enhancing communication with stakeholders around high-risk entities in the audit universe that may be nearing or are outside their planned rotational coverage cycle, to indicate the anticipated timing for audit coverage or rational for delay.</p> | <p>Internal Audit will include the suggested changes to presenting the adequacy of resources and significant changes to the audit plan during the year for approval by the Audit Committee. Internal audit will also enhance communication around high-risk entities that may be near or are outside their planned rotation coverage.</p> |
| IO-05 | <p><b>2040 – Policies and Procedures</b><br/>Enhance documentation of the Internal Audit Manual to promote sustainability, consistency and quality of their execution.</p>  | <p>OCERS management is currently undertaking an initiative to review and update internal policies and procedures. Internal Audit should ensure that <b>the Internal Audit Manual</b> is comprehensive and meets the new 2024 Global Internal Audit Standards, when they are published. Enhance existing policies and/or create procedures to remove key person dependencies and train new audit staff - particularly in documenting the processes for Annual Risk Assessment and Planning; escalation for Management Acceptance of risk; planning, execution, reporting, and follow-up of consulting and assurance engagements; and the QAIP process.</p>  | <p>Internal Audit will include the suggested documentation updates when Internal Audit undergoes the Master Repository Project.</p>   |
| IO-06 | <p><b>2050 – Coordination and Reliance</b><br/>Consider enhancing the Internal Audit risk assessment and audit planning process by describing the coverage of risk between Internal Audit and other providers of assurance for OCERS.</p> | <p>As a part of the current risk assessment and audit planning process Internal Audit coordinates with the existing (and newly formed) second line assurance functions at OCERS – namely Compliance, ORM Committee, and IT Security. While presenting the annual audit plan, Internal Audit could specifically demonstrate areas of risk coverage and coordination to highlight the gaps and overlaps in the different roles between Internal Audit as a third line of defense and other providers of assurance that comprise the first and second lines of defense within OCERS. By highlighting gaps in the risk coverage by second line functions, the Audit Committee and management can evaluate how best to address them.</p> <p>As the second line functions mature or new functions are created, the CAE may rely on their work. To do this, Internal Audit should periodically review the scope, objectives, and results of the work performed by other providers of assurance to determine if such reliance can be placed.</p>                         | <p>Pending the issuance of the new Global Internal Auditing Standards and the development of processes from the newly formed Compliance department, we will consider enhancing the risk assessment and audit planning process to coordinate with other lines of assurance.</p>  |

# Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure.

| #     | STANDARD   | OBSERVATION   | INTERNAL AUDIT RESPONSE  |
|-------|--|---|--|
| IO-07 | <b>2110 – Governance</b><br>Evaluate the corporate ethics and compliance program using an independent resource.  | Implementation Standards 2110.A1 requires that the <b>corporate ethics and compliance program</b> be evaluated as part of the assessment of governance activities. The corporate ethics and compliance program should be included in the audit universe, evaluated as part of the annual risk assessment, and incorporated into the annual audit plan as appropriate. Since the CAE has a key role in this process, this evaluation should be carried out by an independent resource to maintain independence and objectivity.  | Pending the issuance of the new Global Internal Auditing Standards, we will consider other safeguards around the OCERS Ethics, Compliance and Fraud Hotline program. We will include the ethics program in our Audit universe to be risk evaluated annually. |
| IO-08 | <b>2330 – Documenting Information</b><br>Consider enhancing templates and work paper documentation to supports the effectiveness and overall quality of engagement planning, fieldwork, and reporting.   | The current audit workpapers are consistently documented as per the existing policy for the audit engagements reviewed. Consider enhancing the planning documentation to augment fraud assessment/conclusions; to reference the data analytics and sampling strategy used; as well as document the framework or criteria management uses to manage their operations. Consider enhancing fieldwork documentation to clearly outline purpose, conclusion and root cause of observations in test worksheets and cross referencing between testing worksheets and observation documents.  | Internal Audit will include the suggested enhancements for future audit documentation.   |
| IO-09 | <b>2500 – Monitoring Progress</b><br>Enhance the monitoring to ensure that observations included in engagement reports are appropriately addressed by management in a manner consistent with the action plans and timeframes described and reported. | All audit observations are assigned a priority and associated MAPs tracked through to resolution by Internal Audit. The status of open MAPs is reported to senior management on a periodic basis and to the Audit Committee as a component of the quarterly reporting process.<br><br>Enhancing the quarterly reports by aging the open MAPs as well as highlighting changes to the assigned due dates would help senior management and the Audit Committee to use this process to ensure reported observations are addressed in a timely manner by the organization. Use of heatmaps showing likelihood and impact of individual observations and associated risks could help focus the Audit Committee and management of OCERS on prioritizing the available organizational resources in areas most needed. | Internal Audit will enhance the Management Action Plan (MAP) follow-up reporting to highlight risk of the outstanding MAP completions along with aging details of overdue MAPs.  |

# **Appendix A**

## Conformance Rating Criteria

# Conformance Rating Criteria

**“Generally Conforms”** (GC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity conforms to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual *Standards* and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

**“Partially Conforms”** (PC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is making good faith efforts to conform to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or the IIA Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

**“Does Not Conform”** (DNC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.



# **Appendix B**

## Stakeholder Feedback



# Stakeholder Feedback

## SENIOR MANAGEMENT AND KEY STAKEHOLDERS

| NAME               | TITLE                              |
|--------------------|------------------------------------|
| Mr. Richard Oates  | Chair of Audit Committee           |
| Mr. Steve Delaney  | Chief Executive Officer            |
| Ms. Suzanne Jenike | Assistant CEO, External Operations |
| Ms. Jenny Sadoski  | Director of Information Technology |
| Ms. Tracy Bowman   | Director of Finance                |
| Mr. Kwame Addo     | Chief Compliance Officer           |
| Mr. Matt Eakin     | Director of Information Security   |
| Mr. Aaron Hamilton | Moss Adams LLC - External Auditor  |
| Mr. Kory Hoggan    | Moss Adams LLC - External Auditor  |

## INTERNAL AUDIT MANAGEMENT AND STAFF

| NAME              | TITLE                      |
|-------------------|----------------------------|
| Mr. David Kim     | Director of Internal Audit |
| Mr. Mark Adviento | Senior Internal Auditor    |

In addition to interviews with the individuals listed above, broad-based and confidential surveys were conducted by IIA Quality Services. Surveys were sent to senior management and stakeholders throughout the organization. A separate survey was sent to internal audit management and staff.

# Stakeholder Feedback

## SURVEY RESULTS (SUMMARY)



“Client” represents the weighted average of all stakeholder respondents in OCERS.

“Universe” represents the weighted average of all respondents from all organizations that completed this survey since May 2013 (excluding Group 1, which is reserved for the CAE)..

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

# Stakeholder Feedback

## COMMENTS RECEIVED DURING INTERVIEWS AND SURVEYS

The summary comments listed below represent general themes expressed by more than one stakeholder during stakeholder interviews and/or surveys that were validated by the Assessment Team. All stakeholder interviews were conducted privately with the assessment team. All surveys were conducted in a confidential manner. Statistical results of surveys are presented separately from these comments.

| STRENGTHS   | OPPORTUNITIES  |
|---|--|
| <ul style="list-style-type: none"><li>▪ Our IA team is good at audit planning, execution of the audit, and correcting/negotiating audit observations when necessary.</li><li>▪ Their communication with us was outstanding. It felt like a partnership and not an audit.</li><li>▪ They are dedicated and understand the importance of what they are doing for the organization and its members.</li><li>▪ They are familiar with every aspect of the business and have a strong management team.</li><li>▪ IA is easy to work with and willing to work around busy schedules.</li><li>▪ They are organized, professional, objective and have strong ethics.</li><li>▪ Well-organized audit report with clear, specific Observations.</li></ul> | <ul style="list-style-type: none"><li>▪ It could potentially be helpful to have someone with a technical background in the IA department, perhaps with a Certified Information Systems Auditor (CISA) designation to manage and execute technology related audits.</li><li>▪ Instead of back-and-forth emails, it would be more efficient to meet in person to answer questions immediately.</li><li>▪ Focus on high-risk areas, share best practices for internal control regularly.</li><li>▪ With the ongoing turnover in payroll, finance and HR - additional audits would ensure that transitioning duties and the importance of accurate retirement reporting is held at the highest level of accuracy to avoid adjustments or corrections to Employees retirement activities.</li></ul> |



**IIA Quality Services**

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