



Audit Committee Meeting

Sacramento County Employees' Retirement System

Agenda Item 4

MEETING DATE: June 17, 2025

SUBJECT: Internal Audit Project

SUBMITTED FOR: X Information Action

RECOMMENDATION:

Discussion of internal audit program timeline, scope of work, and request for proposals for audit services, as presented by Larry Jensen, Audit and Risk Management Services. Information only.

DISCUSSION

Since July 2024, staff has been working with Larry Jensen of Audit and Risk Management Services (ARMS) to complete a multiphase, organization-wide enterprise risk assessment. In the initial phases, staff identified and categorized SCERS's enterprise risks using a common risk-ranking methodology. These risks were then prioritized to develop a heatmap used to analyze risk exposure and uncover actionable opportunities.

The current phase of the project introduces a strategic dimension, focused on identifying the key risks that must be effectively managed to achieve SCERS's mission and objectives. Through this process, staff has:

- Identified strategic risks that could hinder the achievement of SCERS's objectives;
- Established a framework for communicating significant risks to executive leadership and the Board; and
- Provided assurance that these risks are being managed within acceptable organizational thresholds.

The current phase also includes a compliance component designed to inform the development of audit objectives and assist in planning future internal audits. To conclude this phase, staff is presenting the proposed internal audit plan outlining recommended audit activities for fiscal years 2025–26 and 2026–27 and initiating a Request for Proposal (RFP) process to procure auditing services. Staff plans to release the RFP by June 30, 2025, and begin the work as early as mid- to late-August 2025. As previewed at the January 2025 Board meeting, staff is

working toward establishing a compliance audit program that will support the identification, evaluation, and mitigation of enterprise risks.

Looking ahead, staff will evaluate the need for additional advanced tools to further support SCERS's Enterprise Risk Management (ERM) efforts. These may include:

- An ERM maturity capability model to measure program development and implementation;
- A formal risk escalation protocol; and
- Processes and reporting mechanisms to monitor emerging risks.

ATTACHMENTS

- Audit Plan and RFP Schedule Presentation
- 2025/2026 - 2026/2027 Audit Plan

Prepared by:

/S/

Margo Allen
Chief Operations Officer

Reviewed by:

/S/

Eric Stern
Chief Executive Officer

COMPLIANCE



The background features a hand holding a glowing blue pen, pointing at a digital interface. The interface consists of a hexagonal grid of icons, each representing a different aspect of compliance. The icons include a hand holding a checkmark, a scale of justice, a group of people, a checklist, a document, a gear with an exclamation mark, a gavel, and a document with a pencil. The overall theme is professional and technological.

GOVERNANCE



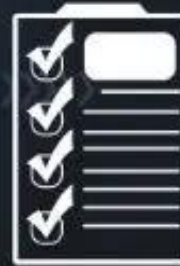
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**Sacramento
County Employees'
Retirement System**

Compliance Audit

SCERS Approach to Enterprise Risk Assessment Services

1

Planning & Kick-off

- Finalize Engagement Scope & Finalize Project Plan
- Obtain SCERS Information
- Confirm Risk Assessment Participants & schedule meetings
- Executive Level ERM Presentation

2

Risk Assessment

- Develop Risk Assessment Process and Tools
- Develop & Deploy Risk Assessment Survey
- Conduct Risk Assessment Interviews
- Develop Risk Universe
- Update Risk Register
- Develop Heat Map
- Develop Risk Report(s)

3

Risk Management

- Provide Advice and Models for a Risk Management Framework
- Provide Advice and Models for Risk Governance Framework
- Audit Committee – June meeting
- Deliver Risk Assessment Workbook

4

Internal Audits

- Develop Audit Universe
- Develop Two-year Risk-Based Audit Plan
- Develop Request for Proposal
- Assist SCERS obtain audit services

5

Sustainability

- Recommend Risk Management Maturity Model
- Provide Advice on Risk Culture & Awareness
- Provide Advice on Implementation of Enterprise Risk Management

Risk Management

SCERS Proposed Audit Plan

2025 Risk Assessment		FY 2025-26					FY 2026-27					
Auditable Unit		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Scope of Work
Employer Reporting - Payroll												Verify employer payroll reports are accurate, timely, and in compliance with the CERL and board policies.
Employer Reporting - Member Data												Ensure member demographics (DOB, gender, service credit, date of employment, tier, etc.) are accurately recorded in member accounts.
Third-Party Data Privacy												Review the process, controls, and assurance requirements to strengthen third-party security management. Third-Party contract requirements, due diligence, and monitoring.
Contribution Accounting & Reporting												Validate employer contributions are accurate, paid timely, and properly posted to the accounting records.
Risk Assessment & Audit Plan												Update the SCERS entity-wide risk assessment and audit universe to support development of audit plan for FY's 2027-28 and 2028-29.

Request for Proposal – Proposed Timeline

Dates	RFP Schedule of Events
June 23, 2025	RFP Announcement and Release
July 3, 2025	Deadline to submit question regarding RFP
July 8, 2025	SCERS response to RFP questions
July 18, 2025	Response to RFP submission deadline
July 22 -23, 2025	Interview / Presentation (Optional)
July 31, 2025	Notice of Award



Thank You!

Sacramento County Employees' Retirement System

June 17, 2025



PROPOSED INTERNAL AUDIT PLAN



Sacramento County Employees' Retirement System

Fiscal Year 2025 – 2026

&

Fiscal Year 2026 – 2027

June 17, 2025

Audit Plan Overview

This proposed internal audit plan for FY 2025/26 and FY 2026/27 is presented for review and input by the Sacramento County Employees' Retirement System (SCERS) Audit Committee and for approval by the SCERS Board of Retirement. The internal audit services will be delivered in accordance with the SCERS Audit Committee Charter and performed in conformance with applicable auditing standards.

This internal audit plan for SCERS outlines the audit activities planned for fiscal years 2025/2026 and 2026/27. The primary objective is to provide the SCERS Board of Retirement with an independent and objective assessment of SCERS's internal controls, compliance with applicable requirements, risk management, governance processes, and operational effectiveness. The specific objective of each audit is included in the audit plan. The audit plan was developed using a risk-based methodology to ensure coverage of key areas impacting the achievement of SCERS's strategic business goals and objectives. A risk assessment of the SCERS audit universe for 2024/2025 was performed to provide a foundation for development of this risk-based internal audit plan.

A summary of the audit plan for FY 2025-26 and FY 2026-27 is presented below.

2025 Risk Assessment	FY 2025-26				FY 2026-27				Scope of Work
Auditable Unit	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Employer Reporting - Payroll									Verify employer payroll reports are accurate, timely, and in compliance with the CERL and board policies.
Employer Reporting - Member Data									Ensure member demographics (DOB, gender, service credit, date of employment, tier, etc.) are accurately recorded in member accounts.
Third-Party Data Privacy									Review the process, controls, and assurance requirements to strengthen third-party security management. Third-Party contract requirements, due diligence, and monitoring.
Contribution Accounting & Reporting									Validate employer contributions are accurate, paid timely, and properly posted to the accounting records.
Risk Assessment & Audit Plan									Update the SCERS entity-wide risk assessment and audit universe to support development of audit plan for FY's 2027-28 and 2028-29.

Audit Plan Methodology

The audit plan is driven by SCERS's strategic business goals and objectives, and the inherent risks that may prevent SCERS from achieving those goals and objectives. A risk-based approach to auditing focuses on identifying and assessing risk within SCERS and then tailoring the audit process to address those risks. Instead of conducting audits based on a pre-determined schedule or checklist, a risk-based approach prioritizes areas of the organization that pose the highest risk to achieving objectives or complying with regulations thereby providing assurance that risks are being managed effectively and helping improve overall governance and control processes. See *Appendix A* for a detailed description of the Audit Plan Methodology. A summary of our approach for preparing the internal audit plan is set out below.



Audit Universe Risk Assessment Results

The two-year internal audit plan was developed based on the SCERS audit universe (*See Appendix B*), stakeholder input and an assessment of risk and exposures affecting SCERS. Based on the evaluation of risk for each auditable unit in the audit universe, the following areas were identified as the highest priority for auditing.

1. Employer Reporting - payroll
2. Software & Data Ownership
3. Retirement Benefit Payments (service retirement, refunds, death, survivor)
4. Third-Party Data Privacy
5. Financial Reporting
6. Contribution Accounting and Reporting
7. Employer Reporting – member data
8. Software / Application Development
9. Cyber Security
10. IT Change Management & Workbook Security

Audit Objectives

The key objectives of this audit plan are to:

- Verify adequacy and effectiveness of internal controls.
- Ensure compliance with applicable laws, regulations, and SCERS's policies.
- Ensure transparency and accuracy.
- Identify opportunities for efficiency improvements and cost reduction.
- Mitigate potential financial, operational, and reputational risks.
- Enhance corporate governance by providing insights into risk management and control mechanisms.

Audit Plan

The proposed audits during fiscal years 2025-26 and 2026-27 include the following areas:

2025-26

1. Employer Reporting - Payroll:

- Verify employer payroll reports are accurate, timely, and in compliance with the CERL and board policies.
- Make recommendations for internal control and process improvements.

2. Employer Reporting - Member Data:

- Ensure member demographics (DOB, gender, service credit, date of employment, tier, etc.) are accurately recorded in member accounts.
- Make recommendations for internal control and process improvements.

2026-27

3. Third-Party Data Privacy:

- Review the process, controls, and assurance requirements to strengthen third-party security management. Assess third-Party contract requirements, due diligence, and monitoring.
- Make recommendations for internal control and process improvements.

4. Contribution Accounting and Reporting:

- Validate employer contributions are accurate, paid timely, and properly posted to the accounting records.
- Make recommendations for internal control and process improvements.

5. Risk Based Audit Plan for FY 2027-29:

Update SCERS's entity-wide risk assessment and audit universe to develop a risk-based audit plan for FY's 2027-28 and 2028-29.

Audit Schedule

The following timeline outlines the schedule of audit activities for fiscal years 2025-26 to 2026-27:

Year	Audit Area	Start Date	End Date
2025	Employer Reporting - Payroll	September 1, 2025	March 31, 2026
2026	Employer Reporting - Member Data	April 1, 2026	September 30, 2026
2026	Third-Party Data Privacy	October 1, 2026	December 15, 2026
2027	Contribution Accounting & Reporting	January 15, 2027	March 31, 2027
2027	Risk Based Audit Plan for FY's 2027-28 and 2028-29	April 1, 2027	June 30, 2027

Audit Reports

Following the completion of each audit, the Auditor will issue a report within 15 days that includes the following:

- Executive Summary to highlight critical findings and recommendations.
- The scope and objectives of the audit.
- Description of procedures and tests of performed, and Findings describing internal control weaknesses or non-conformance with requirements.
- Recommendations of corrective actions, agreed upon action plans, and timelines.

Conclusion

This Internal Audit Plan reflects the commitment of SCERS to maintain the highest standards of operational efficiency, risk management, compliance and effective governance. Through the execution of this plan, the Board of Retirement and management receives assurances that SCERS's governance, risk, and compliance measures remain strong, while successfully achieving strategic business goals and objectives to effectively serve the members of the SCERS.

Audit Plan Methodology

APPENDIX A

Audit Universe

An “audit universe” is a comprehensive list of all the areas within an organization that maybe subject to an audit. It’s essentially a blueprint for internal audit planning, helping to identify and prioritize areas of risk throughout the organization. Once strategic business goals and objectives have been identified, an audit universe is created and becomes a list or catalog of all potentially auditable units within SCERS. Auditable units may be any department, project, process, system, or other area that, due to the presence of risk, may justify audit engagement. The audit universe should be updated frequently to incorporate internal and external business changes, which may introduce new risks at any time. The following considerations went into the development of this audit universe:

- Interviews and surveys of SCERS’s executive team, senior management, staff, and external auditors.
- SCERS’s most recent entity-wide risk assessment.
- Risks applicable to the public pension sector and more generally applicable emerging risks.

Assessment of Risk

The objective of a risk-based audit plan is to identify and prioritize operational functions that present the greatest risk to meeting SCERS strategic business goals and objectives. To determine the areas with the highest inherent risk to SCERS, a separate risk assessment was performed using “risk factors” intended to align with current goals and objectives of SCERS’ core functions. Risk factors are not the risks themselves but instead are conditions likely to be associated with the presence of a risk; that is, conditions that indicate a higher probability of significant risk consequences. The following risk factors were used to assess each auditable unit in the audit universe.

- Strategic Risk
- Materiality / Exposure (revenues, expenditures, value at risk, etc.)
- Control Environment
- Complexity of Operations (technology, specialization, change)
- Management Awareness
- SCERS’s enterprise-wide risk assessment
- Susceptibility to Fraud
- Assurance Coverage

Utilizing risk criteria, a score is assigned to determine the level of risk for each unit in the audit universe. This score provides a basis of comparison for prioritizing or ranking auditable units. A narrow list of potential audits deemed high value for SCERS is identified and discussed with executive and senior management.

Developing the Risk-Based Audit Plan

Many factors are considered when selecting audit for inclusion of individual engagements in the final proposed audit plan. Additional planning considerations may include the following factors:

- Results of the universe risk audit assessment
- Input from management, Audit Committee, and Board of Retirement
- Resources allocated for funding audit activities
- Current events, planned activities, workload, and availability of internal staff
- Laws, regulations, or industry standards that require certain engagements

The audit plan includes an overview of the methodology for rating the audit universe, a listing of planned engagements, high level audit objectives, and a basic schedule. A draft audit plan is developed to be presented, discussed, revised, and finalized for approval. The audit plan is presented to SCERS' Audit Committee to make recommendations to the full Board. Any feedback received from the Audit Committee regarding Board priorities is incorporated into the proposed audit plan. The audit plan is then presented to the Board of Retirement for review and approval.

APPENDIX B

SCERS Audit Universe

Financial Reporting and Accounting	Administration	Benefit Service - Member
<ul style="list-style-type: none"> • Overpayments & Collections • Accounts payable - Vendors, Travel, Purchasing Card • Accounts Receivables & Write-off • Refunds • Benefit Payments • Contribution Accounting & Reporting • Employer Reporting - member data, accounts • Member Accounts • Tax Compliance & Reporting • Financial Reporting • Investment Manager - fee payments • Master Custodian & Bank Reconciliations • Wire Transfers • Pension Funding • Procurement Management • Internal Controls over Financial Reporting • Actuarial Valuation Process • Actuarial Reporting • Cash/Liquidity Management • Investment Accounting • Capital Calls • Financial Accounting • Financial Accounting System • Budget and Financial Planning 	<ul style="list-style-type: none"> • Board Election • Board Information & Education • Strategic Planning • Audit / Compliance Program • Business Continuity • Emergency Response & Oversight • Record Retention • Property and Inventory • Physical Security • Policy Management • Contract Management • Workflow / Workload Management • Form 700 Filing • Regulatory Compliance 	<ul style="list-style-type: none"> • Service Retirement • Survivor Continuance • Disability Retirement • Death Benefit • Unclaimed Benefits • Beneficiary Designation • Return to Service – Post Employment • Member Education • Domestic Relations Order • Benefit Estimates • Required Minimum Distribution • Service Credit Buyback/ Purchases • Reciprocity Agreements
	Administration – Human Resources	Employer Services
	<ul style="list-style-type: none"> • Workforce & Succession Planning • Staff Recruitment & Retention • Employee Payroll / Leave Administration • Classifications & Job Descriptions • Performance Management • Change Management 	<ul style="list-style-type: none"> • Employer Payroll Reporting • Member Enrollment and Termination • Employer Training
		Information Technology &
		<ul style="list-style-type: none"> • Software & Data Ownership • Access Management & Privilege Access • Information Privacy • Cybersecurity • Information Security Incident Response • Third-Party Data Privacy • Software / Application Development • Wireless and Local Area Networks • Version / Change Management • Web-site Security & Maintenance