

Federated City Employees' Retirement System

Police and Fire Department Retirement Plan

Five-Year Internal Audit Plan
FYE 2019-2024

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"). The Federated Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for eligible non-sworn employees of the City. On the other hand, the Police and Fire Plan is composed of a single employer Defined Benefit Pension Plan and three Postemployment Healthcare Plans for eligible sworn employees.

Both plans are governed by two separate Board of Administration ("Board"). They serve as the fiduciary trustees of the plans. The Board is responsible for the overall governance, management, and oversight of the plans. It oversees the department's operations to ensure that the mission is being carried out effectively and efficiently.

"Our mission is to ensure prompt, professional delivery of services and benefits to our members, and to collect, invest, and expend system assets in a prudent, fair, and timely manner".

In order to perform this duty, the Boards together with the management, created an internal audit function to help examine efficiency and effectiveness of processes, operation functions and other risk related activities.

Objective

As defined in Institute of Internal Auditor's International Professional Practices Framework (IPPF), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Specific Objectives:

- Assist management in identifying, assessing, and mitigating financial, operational and compliance risks
- Help achieve strategic and governance goals
- Improve effectiveness and efficiency of operations by making recommendations where deficiencies and weaknesses are observed
- Design and establish control processes if not in place
- Determine areas where abuse and waste of funds can be prevented
- Support management in enhancing members' confidence and public reputation

Audit Planning and Risk Assessment Approach

Understanding of Business

- Obtain understanding of entity and its environment
- Make inquiries of management to determine strategic goals and objectives
- Read laws and regulations affecting the plans

Risk Assessment

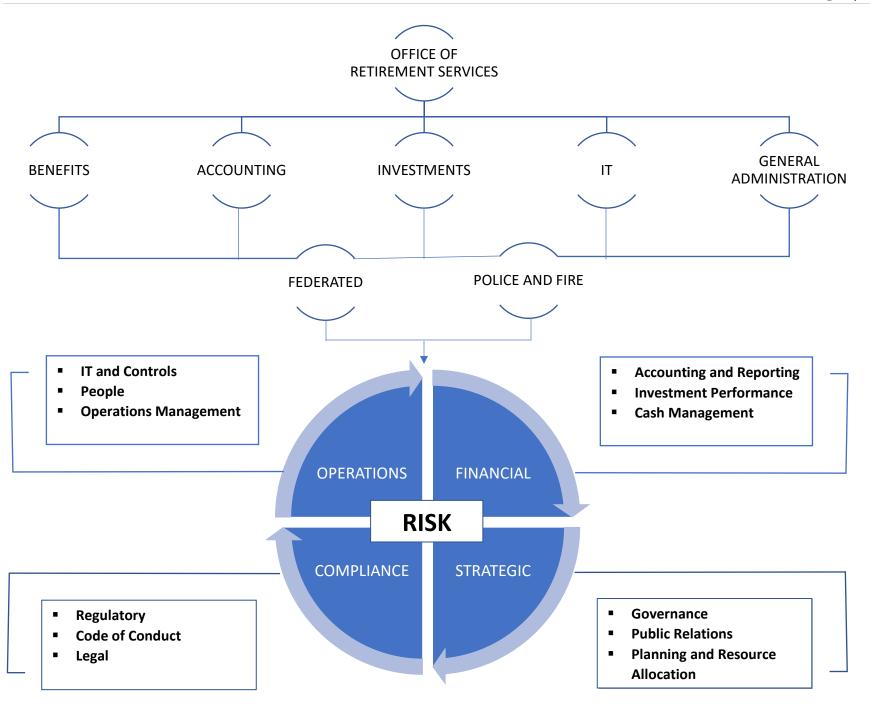
- Interview process owners to obtain understanding of operations and determine auditable processes
- Identify and analyze inherent risks associated with processes
- Consider internal control by inquiries to personnel, inspection of documents including control memos and observation.

Audit Plan Development

- Develop audit plan based on the information gathered through understanding of the entity and risk assessment procedures
- Consider resources and budget in the proposed audit plan
- Take inputs and requests from management

Communication

- Review and discuss the Audit Plan with the Audit Committee
- Obtain Audit Committee's approval
- Communicate any changes to the Audit Plan



Risk Assessment Process

Each organization has its own defined objectives to enable identification of risks and risks tolerances. The Office of Retirement Services overall objective is summarized in its mission statement and it can be further divided into financial, operational, compliance and strategic. These objectives are subject to certain risks that can have an impact in the achievement of the entity's goals. The management has the ultimate responsibility of identifying, assessing, and responding to risks. The role of internal audit is to facilitate the process and provide assurance that the risks are being managed.

Identification

In identifying business risks, staff created an "Audit Universe" which is the sum of all auditable units. Auditable units are parts of the organization that are exposed to sufficient risks. Each unit also has its objectives that contribute to the organization's mission. Staff has recognized five auditable units specifically Benefits, Accounting, Investments, IT, and Administration. Staff has identified auditable processes in each unit along with its associated risks by understanding the operations of the auditable units. This was done by interviewing management and other personnel, reading documented policies and procedures, and familiarizing with laws and regulations surrounding the plans.

Analysis

Risk assessment involves analyzing risks inherent in each process, control programs and the residual risk exposure to the organization which can be qualitative or quantitative in nature. In determining the overall risk, staff considered both inherent risk and control risk.



Staff has determined eight inherent risk factors with designated weights based on the significance and consequence that each factor has on the organization.

Risk Fa	actors	Weight
1.	Financial Impact	20%
2.	Complexity of Activities	15%
3.	Degree of Automation	10%
4.	Volume of Transactions	10%
5.	Extent of Change and Stability	15%
6.	Compliance to Rules and Regulations	15%
7.	Reputational Sensitivity	10%
8.	Time Since Last Audit	5%
		100%

Risk Factors Definitions

- 1. Financial Impact the degree of financial exposure that could lead to potential monetary losses or errors and possible pecuniary penalties.
- 2. Complexity of Activities operational difficulty of policies, processes and procedures including the number of process owners and departmental functions involved. Technical expertise and professional judgment in certain aspects also form part of this factor.
- 3. *Degree of Automation* extent of process and system automation of operational procedures.
- 4. Volume of Transactions number of transactions processed in each cycle or period.
- 5. Extent of Change and Stability pertains to internal changes to systems, processes, and personnel and external influence such as changes to market and economic conditions.
- 6. Compliance to Rules and Regulations conformity to applicable financial reporting standards, City policies, department guidelines, and laws and regulations governing public plans.
- 7. Reputational Sensitivity The degree of public trust and confidence and how their perception, awareness, and insights affect the department's operations (Public includes members of the plans).
- 8. *Time Since Last Audit* The length of time since the process was independently audited and the associated results.

Magnitude of impact and likelihood of occurrence were also taken into consideration in the overall risk analysis. Impact is the likely scale of the deficiency that would result from the risk and is impacted by factors such as the size, pace, and duration of the risk's impact. Likelihood is the level of possibility that the risk will occur.

Consideration of internal control was also a huge part in risk assessment process. Internal control is the process designed by an entity's board, management, and other personnel to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reporting, (b) operational, and (c) compliance. Staff obtained an understanding of internal control in relation to risks by interviewing management and process owners, reading documented policies and procedures including internal control memoranda, and observation.

To measure the inherent and control risk, a scoring scale was developed to rate the effect of the risks involved in the auditable processes.

Average of Impact and Likelihood Score = Average Score

Average Score X Weight % = Weighted Score

Sum of all Weighted Score = Inherent Risk Score

Average of Inherent Risk Score and Control Risk Score = Overall Average Risk Score

Impact				
1 Minor	2 Moderate	3 Significant	4 Severe	5 Catastrophic
Likelihood				
1 Rare	2 Infrequent	3 Occasional	4 Frequent	5 Imminent
Control				
1 Strong	2 Reasonably Strong	3 Adequate	4 Marginally Adequate	5 Weak or Nonexistent
Overall Risk Score				
1	2	3	4	5

Medium

Low to Medium

Low

Medium to High

High

Risk Assessment Matrix

		-	ancial eriality		plexity tivities	_	ee of nation		me of actions	Chang	nt of ge and pility	to Rul	lliance es and ations	Reputa Sensi		_	Since Audit	isk Score	Risk Score	Average Risk Score
Division	Audit Activity	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Inherent Risk	Control Ri	Overall Avera
Benefits	Member Enrollment and Set-up	2.5	0.5	2.0	0.3	3.0	0.3	3.0	0.3	2.5	0.4	3.0	0.5	3.0	0.3	5.0	0.5	3.0	3.0	3.0
Benefits	Membership Termination	3.0	0.6	3.0	0.5	3.0	0.3	2.5	0.3	3.0	0.5	3.0	0.5	2.5	0.3	5.0	0.5	3.3	3.0	3.1
Benefits	Member Death Verification	3.0	0.6	4.0	0.6	4.0	0.4	2.0	0.2	2.5	0.4	3.0	0.5	2.5	0.3	5.0	0.5	3.4	3.0	3.2
Benefits	Pay Code Testing	4.5	0.9	4.0	0.6	3.0	0.3	4.0	0.4	2.5	0.4	4.5	0.7	5.0	0.5	5.0	0.5	4.3	3.0	3.6
Benefits	Payroll Transmittal	5.0	1.0	4.0	0.6	4.0	0.4	5.0	0.5	4.0	0.6	4.5	0.7	5.0	0.5	5.0	0.5	4.8	3.0	3.9
Benefits	Service Retirement Application	4.0	0.8	4.0	0.6	3.5	0.4	3.0	0.3	2.5	0.4	4.5	0.7	5.0	0.5	5.0	0.5	4.1	3.0	3.6
Benefits	Benefit Payments	5.0	1.0	4.5	0.7	4.0	0.4	4.0	0.4	3.0	0.5	4.5	0.7	5.0	0.5	5.0	0.5	4.6	3.0	3.8
Benefits	Reciprocity	3.0	0.6	2.5	0.4	3.5	0.4	2.0	0.2	2.5	0.4	4.5	0.7	2.0	0.2	5.0	0.5	3.3	3.0	3.1
Benefits	Deferred Vested	3.5	0.7	4.0	0.6	3.0	0.3	3.0	0.3	2.5	0.4	4.5	0.7	3.0	0.3	5.0	0.5	3.8	3.0	3.4
Benefits	Return of Contributions	4.0	0.8	3.0	0.5	3.0	0.3	3.0	0.3	2.0	0.3	3.5	0.5	2.0	0.2	5.0	0.5	3.4	3.0	3.2
Benefits	Rehired Retirees	1.0	0.2	2.0	0.3	2.0	0.2	1.0	0.1	1.5	0.2	5.0	0.8	2.0	0.2	5.0	0.5	2.5	3.0	2.7
Benefits	Contribution Rates Testing	5.0	1.0	2.5	0.4	2.0	0.2	4.0	0.4	3.5	0.5	3.5	0.5	3.0	0.3	5.0	0.5	3.8	3.0	3.4
Benefits	Disability Retirement Application	4.0	0.8	4.0	0.6	3.5	0.4	3.0	0.3	2.5	0.4	4.5	0.7	5.0	0.5	5.0	0.5	4.1	3.0	3.6
Benefits	Disability Payments	5.0	1.0	4.5	0.7	4.0	0.4	4.0	0.4	3.0	0.5	4.5	0.7	5.0	0.5	5.0	0.5	4.6	3.0	3.8
Benefits	Service Purchase Contracts	3.5	0.7	4.5	0.7	3.0	0.3	2.5	0.3	2.5	0.4	4.0	0.6	3.0	0.3	5.0	0.5	3.7	3.0	3.4
Benefits	Military Time Purchase	3.5	0.7	4.5	0.7	3.0	0.3	2.0	0.2	2.5	0.4	4.0	0.6	3.0	0.3	5.0	0.5	3.7	3.0	3.3

^{*}See Appendix A for detailed components (impact and likelihood) of average inherent risk score of each audit activity per risk factor

Risk Assessment Matrix

		· ·	ancial eriality		plexity tivities		ee of nation		me of actions	Chang	nt of ge and pility	to Rul	liance es and ations	Reputa Sensi			Since Audit	sk Score	sk Score	rage Risk e
Division	Audit Activity	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Inherent Risk	Control Risk	Overall Average Risk Score
Investments	Investment Cash Outflows (Wires and Transfers)	4.5	0.9	3.0	0.5	2.0	0.2	4.0	0.4	2.0	0.3	2.5	0.4	4.0	0.4	5.0	0.5	3.5	3.0	3.3
Investments	Investment Manager Reconciliation	4.5	0.9	3.5	0.5	4.0	0.4	3.0	0.3	2.5	0.4	2.0	0.3	2.5	0.3	5.0	0.5	3.6	3.0	3.3
Investments	Sweep Vehicle Process	3.5	0.7	2.5	0.4	3.0	0.3	3.5	0.4	2.0	0.3	2.0	0.3	2.0	0.2	5.0	0.5	3.0	3.0	3.0
Investments	Cash Projection Process	3.5	0.7	3.0	0.5	3.0	0.3	4.0	0.4	2.0	0.3	2.0	0.3	3.0	0.3	5.0	0.5	3.3	3.0	3.1
Investments	Investments Compliance Monitoring	2.0	0.4	2.0	0.3	1.5	0.2	3.0	0.3	2.0	0.3	4.5	0.7	3.0	0.3	5.0	0.5	2.9	3.0	3.0
Investments	Investment Manager Fees	4.5	0.9	4.0	0.6	3.0	0.3	4.0	0.4	4.0	0.6	4.0	0.6	3.5	0.4	5.0	0.5	4.3	3.0	3.6
Investments	New Accounts Opening	2.0	0.4	1.5	0.2	3.5	0.4	2.5	0.3	2.0	0.3	2.0	0.3	2.0	0.2	5.0	0.5	2.5	3.0	2.8
Investments	Investment Process	4.5	0.9	4.0	0.6	4.0	0.4	4.0	0.4	3.0	0.5	4.0	0.6	3.5	0.4	5.0	0.5	4.2	3.0	3.6
Investments	Due Diligence	4.0	0.8	4.5	0.7	3.5	0.4	2.0	0.2	2.5	0.4	3.0	0.5	2.0	0.2	5.0	0.5	3.6	3.0	3.3
Investments	Asset Allocation	4.5	0.9	3.0	0.5	3.0	0.3	2.0	0.2	3.5	0.5	3.5	0.5	3.0	0.3	5.0	0.5	3.7	3.0	3.4
Accounting	Custodian Bank Reconciliation	4.5	0.9	3.0	0.5	3.5	0.4	3.0	0.3	2.5	0.4	2.0	0.3	3.0	0.3	5.0	0.5	3.5	3.0	3.2
Accounting	CAFR Preparation	4.0	0.8	3.0	0.5	3.0	0.3	2.5	0.3	2.0	0.3	4.0	0.6	4.0	0.4	5.0	0.5	3.6	3.0	3.3
Accounting	Cash Disbursements Process	3.5	0.7	3.0	0.5	3.0	0.3	2.5	0.3	3.0	0.5	2.0	0.3	2.5	0.3	5.0	0.5	3.2	3.0	3.1

^{*}See Appendix A for detailed components (impact and likelihood) of average inherent risk score of each audit activity per risk factor

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Division	Audit Activity	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Ave Score	Weighted Score	Inherent Risk	Control Risk Score	Overall Average Risk Score
Accounting	Benefits Disbursements Process	4.5	0.9	3.5	0.5	3.5	0.4	3.5	0.4	3.0	0.5	2.0	0.3	3.0	0.3	5.0	0.5	3.7	3.0	3.3
Accounting	Contribution Reconciliation	4.0	0.8	3.5	0.5	3.0	0.3	3.5	0.4	3.0	0.5	3.5	0.5	3.5	0.4	5.0	0.5	3.8	3.0	3.4
Accounting	COLA Posting	3.0	0.6	2.5	0.4	3.0	0.3	2.0	0.2	2.5	0.4	3.0	0.5	3.0	0.3	5.0	0.5	3.1	3.0	3.1
Accounting	Interest Posting	3.0	0.6	2.0	0.3	2.5	0.3	2.5	0.3	2.5	0.4	3.0	0.5	2.0	0.2	5.0	0.5	2.9	3.0	3.0
IT	1099 Reporting	4.0	0.8	1.5	0.2	2.0	0.2	3.0	0.3	2.0	0.3	3.5	0.5	4.0	0.4	5.0	0.5	3.3	3.0	3.1
IT	Access to Programs and Data	3.0	0.6	2.0	0.3	2.0	0.2	2.0	0.2	3.0	0.5	2.0	0.3	2.0	0.2	5.0	0.5	2.8	3.0	2.9
IT	Systems Development, Acquisitions, and Implementation	3.0	0.6	3.0	0.5	3.0	0.3	3.0	0.3	3.5	0.5	2.0	0.3	2.0	0.2	5.0	0.5	3.2	3.0	3.1
Administration	ВСР	5.0	1.0	4.5	0.7	4.5	0.5	4.5	0.5	4.5	0.7	3.0	0.5	5.0	0.5	5.0	0.5	4.7	3.0	3.9
Administration	Procurement Card	3.0	0.6	2.0	0.3	2.5	0.3	2.5	0.3	2.0	0.3	3.5	0.5	3.5	0.4	5.0	0.5	3.1	3.0	3.0
Administration	Travel Expenses	3.0	0.6	2.0	0.3	2.5	0.3	2.5	0.3	2.0	0.3	3.5	0.5	3.5	0.4	5.0	0.5	3.1	3.0	3.0
Administration	Contracts Maintenance	2.0	0.4	2.0	0.3	3.5	0.4	3.5	0.4	2.0	0.3	2.5	0.4	3.0	0.3	5.0	0.5	2.9	3.0	2.9
Administration	Communications Audit	3.0	0.6	2.5	0.4	3.0	0.3	3.5	0.4	2.5	0.4	4.0	0.6	5.0	0.5	5.0	0.5	3.6	3.0	3.3
Administration	Budget	5.0	1.0	3.5	0.5	2.5	0.3	2.5	0.3	3.0	0.5	4.0	0.6	5.0	0.5	5.0	0.5	4.1	3.0	3.5
Administration	Employee Training	3.5	0.7	4.0	0.6	3.5	0.4	3.0	0.3	4.0	0.6	3.5	0.5	5.0	0.5	5.0	0.5	4.1	3.0	3.5

^{*}See Appendix A for detailed components (impact and likelihood) of average inherent risk score of each audit activity per risk factor

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Benefits	Member Enrollment and Set-up	Conduct eligibility testing to ensure membership in the retirement plans are being met. Review the process of new member set-up in Pension Gold.	Operational	 -Ineligible employees enrolled in the retirement plans -Members are enrolled in the incorrect tier and plan -Incorrect information are established for new members. 	FY 2019- 2020	160
Benefits	Membership Termination	Evaluate the process of removing terminated members in Pension Gold.	Operational	-Untimely removal of terminated members in the system -Members are inappropriately removed from the system (e.g., deferred vested)	FY 2019- 2020	160
Benefits	Member Death Verification	Determine whether current verification process is sound and effective to detect timely deaths.	Operational, Financial	-Untimely detection of member death -Benefits overpayment	FY 2019- 2020	160
Benefits	Service Retirement Application	Review and evaluate the operational procedures in processing service retirement applications (i.e., receipt of application forms, Pension Gold benefits set-up, Board approval, Separation Notice, etc.).	Operational	-Delayed processing of benefit payments -Incorrect benefits set-up	FY 2019- 2020	280
Benefits	Benefit Payments	Recalculate benefit payments to make sure inputs and formulas used are accurate. Ensure proper documentation are included to support the calculation (Reciprocity, Survivorship, Continuance, IRS limit, etc.).	Financial	-Inaccurate calculation of benefits -Over/underpayment of benefits -Ineligible benefits paid	FY 2019- 2020	320

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Investments	Investment Cash Outflows (Wires and Internal Transfers)	Assess controls over investment operation's cash outflows process to determine whether wires and outgoing internal cash transfers are authorized, approved, documented, and processed properly.	Operational, Financial	-Delayed processing of cash outflows -Wires and internal transfers are sent to wrong Investment Managers -Wires and internal transfers are not authorized and reviewed -Incorrect amounts are sent -Cash overdrafts	FY 2019- 2020	200
Accounting	Cash Disbursements Process	Review the policies and procedures and assess controls in processing payments other than benefit payments. Evaluate controls in recording manual journal entries to determine whether they are authorized, approved, documented, and processed properly.	Financial	-Delayed processing of payments -Inaccurate payments -Lack of internal controls -Payments to wrong vendors -Improper recording of journal entries -Inaccurate GL and trial balance	FY 2019- 2020	200
Accounting	Benefit Disbursements Process	Evaluate controls in processing and recording benefit disbursements through Pension Gold.	Financial	-Lost checks -Mailing checks to the wrong member -Unreconciled differences - amounts and number of transactions for direct deposit option -Out-of-date bank information -Improper recording of journal entries -Inaccurate GL and trial balance	FY 2019- 2020	200

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Benefits	Pay Code Testing	Verify if the Plan sponsor correctly uses codes to determine pensionable and non-pensionable components of members' compensation.	Operational, Financial	-Incorrect employer and employee contributions -Inaccurate calculation of benefits -Over/underpayment of benefits -Non-compliance to PEPRA	FY 2020- 2021	320
Benefits	Payroll Transmittal	Assess whether the process in producing payroll transmittal is effective to ensure information feeding into Pension Gold are valid and accurate.	Operational, Financial	-Incorrect employer and employee contributions -Inaccurate calculation of benefits -Over/underpayment of benefits	FY 2020- 2021	320
Benefits	Disability Retirement Application	Review and evaluate the operational procedures in processing disability retirement applications (i.e., receipt of application forms, Pension Gold benefits set-up, Board approval, Separation Notice, etc.).	Operational	-Delayed processing of benefit payments -Incorrect benefits set-up	FY 2020- 2021	280
Benefits	Disability Payments	Determine if disability payments were properly approved; substantially complete/accurate; and supported with proper documentation.	Financial	-Inaccurate calculation of benefits -Over/underpayment of disability retirement allowance	FY 2020- 2021	280

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Investments	Investment Manager Reconciliation	Reperform monthly investments reconciliations to determine accuracy of valuation. Determine whether variances are resolved in a timely manner.	Financial	-Inaccurate Net Asset Valuation (NAV) reported -Late closing of books -No resolution for variances -Performance and compliance reporting delays	FY 2020- 2021	200
Investments	Sweep Vehicle Process	Review the automated and manual sweep process.	Operational, Financial	-Lost interest -Cash overdrafts	FY 2020- 2021	80
Investments	Cash Projection Process	Evaluate the procedures for daily cash forecasting and monitoring.	Operational, Financial	-Cash overdrafts -Idle cash balance	FY 2020- 2021	80
Accounting	Custodian Bank Reconciliation	Evaluate the process in reconciling general ledger in FMS with the custodian's trial balance for all investment funds including cash accounts.	Financial	-Inaccurate Net Asset Valuation (NAV) reported -Late closing of books -Unreconciled variances	FY 2020- 2021	240
Accounting	Contribution Reconciliation	Review procedures for reconciling transmittal file from the City's payroll division to the amounts wired to the custodian. This may include independent recalculation and reconciliation of amounts to transmittal, GL, and Pension Gold.	Financial	-Incorrect contribution amounts -Inaccurate amounts wired to custodian bank -Improper recording of entries in GL -Untimely correction of errors -Uncorrected errors and exceptions	FY 2020- 2021	240

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Benefits	Deferred Vested	Review policies and procedures for employees who are eligible and choose to leave their retirement contributions in the retirement fund until they are eligible to receive their lifetime retirement allowance.	Operational	-Processing ineligible member application -Inaccurate records for deferred vested member's contributions and interest -Over/underestimated monthly benefit	FY 2021- 2022	240
Benefits	Return of Contributions	Evaluate the policies and procedures established for employees who elect to receive a lump sum direct distribution of their retirement contributions and accrued interest when they resign or are terminated from City service.	Operational, Financial	-Delayed processing of refunds -Inaccurate returned contribution, interest, and any tax withheld amounts	FY 2021- 2022	240
Benefits	Contribution Rates Testing	Verify the accuracy of employer and employee contribution rates used and recalculate the contribution amounts.	Financial	-Outdated rates used in determining employer and employee contributions -Incorrect employer and employee contributions -Inaccurate calculation of benefits -Over/underpayment of benefits	FY 2021- 2022	240
Administration	ВСР	Assess the adequacy of the business continuity and disaster recovery plan and review the controls over the process.	Operational, Strategic	-Operations shutdown	FY 2021- 2022	120

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Benefits	Service Purchase Contracts	Evaluate the entire service purchase contract process, from development of the estimate and preparation of the contract through the set-up of the contract in Pension Gold and PeopleSoft Administrative systems, to the completion and properly recording of purchased service credit and associated contributions in the member's record.	Operational, Financial	-Over/underestimated contract cost *Eligibility requirements issues -Improper set-up in Pension Gold and People Soft -Untimely development and processing of contracts -Inadequate review of contracts -Contract breach	FY 2021- 2022	240
Benefits	Military Time Purchase	Review policies and procedures for employees who are eligible to purchase active military service.	Operational, Financial	-Over/underestimated contract cost -Eligibility requirements issues -Improper set-up in Pension Gold and People Soft -Untimely development and processing of contracts -Inadequate review of contracts -Contract breach	FY 2021- 2022	240
Investments	Investment Manager Fees	Assess the adequacy of procedures in ensuring investment manager fees charged and recorded are accurate.	Financial	-Over/underpayment of investment fees -Inaccurate Net Asset Valuation (NAV) reported"	FY 2021- 2022	160
Investments	Asset Allocation	Determine whether implementation of strategic asset allocation and rebalancing is in line with investment policy.	Compliance, Financial	-Non-compliance with investment policies -Investment diversification risk -Investment opportunity cost	FY 2021- 2022	160

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Benefits	Reciprocity	Review policies and procedures for employees who are eligible to establish reciprocity between the City and new or old employer including verification of eligibility requirements.	Operational	-Eligible employees not granted reciprocity -Ineligible members granted reciprocity -Untimely processing of reciprocity elections	FY 2022- 2023	120
Benefits	Rehired Retirees	Determine whether the process of temporarily rehiring retirees follows Federal and State laws and IRS regulations.	Compliance	-Non-compliance with laws and regulations -Breach of tax status of the benefit plans	FY 2022- 2023	120
Investments	New Accounts Opening	Evaluate the process of setting up new accounts with the custodian.	Operational	-Improper set-up -Delays in account opening -Investment opportunity cost	FY 2022- 2023	80
Investments	Investment Process	Review the investment process which includes selection, monitoring, reporting, renewal, and termination of investment managers.	Operational, Financial	-Investment performance risk -Investment opportunity cost -Liquidity and solvency of plans -Non-compliance with Investment policies	FY 2022- 2023	360
Investments	Due Diligence	Review the due diligence process.	Operational, Financial	-Investment performance risk -Investment opportunity cost -Liquidity and solvency of plans	FY 2022- 2023	320

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Accounting	CAFR Preparation	Assess whether procedures in CAFR preparation are adequate in presenting accurate and reliable financial reports.	Financial	-Improper presentation of financial statements -Non-compliance with GAAP and other regulatory standards -Inaccurate financial figures -Lack of required disclosures	FY 2022- 2023	240
IT	1099-R Reporting	Evaluate the process of 1099-R form preparation and communication to members.	Financial, Operational	-Inaccurate information-Unreconciled variances-Delays in processing and circulation to members	FY 2022- 2023	120
ІТ	Access to Programs and Data	Assess controls over user access in Pension Gold to ensure only authorized personnel have permissions to access data and make changes.	Operational	-Unauthorized access -Unauthorized changes -Incorrect member profile leading to inaccurate contributions, benefits, etc.	FY 2022- 2023	120
IT	Systems Development, Acquisitions, and Implementation	Assess controls over modifications to Pension Gold system to changes are documented and properly tested before implementation.	Operational	-Changes are not implemented -Unverified modifications -System incompatibility and malfunction	FY 2022- 2023	120

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Accounting	COLA Posting	Recalculate annual COLA adjustments for all tiers in each plan.	Financial	-Inaccurate calculation of benefits-Over/underpayment of benefits	FY 2023- 2024	120
Accounting	Interest Posting	Recalculate bi-annual interest postings for active members in the plan.	Financial	-Inaccurate interest amounts -Over/underpayment for return of contributions	FY 2023- 2024	120
Investments	Investment Compliance Monitoring	Review monitoring procedures for separate accounts investment compliance.	Compliance	-Non-compliance with investment policies	FY 2023- 2024	80
Administration	Procurement Card	Determine whether cardholders adhere to the City's P-card policies.	Compliance	-Funds waste and abuse -Non-compliance with City policies	FY 2023- 2024	120
Administration	Travel Expenses	Determine whether Board and staff adhere to the City's travel policies.	Compliance	-Funds waste and abuse -Non-compliance with City policies	FY 2023- 2024	120

Division	Audit Activity	Preliminary Scope and Description	Risk Type	Risks Involved	Fiscal Year	Planned Hours
Administration	Contracts Maintenance	Review the process for maintaining vendor contracts including changes, updates, and compliance.	Operational	-Outdated contracts -Contract breach -Over/underpayment of vendor fees	FY 2023- 2024	120
Administration	Communications Audit	Assess the effectiveness of internal and external communications processes to stakeholders (i.e., trustees, employees, plan members, retirees, general public, etc.).	Strategic	-Communication delays -Compromised member's confidence	FY 2023- 2024	280
Administration	Annual Budget	Assess the effectiveness of overall process for planning and completing the Department's annual budget along with its compliance with City policies and procedures.	Strategic	-Improper use of funds -Non-compliance with City policies	FY 2023- 2024	240
Administration	Employee Training	Evaluate the adequacy of employee training programs.	Strategic	-Poor performance -Higher chance of turnover -Poor customer service and damage to reputation -Slow productivity -Operational errors	FY 2023- 2024	160

Key Notes

- Audit planning including risk assessment is not a one-time thing. It is not a discrete phase but rather a continual and iterative process all throughout the audit phases.
- Risk assessment involves subjective decisions at every stage (identification, analysis, risk weights and scoring, etc.). It requires using professional judgement in carrying out the process.
- Risk factors identified are the aspects determined to have a significant effect in the department's operations.
- All audit activities are rated 5 in "Time Since Last Audit" factor. This is due to the fact that this will be the first time an independent audit will be done internally within the department. There will be no leverage of prior work and results.
- Control risk in all audit activities is measured as 3 ("Adequate"). The initial score is based
 on the assumption that internal control design is present but there's not enough evidence
 to conclude its effectiveness and proper implementation. Test of controls will be
 performed in the execution phase. Risk reassessment will be completed based on the
 results and will then be considered in future audits.
- The proposed audit plan is based on the risk assessment made and management's requests while considering resource constraints.
- Risk type in the audit plan is not limited to only one category. Each department process can be exposed to financial, operational, compliance and strategic risk. They are not mutually exclusive. The risk type presented in the audit plan addresses the main risk areas of the audit activities.
- Scope and objective in each audit activity are preliminary and can be expanded or limited in the actual audit execution.
- Risks detailed in the audit plan are not all inclusive. These are the critical risks identified in each audit activity.
- Planned hours are the total estimated time to complete the execution and reporting phases which include walkthrough of processes, test of controls, substantive audit procedures, documentation of tests and results, communication and presentation to management and board of trustees, and follow-up action.

APPENDIX A (Impact and Likelihood Inherent Risk Scoring)

Division		Financial Materiality		Complexity of Activities		Degree of Automation		Volume of Transactions		Extent of Change and Stability		to Rul	liance es and ations	Reputational Sensitivity		Time Since Last Audit	
	Audit Activity	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood
Benefits	Member Enrollment and Set-up	3.0	2.0	2.0	2.0	2.0	4.0	3.0	3.0	2.0	3.0	4.0	2.0	3.0	3.0	5.0	5.0
Benefits	Membership Termination	3.0	3.0	3.0	3.0	2.0	4.0	3.0	2.0	3.0	3.0	4.0	2.0	3.0	2.0	5.0	5.0
Benefits	Member Death Verification	2.0	4.0	4.0	4.0	4.0	4.0	2.0	2.0	3.0	2.0	4.0	2.0	3.0	2.0	5.0	5.0
Benefits	Pay Code Testing	5.0	4.0	4.0	4.0	3.0	3.0	4.0	4.0	3.0	2.0	5.0	4.0	5.0	5.0	5.0	5.0
Benefits	Payroll Transmittal	5.0	5.0	4.0	4.0	4.0	4.0	5.0	5.0	4.0	4.0	5.0	4.0	5.0	5.0	5.0	5.0
Benefits	Service Retirement Application	4.0	4.0	5.0	3.0	4.0	3.0	3.0	3.0	3.0	2.0	5.0	4.0	5.0	5.0	5.0	5.0
Benefits	Benefit Payments	5.0	5.0	5.0	4.0	5.0	3.0	3.0	3.0	4.0	2.0	5.0	4.0	5.0	5.0	5.0	5.0
Benefits	Reciprocity	3.0	3.0	3.0	2.0	4.0	3.0	1.0	1.0	3.0	2.0	5.0	4.0	2.0	2.0	5.0	5.0
Benefits	Deferred Vested	4.0	3.0	4.0	4.0	3.0	3.0	4.0	4.0	3.0	2.0	5.0	4.0	3.0	3.0	5.0	5.0
Benefits	Return of Contributions	4.0	4.0	3.0	3.0	3.0	3.0	3.0	3.0	2.0	2.0	4.0	3.0	2.0	2.0	5.0	5.0
Benefits	Rehired Retirees	1.0	1.0	2.0	2.0	2.0	2.0	5.0	3.0	2.0	1.0	5.0	5.0	2.0	2.0	5.0	5.0
Benefits	Contribution Rates Testing	5.0	5.0	3.0	2.0	2.0	2.0	5.0	3.0	4.0	3.0	5.0	2.0	3.0	3.0	5.0	5.0
Benefits	Disability Retirement Application	4.0	4.0	5.0	3.0	4.0	3.0	3.0	2.0	3.0	2.0	5.0	4.0	5.0	5.0	5.0	5.0
Benefits	Disability Payments	5.0	5.0	5.0	4.0	5.0	3.0	5.0	3.0	4.0	2.0	5.0	4.0	5.0	5.0	5.0	5.0
Benefits	Service Purchase Contracts	4.0	3.0	5.0	4.0	3.0	3.0	3.0	2.0	3.0	2.0	4.0	4.0	3.0	3.0	5.0	5.0
Benefits	Military Time Purchase	4.0	3.0	5.0	4.0	3.0	3.0	2.0	2.0	3.0	2.0	4.0	4.0	3.0	3.0	5.0	5.0

APPENDIX A (Impact and Likelihood Inherent Risk Scoring)

Division		Financial Materiality		Complexity of Activities		Degree of Automation		Volume of Transactions		Extent of Change and Stability		to Rul	liance es and ations	Reputational Sensitivity		Time Since Last Audit	
	Audit Activity	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood
Investments	Investment Cash Outflows (Wires and Transfers)	5.0	4.0	3.0	3.0	2.0	2.0	4.0	4.0	2.0	2.0	3.0	2.0	4.0	4.0	5.0	5.0
Investments	Investment Manager Reconciliation	5.0	4.0	3.0	4.0	4.0	4.0	3.0	3.0	2.0	3.0	2.0	2.0	3.0	2.0	5.0	5.0
Investments	Sweep Vehicle Process	3.0	4.0	2.0	3.0	2.0	4.0	2.0	5.0	2.0	2.0	2.0	2.0	2.0	2.0	5.0	5.0
Investments	Cash Projection Process	4.0	3.0	3.0	3.0	2.0	4.0	3.0	5.0	2.0	2.0	2.0	2.0	3.0	3.0	5.0	5.0
Investments	Investments Compliance Monitoring	2.0	2.0	2.0	2.0	2.0	1.0	3.0	3.0	2.0	2.0	5.0	4.0	3.0	3.0	5.0	5.0
Investments	Investment Manager Fees	5.0	4.0	4.0	4.0	3.0	3.0	4.0	4.0	5.0	3.0	4.0	4.0	4.0	3.0	5.0	5.0
Investments	New Accounts Opening	2.0	2.0	1.0	2.0	4.0	3.0	2.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	5.0	5.0
Investments	Investment Process	5.0	4.0	5.0	3.0	4.0	4.0	4.0	4.0	3.0	3.0	5.0	3.0	4.0	3.0	5.0	5.0
Investments	Due Diligence	4.0	4.0	5.0	4.0	2.0	5.0	2.0	2.0	3.0	2.0	4.0	2.0	2.0	2.0	5.0	5.0
Investments	Asset Allocation	5.0	4.0	3.0	3.0	1.0	5.0	2.0	2.0	4.0	3.0	4.0	3.0	3.0	3.0	5.0	5.0
Accounting	Custodian Bank Reconciliation	5.0	4.0	3.0	3.0	3.0	4.0	3.0	3.0	2.0	3.0	2.0	2.0	3.0	3.0	5.0	5.0
Accounting	CAFR Preparation	5.0	3.0	3.0	3.0	3.0	3.0	4.0	1.0	2.0	2.0	5.0	3.0	4.0	4.0	5.0	5.0
Accounting	Cash Disbursements Process	3.0	4.0	3.0	3.0	2.0	4.0	3.0	2.0	3.0	3.0	2.0	2.0	3.0	2.0	5.0	5.0

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		Financial Materiality		Complexity of Activities		Degree of Automation		Volume of Transactions		Extent of Change and Stability		to Rul	liance es and ations	Reputational Sensitivity		Time Since Last Audit	
Division	Audit Activity	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood	Impact	Likelihood
Accounting	Benefits Disbursements Process	5.0	4.0	4.0	3.0	3.0	4.0	4.0	3.0	3.0	3.0	2.0	2.0	4.0	2.0	5.0	5.0
Accounting	Contribution Reconciliation	4.0	4.0	3.0	4.0	3.0	3.0	4.0	3.0	4.0	2.0	4.0	3.0	4.0	3.0	5.0	5.0
Accounting	COLA Posting	3.0	3.0	3.0	2.0	3.0	3.0	2.0	2.0	2.0	3.0	3.0	3.0	3.0	3.0	5.0	5.0
Accounting	Interest Posting	3.0	3.0	2.0	2.0	3.0	2.0	2.0	3.0	2.0	3.0	3.0	3.0	2.0	2.0	5.0	5.0
IT	1099 Reporting	4.0	4.0	1.0	2.0	2.0	2.0	2.0	4.0	2.0	2.0	4.0	3.0	4.0	4.0	5.0	5.0
IT	Access to Programs and Data	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0	3.0	3.0	2.0	2.0	2.0	2.0	5.0	5.0
ІТ	Systems Development, Acquisitions, and Implementation	3.0	3.0	4.0	2.0	3.0	3.0	4.0	2.0	4.0	3.0	2.0	2.0	2.0	2.0	5.0	5.0
Administration	ВСР	5.0	5.0	5.0	4.0	5.0	4.0	5.0	4.0	5.0	4.0	3.0	3.0	5.0	5.0	5.0	5.0
Administration	Procurement Card	3.0	3.0	2.0	2.0	2.0	3.0	3.0	2.0	2.0	2.0	4.0	3.0	4.0	3.0		
Administration	Travel Expenses	3.0	3.0	2.0	2.0	2.0	3.0	3.0	2.0	2.0	2.0	4.0	3.0	4.0	3.0	5.0	5.0
Administration	Contracts Maintenance	2.0	2.0	2.0	2.0	3.0	4.0	4.0	3.0	2.0	2.0	2.0	3.0	3.0	3.0	5.0	5.0
Administration	Communications Audit	3.0	3.0	3.0	2.0	3.0	3.0	3.0	4.0	3.0	2.0	4.0	4.0	5.0	5.0	5.0	5.0
Administration	Budget	5.0	5.0	4.0	3.0	2.0	3.0	3.0	2.0	3.0	3.0	4.0	4.0	5.0	5.0	5.0	5.0
Administration	Employee Training	4.0	3.0	4.0	4.0	3.0	4.0	3.0	3.0	4.0	4.0	3.0	4.0	5.0	5.0	5.0	5.0