



## Memorandum

**TO:** Joint Audit Committee/Board of Trustees

**FROM:** Allain Mallari

**SUBJECT:** Five-Year Internal Audit Plan

**DATE:** 8/5/2019

Approved

*Robert A. Pera*

Date

8/5/2019

### Recommendation

Discussion and action on the five-year internal audit plan for Federated City Employees' Retirement System and Police and Fire Department Retirement Plan.

### Background

The City of San Jose's Office of Retirement Services ("ORS") administers two benefit plans namely Federated City Employees' Retirement System ("Federated") and Police and Fire Department Retirement Plan ("Police and Fire"). ORS functions include benefits administration, investment management, and financial accounting and reporting.

In order to help the organization to succeed and fulfill its mission, the Boards together with ORS management created an internal audit function. Internal audit serves as a catalyst in improving the department's operational processes, governance, risk management, and internal controls. Its role is to provide an independent and objective assurance and consulting activity designed to add value and improve the organization's operations.

Back in 2015, the Joint Audit Committee approved an internal audit plan created by the previous Senior Internal Auditor. The plan did not commence due to the focus on the Pensionable Earnings Correction project.

### Analysis

After a thorough understanding of the department's environment (internal and external) and activities and performance of risk assessment procedures, a five-year internal audit plan was developed separate from the initial plan approved in 2015.

The audit plan is designed to provide coverage of key risks while considering management requests and resource constraints. The plan details the audit projects for each fiscal year for five years including the preliminary scope.

Here is an overview of the projects to be completed in the next five years. A more detailed presentation can be found in the Internal Audit Plan document.

*Fiscal Year End 2019-2020*

Division	Audit Activity
Benefits	Member Enrollment and Set-up
Benefits	Membership Termination
Benefits	Member Death Verification
Benefits	Service Retirement Application
Benefits	Benefit Payments
Investments	Investment Cash Outflows (Wires and Internal Transfers)
Accounting	Cash Disbursements Process
Accounting	Benefit Disbursements Process

*Fiscal Year End 2020-2021*

Division	Audit Activity
Benefits	Pay Code Testing
Benefits	Payroll Transmittal
Benefits	Disability Retirement Application
Benefits	Disability Payments
Investments	Investment Manager Reconciliation
Investments	Sweep Vehicle Process
Investments	Cash Projection Process
Accounting	Custodian Bank Reconciliation
Accounting	Contribution Reconciliation

*Fiscal Year End 2021-2022*

Division	Audit Activity
Benefits	Deferred Vested
Benefits	Return of Contributions
Benefits	Contribution Rates Testing
Benefits	Service Purchase Contracts
Benefits	Military Time Purchase
Investments	Investment Manager Fees
Investments	Asset Allocation
Administration	BCP

*Fiscal Year End 2022-2023*

Division	Audit Activity
Benefits	Reciprocity
Benefits	Rehired Retirees
Investments	New Accounts Opening
Investments	Investment Process
Investments	Due Diligence
Accounting	CAFR Preparation
IT	1099-R Reporting
IT	Access to Programs and Data
IT	Systems Development, Acquisitions, and Implementation

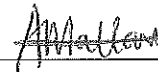
*Fiscal Year End 2023-2024*

Division	Audit Activity
Investments	Investment Compliance Monitoring
Accounting	COLA Posting
Accounting	Interest Posting
Administration	Procurement Card
Administration	Travel Expenses
Administration	Contracts Maintenance
Administration	Communications Audit
Administration	Annual Budget
Administration	Employee Training

Kindly take note that planning including risk assessment is a continual process. Interim changes to the plan will occur from time to time due to changes in risks, timing of initiatives, management needs and resource availability. Any changes will be communicated to the Audit Committee, Boards and management for approval.

### **Conclusion**

Staff recommends the approval of the internal audit plan.

A handwritten signature in black ink, appearing to read 'Allain Mallari', is positioned above a horizontal line.

Allain Mallari, CPA  
Senior Internal Auditor